

Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2011

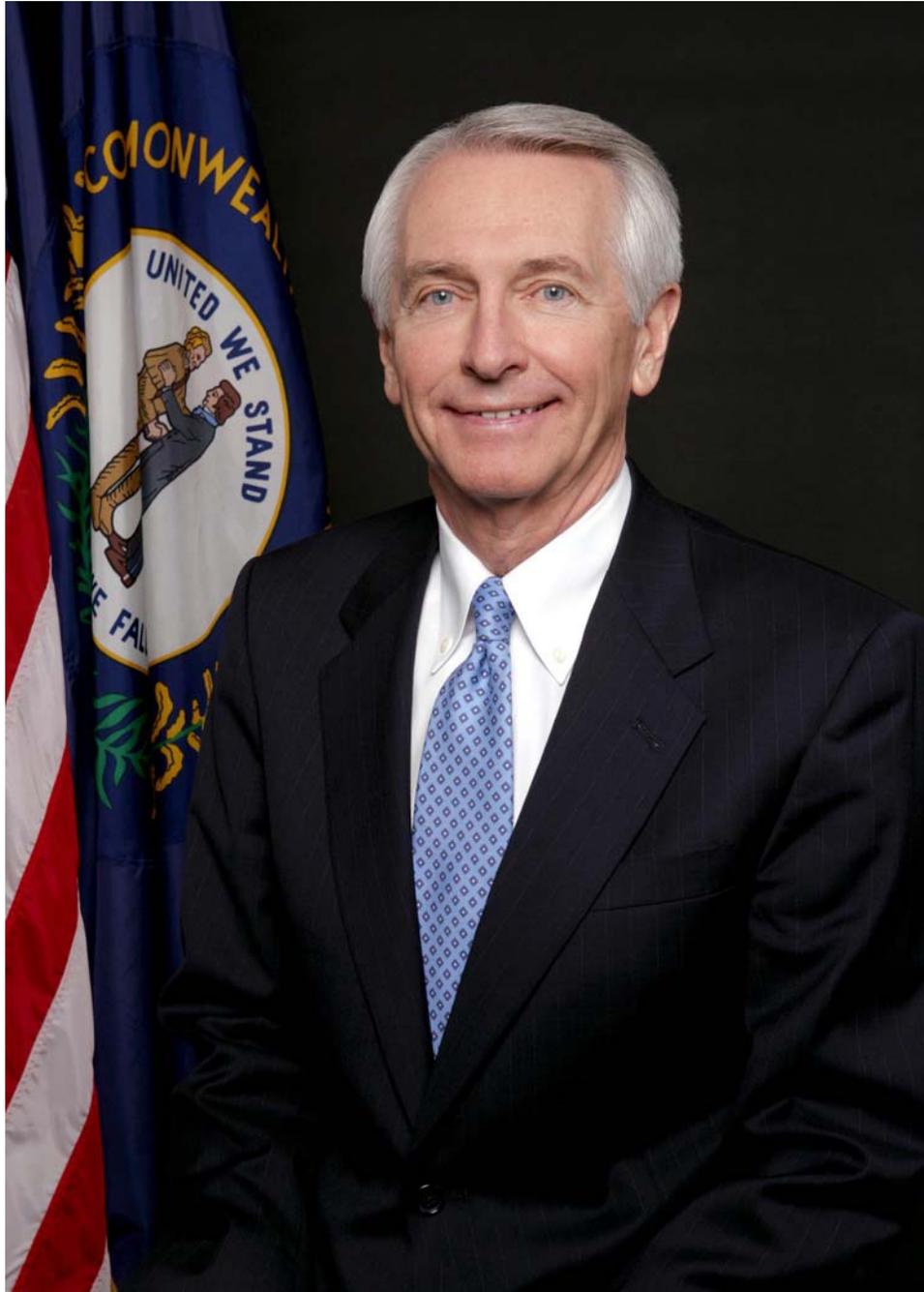
Steven L. Beshear, Governor



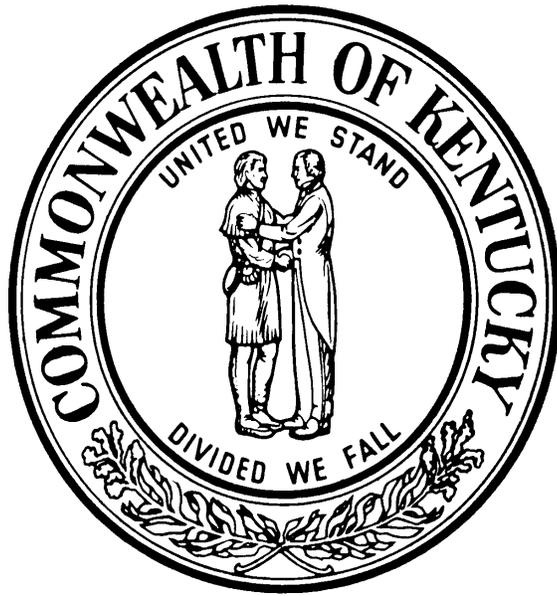
Prepared by:  
Finance and Administration Cabinet  
Lori H. Flanery, Secretary

Office of the Controller  
Edgar C. Ross, Controller

Statewide Accounting Services  
Donald Sweasy, Assistant Controller



Steven L. Beshear  
Governor



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# **INTRODUCTORY SECTION**

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STEVEN L. BESHEAR

Governor

OFFICE OF THE SECRETARY

Finance and Administration Cabinet

384 CAPITOL ANNEX

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LORIH.FLANERY

Secretary

December 16, 2011

The Honorable Steven Beshear, Governor  
Members of the Kentucky General Assembly  
Citizens of Kentucky

## INTRODUCTION

Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.) requires the Finance and Administration Cabinet to submit a complete report of the financial transactions of the preceding year and of the financial condition of the Commonwealth as of the end of that fiscal year. In accordance with this statute, it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2011. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which assumes responsibility for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial condition and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The independent auditor concluded that the Commonwealth of Kentucky's financial statements for the year ended June 30, 2011, are fairly presented in conformity with GAAP. The report of the independent auditor appears elsewhere in this report.

## PROFILE OF THE COMMONWEALTH OF KENTUCKY

### *The Reporting Entity and Its Services*

This report includes all funds and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's (GASB) Statement 14 as amended by GASB 39. The component units which are blended into the Commonwealth's primary government and function as actual parts of the Commonwealth are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Retirement System, Judicial Form Retirement System, Kentucky Public Employees' Deferred Compensation Authority, Kentucky Tobacco Settlement Trust Corporation, Kentucky Teachers' Retirement System, Kentucky School Facilities Construction Commission, and Kentucky Gas Pipeline Authority.

The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, Kentucky River Authority, Kentucky State Fair Board, Kentucky Center for the Arts Corporation, Kentucky Educational Television Authority, Kentucky Economic Development Finance Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Artisan Center, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Horse Park Foundation, Kentucky Council on Postsecondary Education, Kentucky Community Technical College System, and the eight state-supported universities.

Additional detailed information pertaining to Commonwealth's component units is located within the Financial Section (particularly Note 1) of this report.

### *The Commonwealth and Its Services*

Located in south central United States along the west side of the Appalachian Mountains, Kentucky was once a part of Virginia. After its split with Virginia, Kentucky retained its “commonwealth” (meaning government based on the consent of the people) status and adopted its Constitution in 1792. The Commonwealth provides the full range of services contemplated by statute, including economic development, educational and human services, energy and natural resources management, law enforcement, correctional and public protection services, transportation, public improvements, and general legislative, administrative, and judicial services. The Commonwealth’s chief executive is the Governor who is popularly elected every four years and may serve for two terms. Policies are directed through the various Cabinets. The General Assembly, or state Legislature, has two components: the Senate and the House of Representatives. The Senate has 38 members who are elected to four-year terms and the House has 100 members who are elected to two-year terms. The Legislature meets annually and has the power to enact all laws, subject to limits imposed by the state constitution. Revenue-raising issues must be initiated in the House. All other bills may be introduced by either the House or the Senate.

### *Budgetary Controls*

The Commonwealth uses a biennial budget to assist with planning and control duties. Budgetary control is maintained at the budget unit level and is described in the notes to the Required Supplementary Information. Encumbrance accounting is utilized to insure the availability of funding before contracts are finalized. Contracts which result in overruns of available balances are not released until budget revisions are approved. Outstanding encumbrances for long-term construction projects in the Transportation Fund and the Capital Projects Fund are included in assigned fund balance, at a minimum. Encumbrances in all other funds lapse at the end of the fiscal year.

## **ECONOMIC CONDITION AND OUTLOOK**

### *National Economy*

Real GDP rose by 1.3 percent (annual rate) in the fiscal quarter ending June 2011 over the previous quarter. The Bureau of Economic Analysis third estimate was revised up slightly from 1.0 percent which was reported in the second estimate. The small upward revision was based on a small adjustment to personal consumption expenditures. The first estimate, published in July 2011, was also 1.3 percent. Real GDP grew by 1.2 percent (annual rate) in the first quarter of FY12 over the fourth quarter of FY11 (IHS Global Insight estimates).

The last three quarters of growth are considerably muted compared to the moderate to good growth that occurred from the first quarter of FY10 to second quarter of FY11. Those six quarters of solid growth alone regained 76.2 percent of the losses from the 2007 recession. First quarter FY12 real GDP is still \$26.8 billion below its previous peak. During the 2007 recession, real GDP declined by \$684.7 billion, or 5.1 percent from peak to trough, a six-quarter period of contraction. From the fourth quarter of FY09 to the fourth quarter of FY11, real GDP grew a net 4.9 percent during that eight-quarter period.

Real consumption, which makes up 70.9 percent of real GDP, rose by 1.9 percent over the first quarter of FY11. In absolute terms, real consumption was the largest contributor to real GDP growth in the first quarter, adding \$179.4 billion.

Real investment, which makes up 13.5 percent of real GDP, rose by 1.8 percent over the first quarter of FY11. Growth has tapered considerably over the last five quarters. The last five quarters of year over year growth were 25.5, 14.0, 7.4, 2.9 and 1.8 percent respectively. Real investment was the largest loser in both absolute and percentage terms in the 2007 recession. From peak to trough, real investment declined by \$869.1 billion, a 38.3 percent net decline. Despite several quarters of strong growth, real investment has only made up 55.2 percent of its 2007 recession losses to date.

Real government expenditures, which makes up 18.7 percent of real GDP, declined by 3.5 percent over the first quarter of FY11. Government expenditures are countercyclical. That is, they rise during a contraction and fall during an expansion. In the case of real government expenditures, the real GDP relationship is also slightly lagged. During a contraction, demand falls, employers cut hours, then employers layoff workers, and then transfers like unemployment

insurance, food stamps and housing subsidies rise. The lag occurs because employers do not lay off workers immediately. And also it takes time for some of the transfers to be paid out. Also, the longer the contraction, the more pronounced the increase in government expenditures. Real government expenditures have fallen (on an adjacent quarter basis) for the last four quarters and are now at the same level as they were in the fourth quarter of FY08. The previous peak for real GDP occurred in the second quarter of FY08.

Real exports, which makes up 13.4 percent of real GDP, rose by 5.6 percent over the first quarter of FY11. Real imports, a subtraction to real GDP, rose by 2.2 percent over the first quarter of FY11. Net exports rose slightly in the fourth quarter of FY11 from (\$421.2) billion to (\$411.3) billion, in the first quarter of FY12, the second consecutive quarter of improvement. For point of reference, net exports in the first quarter of FY08 (the quarter before the recession started) were (\$638.0) billion.

US personal income grew 0.6 percent in the first quarter of FY12 over the previous quarter. This was the eighth consecutive quarter of growth since reaching the trough in the first quarter of FY10. The 2007 recession had a significant impact on US personal income. Personal incomes declined for five consecutive quarters and lost a net 5.5 percent (\$697.6 billion) over that time. With solid growth immediately following the official end of the recession, US personal income surpassed its previous peak in the second quarter of FY11. While growth has tapered some in the first quarter, US personal income is 5.0 percent above its FY11 first quarter level.

Inflation has risen for the last four consecutive quarters. Inflation in the first quarter of FY12 was 3.8 percent, while inflation in the first quarter of FY11 was 1.2 percent. The money supply rose sharply in the first quarter by 4.8 percent and that may have contributed to the increase in inflation.

US non-farm employment rose slightly in the first quarter to 131.1 million employed. This is only the fifth increase in employment since reaching a trough in the first quarter of FY11. US employment is still significantly below its pre-recession peak of 137.9 million employed.

### *Kentucky's Economy*

Kentucky personal income grew by 2.7 percent in the first quarter over the previous quarter. This is 6.4 percent above the first quarter of FY11. While the first quarter growth is better than US personal income growth, it is still not a robust or even an average recovery. The previous peak in Kentucky personal income occurred in the fourth quarter of FY08. The trough occurred in the third quarter of FY09, three quarters later. Growth in the nine quarters following the trough were 0.7, (0.1), 0.5, (0.1), 1.3, 1.2, 0.4, 1.9, and 1.2 percent respectively. Over the last two expansionary periods, average Kentucky personal income growth was 1.3 percent. So Kentucky personal income has been well below the historical average for most of this expansion period.

Kentucky wages and salaries rose by 0.5 percent in the first quarter over the fourth quarter of FY11. Wages and salary growth has slowed over the last three quarters. In the third and fourth quarters of FY11, wages and salaries grew by 1.5 and 1.4 percent respectively on an adjacent-quarter basis. The two fastest growing segments of Kentucky personal income in the first quarter were transfer income and dividends, interest and rents income, which grew at 0.9 and 1.0 percent respectively.

The components of personal income have shifted over the last decade. Wages and salaries income made up 49.7 percent of Kentucky personal income in the first quarter of FY12. This share has gone down only slightly over the last decade, falling from 53.9 percent in the first quarter of 2001. Transfer payments, on the other hand, have risen sharply in the last decade, rising from 17.4 percent share of Kentucky personal income in the first quarter of FY01 to 24.6 percent share in the first quarter of FY12.

It is expected that transfer payments increase during recessions, as individuals apply for unemployment insurance, food stamps and Medicare, as other sources of income are reduced. It is surprising, however, that the share of transfer income does not go down during the last two expansion periods, as employment improves and incomes rise.

The shares of only two categories of personal income grew over the last decade, transfer income and supplement income. The share of supplement income grew from 11.8 percent of personal income in the first quarter of FY01 to 14.0 percent share in the first quarter of FY12. The other categories of personal income each fell by small amounts over the last decade.

Kentucky non-farm employment rose by 1.3 percent from the first quarter of FY11 to the first quarter of FY12. Growth has been small or declining since employment reached its trough in the third quarter of FY10. No particular supersector of employment showed good growth in the first quarter. The fastest growing supersector on a percentage basis was mining employment which grew by 11.1 percent compared to a year ago. Manufacturing employment grew by the largest absolute amount, contributing an additional 6,500 jobs, or 3.1 percent, to non-farm employment gains. Only one supersector contracted from the first quarter of FY11 to the first quarter of FY12 and that was government employment. Government employment includes state, county and local government employment and declined by 6,800 jobs, a 2.1 percent decrease over that period. Construction employment grew by 4.2 percent in the first quarter over the fourth quarter of FY11. This increase in jobs follows 12 consecutive quarters of losses in construction employment in the state. The previous peak in construction employment was 86,200 jobs, which occurred in the second quarter of FY08. Current construction employment is 67,300 jobs.

### *Long-Term Financial Planning*

Debt financing of the Commonwealth is classified as either appropriation supported debt or non-appropriation supported debt. Appropriation supported debt carries the name of the Commonwealth and is either a general obligation of the state or a lease revenue obligation of an issuing agency created by the Kentucky General Assembly to finance various projects subject to state appropriation for all or a portion of the debt service on the bonds. Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation, or pledge of the faith and credit of the Commonwealth.

### *Debt Administration*

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2011 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$757,338	3.56 %	\$1,436

No general obligation bonds were authorized or outstanding at June 30, 2011.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2011 is presented in Note 15.

### *Major Initiatives*

Fiscal year 2011 was the first fiscal year of the Commonwealth's 2010-12 biennial period. The Commonwealth of Kentucky is one of the few states that enact a biennial budget in an even-numbered year; meaning that the FY11 budget was enacted in the 2010 Regular Session of the Kentucky General Assembly. The General Fund revenue forecast projected a 4.5 percent increase in revenues, after two consecutive years of revenue declines. Actual General Fund revenue growth was 6.5 percent, resulting in a year-end surplus of \$156 million, the majority of which was deposited into the Rainy Day Fund. The Road Fund revenues increased by 11 percent, resulting in a \$65 million year-end surplus. General Fund spending was reduced for the fourth consecutive year, in many areas of the government and supplanted by \$736 million in federal fiscal relief provided by the American Recovery and Reinvestment Act. The federal funding provided the ability to prevent significant reductions in elementary and secondary education and to enable the Medicaid program to continue to meet its obligations as enrollment swelled due to the recession.

Overall, the FY11 General Fund spending increased by 4 percent at the same time the budget incorporated \$197 million in spending reductions, involving most Kentucky state agencies. When combined with budget reductions that have taken place since the beginning of the recession in mid-2008, many state agency budgets have been cut by 20-30 percent. There were several areas that required an increase in General Fund spending, but they were few in number, especially in areas where the stimulus funding was lower than in FY10. The modest increase in spending comes on the heels of FY10 where spending declined by 10.4 percent. That was the first time in over two generations that General Fund spending declined in two consecutive years.

The FY11 budget was modified by a Special Session during the year, primarily to address a projected shortfall in FY12 in the Medicaid program. Through those changes, the Medicaid budget in FY11 was increased by an offsetting decrease in the FY12 Medicaid budget along with some other resources. General Fund spending for Medicaid did increase by 7.6 percent.

The Commonwealth's capital program for the 2010-12 biennial period included the lowest amount of General Fund supported debt in 14 years. This was a reflection of the tight fiscal situation. The largest areas of emphasis were in local school buildings, infrastructure replacement and improvement, and several critical facility replacements in the Justice and Human Service areas. The capital budget for the 2010-12 biennial period followed two consecutive biennia with the largest capital spending investments the Commonwealth has ever budgeted.

During FY11, the Commonwealth continued to implement the third year of actions initiated in 2008 to address a significant policy and financial issue, the financing of the large unfunded liabilities of its pension systems, and restructuring future employee benefits to ensure a sustainable pension system. The effort puts in place a phased-in financing plan to achieve the necessary actuarial contributions to the systems. The financing plan includes specific graduated targets over a period of years. Benefits and related eligibility requirements for future employees were significantly changed to modernize the benefits and to reduce the future pension liabilities of the systems. Moreover, FY11 was the initial year in a long-term plan to sufficiently pre-fund the Teachers' Retirement System medical costs, involving additional financial participation from active school district employees, the 174 Kentucky school districts, existing retirees under age 65, and the Commonwealth. The federal stimulus legislation, which passed in February 2009, also resulted in an estimated \$3 billion in additional federal funding to Kentucky, spread over three years. Nearly 92 percent of that spending has occurred through the end of FY11.

## **FINANCIAL INFORMATION**

### ***The Accounting System***

The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Additional discussions of the various funds and how they are reported are located in the Management Discussion and Analysis (MD&A) section of this report.

In developing and operating the Commonwealth's accounting system, management of the Commonwealth placed emphasis on the adequacy of internal accounting controls. The comprehensive internal control framework is designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that financial records are reliable for preparing GAAP financial statements that are free from material misstatement and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived from their use, and that such cost-benefit evaluation requires estimates and judgments by management. All internal control evaluations occur within this framework.

## OTHER INFORMATION

### *Certificate of Achievement for Excellence in Financial Reporting*

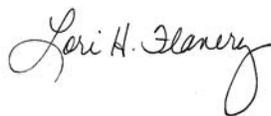
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This is the 24th consecutive year the Commonwealth has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### *Acknowledgments*

The preparation of this report could not have been accomplished without the cooperation of all branches and agencies of the Commonwealth. The professionalism demonstrated by the staffs of the Finance and Administration Cabinet's Office of Statewide Accounting Services and Division of Printing Services, as well as the Office of the Auditor of Public Accounts, is especially noteworthy. Their combined dedication made the publication of this report possible.

Respectfully submitted,



Lori H. Flanery, Secretary  
Finance and Administration Cabinet



STEVEN L. BESHEAR  
Governor

Commonwealth of Kentucky  
FINANCE AND ADMINISTRATION CABINET  
**OFFICE OF THE CONTROLLER**  
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LORI H. FLANERY  
Secretary

EDGAR C. ROSS  
Controller

December 16, 2011

The Honorable Lori H. Flanery  
Secretary, Finance and Administration Cabinet  
383 New Capitol Annex  
Frankfort, Kentucky

Dear Secretary Flanery:

Pursuant to Section 48.800 (3) of the Kentucky Revised Statutes, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2011, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB).

The basis of accounting upon which the report has been prepared complies with accounting principles generally accepted in the United States of America for state governments as prescribed by both GASB and the American Institute of Certified Public Accountants' (AICPA) publication Audits of State and Local Governments.

The information presents fairly and fully discloses the financial position and results of financial operations of the Commonwealth for the reporting period as measured by the financial activity of the various funds. All appropriate disclosures necessary to assist readers in their understanding and evaluation of Kentucky's financial condition have been included in this report.

Respectfully submitted,

Edgar C. Ross, Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



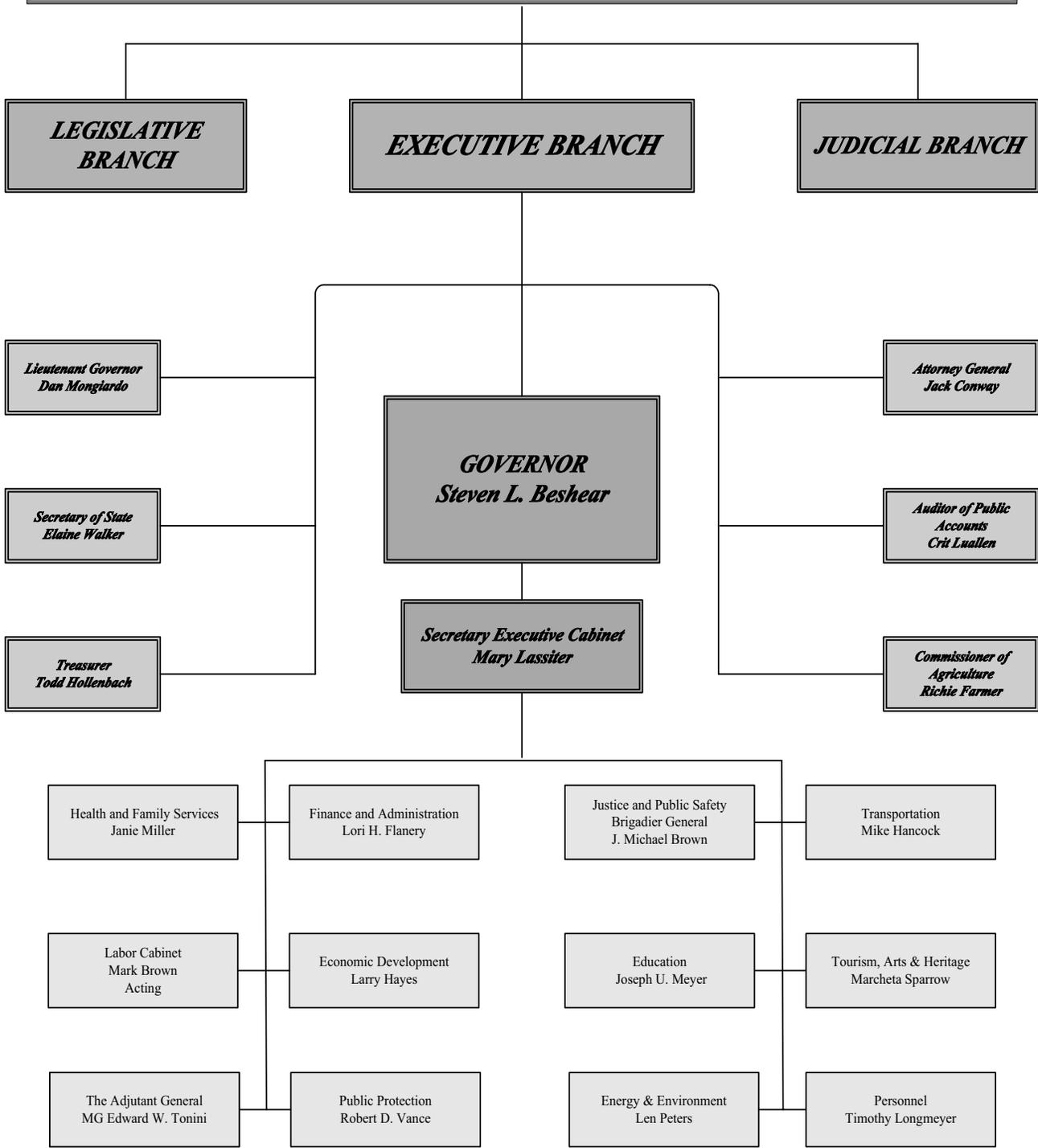
President

Executive Director

# COMMONWEALTH OF KENTUCKY

## ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



\*Principal Officials at June 30, 2011

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## **FINANCIAL SECTION**

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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
The Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet

**Independent Auditor’s Report**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the Commonwealth’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of some component units and funds that comprise the Commonwealth of Kentucky. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds is based upon the reports of the other auditors. Those component units and funds were:

**Certain portions of the Governmental Funds including:**

- Debt Service Fund - Turnpike Authority of Kentucky
- Special Revenue Fund - Turnpike Authority of Kentucky

**Certain portions of the Proprietary Funds including:**

- Within the Insurance Administration Fund:
  - Kentucky Coal Workers’ Pneumoconiosis Fund
  - Kentucky Workers’ Compensation Fund
  - Petroleum Storage Tank Environmental Assurance Fund
- Kentucky Lottery Corporation

**Certain portions of the Internal Service Funds within the Risk Management Fund including:**

- State Workers’ Compensation Program
- Transportation Cabinet’s Self-Insured Workers’ Compensation Trust Program

**Certain Fiduciary Funds including:**

- Kentucky Retirement System
- Kentucky Teachers’ Retirement System
- Judicial Form Retirement System
- Kentucky Public Employees’ Deferred Compensation Authority

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky  
 The Honorable Steven L. Beshear, Governor  
 Lori H. Flanery, Secretary  
 Finance and Administration Cabinet  
 Page 2

**Component Units:**

- Bluegrass State Skills Corporation
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky Educational Television Authority
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky State Fair Board
- Kentucky Housing Corporation
- Kentucky Horse Park Foundation, Inc.
- Kentucky Higher Education Student Loan Corporation

**Component Units - Colleges and Universities and related entities:**

- University of Kentucky
- Eastern Kentucky University
- Morehead State University
- Northern Kentucky University
- Kentucky Community and Technical College System
- University of Louisville
- Kentucky State University
- Murray State University
- Western Kentucky University
- Kentucky Council on Postsecondary Education

Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

<b>Government-Wide Financial Statements:</b>	<b>Percent of Assets</b>	<b>Percent of Revenues</b>
Primary Government - Governmental Activities	1.45%	.22%
Primary Government - Business-Type Activities	35.14%	6.63%
Component Units	99.35%	99.88%
<b>Fund Financial Statements:</b>		
Governmental Funds - Non-Major Funds	39.86%	3.65%
Proprietary Funds - Business-Type Activities - Enterprise Funds	35.09%	21.33%
Proprietary Funds - Governmental Activities - Internal Service Funds	5.15%	13.50%
Fiduciary Funds - Pension and Insurance Trust Funds	100.00%	100.00%
Component Units	99.35%	99.88%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

To the People of Kentucky  
The Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Page 3

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the Commonwealth of Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 16 through 22, budgetary comparison schedules and corresponding notes on pages 118 through 133, and information about infrastructure assets reported using the modified approach on pages 134 and 135, and claims development information for entity risk pools on page 136, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky's basic financial statements. The combining financial statements, presented in this report on pages 140 through 193 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 2 through 10 and 196 through 217 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 16, 2011

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# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2011. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

### FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

#### **Government-Wide Highlights:**

The assets of the Commonwealth's governmental activities exceeded its liabilities at fiscal year ending June 30, 2011, by \$12.4 billion, a decrease of \$461 million related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$848 million, a decrease in net assets of \$59 million related to current year activity. Total net assets decreased by \$520 million to \$11.5 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2011, by \$8.7 billion, an increase of \$714 million related to current year activity.

#### **Fund Highlights:**

As of the close of FY11, the Commonwealth's governmental funds reported combined ending fund balances of \$2.65 billion, an increase of \$498 million in comparison with the prior year. Approximately 13.7 percent or 362 million of the ending fund balance is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

Enterprise funds reported net assets of \$(848) million, of which \$350.8 million was restricted or invested in capital assets, and the balance of \$(1.2) billion was unrestricted.

#### **Long-Term Debt:**

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$908 million to \$7.96 billion during the current fiscal year. The increase is attributable to the issuance of new debt by the Commonwealth's Primary Government to replace short-term notes used to initially fund projects, to advance refund debt outstanding to reduce future interest cost, and to fund new projects authorized and started during FY11. Additional details of these activities can be found in Note 15 beginning on Page 101.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Commonwealth's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes other required supplementary information (*General and Special Revenue Fund budgetary schedules; condition and maintenance data regarding infrastructure; and claims development information*) and other supplementary information (combining financial statements). Each of these components is described below.

#### **Government-Wide Financial Statements**

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. These statements report financial information about the entire government except fiduciary activities. The statements provide both short-term and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year even if no cash has been received or paid. The government-wide financial statements include two statements: The *Statement of Net Assets* shows the financial position of the Commonwealth at the end of the fiscal year. The *Statement of Activities* presents information showing how the government's financial position has changed since the beginning of the fiscal year.

Both of the above financial statements have separate sections for three different types of state programs or activities.

These three types of activities are:

**Governmental Activities** – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category. Internal Service Fund balances are reported as a part of governmental activities.

**Business-Type Activities** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services provided by the State. The business-type activities of the Commonwealth include the operations of various Enterprise Funds as listed later in the text.

**Discretely Presented Component Units** – These are operations for which the Commonwealth has financial accountability but which possess certain independent qualities as well. More information on the Commonwealth’s discretely presented component units can be found in Note 1 on Page 51.

The government-wide financial statements can be found immediately following this discussion and analysis.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by state law or bond covenants and additional funds are established for management and fiscal control of resources.

The fund financial statements focus on activities of state government. All of the funds of the Commonwealth can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

*Table 1, below, summarizes the major features of the basic financial statements and how they relate to one another.*

	<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental</b>	<b>Proprietary</b>	<b>Fiduciary</b>
<b>Scope</b>	Entire government (except fiduciary funds) and the Commonwealth’s component units	The activities of the Commonwealth that are not proprietary or fiduciary	Activities of the Commonwealth that are similar to private businesses	Instances where the Commonwealth is the trustee for someone else’s resources
<b>Required Financial Statements</b>	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fund Net Assets Statement of Revenues, Expenses, and Changes in Fund Net Assets Statement of Cash Flows	Statements of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial, and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
<b>Type of Inflow – Outflow Information</b>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

**Notes to the Financial Statements** - Notes to the financial statements provide information necessary to fully understand the data provided in the government-wide and fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities.

**Required Supplementary Information** - In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplementary information that further explains and supports the information contained in the financial statements.

**Other Supplementary Information** - Supplementary information includes the introductory section, combining financial statements for non-major governmental funds, non-major discretely presented component units, the individual internal service funds and fiduciary funds, and the statistical section.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$11.5 billion at the end of 2011, as compared to \$12.04 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$19.5 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.3 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative \$9.3 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2011 and June 30, 2010, derived from the government-wide Statement of Net Assets.

Table 2: Condensed Statement of Net Assets ( Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current Assets	\$ 5,897,010	\$ 5,175,439	\$ 1,226,832	\$ 1,037,701	\$ 7,123,842	\$ 6,213,140
Capital Assets	21,892,276	21,441,106	355,220	351,879	22,247,496	21,792,985
Other Assets	301	1,767	-	-	301	1,767
Total Assets	27,789,587	26,618,312	1,582,052	1,389,580	29,371,639	28,007,892
Non Current Liabilities	13,050,478	11,602,000	2,329,120	2,078,069	15,379,598	13,680,069
Other Liabilities	2,370,285	2,186,062	101,395	101,205	2,471,680	2,287,267
Total Liabilities	15,420,763	13,788,062	2,430,515	2,179,274	17,851,278	15,967,336
Invested in Capital Assets						
Net of Related Debt	19,153,511	18,418,874	350,505	351,751	19,504,016	18,770,625
Restricted	1,286,431	1,206,293	326	9,646	1,286,757	1,215,939
Unrestricted	(8,071,118)	(6,794,917)	(1,199,294)	(1,151,091)	(9,270,412)	(7,946,008)
Total Net Assets	\$ 12,368,824	\$ 12,830,250	\$ (848,463)	\$ (789,694)	\$ 11,520,361	\$ 12,040,556

## Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during FY11. The Commonwealth received program revenues of \$13.3 billion and general revenues (including transfers) of \$10.6 billion for total revenues of \$23.9 billion during FY11. Expenses for the Commonwealth during FY11 were \$24.4 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$520 million, net of contributions, transfers and special items.

Table 3: Condensed Statement of Activities (Expressed in Thousands)

	2011 Governmental Activities	2010 Governmental Activities	2011 Business-Type Activities	2010 Business-Type Activities	2011 Total	2010 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,429,019	\$ 970,632	\$ 3,165,197	\$ 4,056,372	\$ 4,594,216	\$ 5,027,004
Operating Grants and Contributions	7,071,327	7,621,275	953,112	3,849	8,024,439	7,625,124
Capital Grants and Contributions	697,927	773,661	2,326		700,253	773,661
General Revenues:						
Income Taxes	3,768,846	3,361,478			3,768,846	3,361,478
Sales Taxes	5,152,345	4,880,831			5,152,345	4,880,831
Property Taxes	509,961	504,189			509,961	504,189
Other Taxes	610,314	544,349			610,314	544,349
Investment Earnings	7,146	9,531	56,203	47,657	63,349	57,188
Other	468,107	429,261	22,707	37,636	490,814	466,897
Total Revenues	<u>19,714,992</u>	<u>19,095,207</u>	<u>4,199,545</u>	<u>4,145,514</u>	<u>23,914,537</u>	<u>23,240,721</u>
Expenses:						
Governmental Activities:						
General Government	3,212,093	4,377,373			3,212,093	4,377,373
Legislative and Judicial	400,786	376,743			400,786	376,743
Commerce	113,156	124,263			113,156	124,263
Education and Humanities	6,036,864	5,148,482			6,036,864	5,148,482
Human Resources	7,652,130	7,725,161			7,652,130	7,725,161
Justice	887,611	876,065			887,611	876,065
Natural Resources and Environmental Protection	198,067	192,518			198,067	192,518
Public Protection and Regulation	164,052	113,558			164,052	113,558
Transportation	1,340,012	1,175,210			1,340,012	1,175,210
Interest Expense	377,725	332,639			377,725	332,639
Business-type Activities:						
State Parks			92,777	91,282	92,777	91,282
Kentucky Lottery Corporation			566,117	568,183	566,117	568,183
Kentucky Horse Park			14,804	13,521	14,804	13,521
Kentucky Public Employees Health Plan			1,624,444	1,497,656	1,624,444	1,497,656
Insurance Administration			232,100	107,286	232,100	107,286
Unemployment Compensation			1,521,994	1,958,414	1,521,994	1,958,414
Total Expenses	<u>20,382,496</u>	<u>20,442,012</u>	<u>4,052,236</u>	<u>4,236,342</u>	<u>24,434,732</u>	<u>24,678,354</u>
Increase (Decrease) in Net Assets Before Transfers						
Assets Before Transfers	(667,504)	(1,346,805)	147,309	(90,828)	(520,195)	(1,437,633)
Transfers	206,078	172,007	(206,078)	(172,007)		
Change in Net Assets	<u>(461,426)</u>	<u>(1,174,798)</u>	<u>(58,769)</u>	<u>(262,835)</u>	<u>(520,195)</u>	<u>(1,437,633)</u>
Net Assets, July 1, as restated	12,830,250	14,005,048	(789,694)	(526,859)	12,040,556	13,478,189
Net Assets, June 30	<u>\$ 12,368,824</u>	<u>\$ 12,830,250</u>	<u>\$ (848,463)</u>	<u>\$ (789,694)</u>	<u>\$ 11,520,361</u>	<u>\$ 12,040,556</u>

## Governmental Activities:

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was \$461 million or 3.6 percent. Approximately 51 percent of the governmental activities' total revenue came from taxes, while 39 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

Table 4 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 3,212,093	\$ 658,421	\$ 2,553,672
Legislative and Judicial	400,786	24,395	376,391
Commerce	113,156	61,264	51,892
Education and Humanities	6,036,864	1,448,904	4,587,960
Human Resources	7,652,130	5,754,131	1,897,999
Justice	887,611	108,600	779,011
Natural Resources and Environmental Protection	198,067	142,182	55,885
Public Protection and Regulation	164,052	90,734	73,318
Transportation	1,340,012	909,642	430,370
<b>Totals</b>	<b>\$ 20,004,771</b>	<b>\$ 9,198,273</b>	<b>\$ 10,806,498</b>

## Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities decreased the Commonwealth's net assets by \$59 million. Program revenues generated by the operations of the State Parks, Kentucky Horse Park, Unemployment Compensation, and Insurance Administration were not sufficient to cover program expenses. General revenues were needed to support expenses of these programs. Program revenues generated by the operations of the Kentucky Lottery Corporation and Kentucky Public Employees Health Plan were sufficient to cover program expenses.

Table 5 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 92,777	\$ 50,615	\$ 42,162
Kentucky Lottery Corporation	566,117	772,349	(206,232)
Kentucky Horse Park	14,804	11,714	3,090
Kentucky Public Employees Health Plan	1,624,444	1,752,908	(128,464)
Insurance Administration	232,100	112,815	119,285
Unemployment Compensation	1,521,994	1,420,234	101,760
<b>Totals</b>	<b>\$ 4,052,236</b>	<b>\$ 4,120,635</b>	<b>\$ (68,399)</b>

## Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2011, include the following:

- The assets of the State's governmental activities continue to exceed liabilities (net assets) at the close of the fiscal year by \$12.4 billion and the condition of the State's business-type activities worsened to the point that liabilities exceeded assets by \$848 million.
- The State's total net assets decreased during the year by \$520 million. Net assets of governmental activities decreased by \$461 million, while net assets of business-type activities decreased by \$59 million.
- The major reason for the decline in net assets of the governmental activities was an increase in the Employers unfunded pension contribution of \$376.5 million and an increase in long-term debt in the amount of \$908 million. The primary cause of the decrease in business-type activities net assets is the unemployment benefits attributable to the nation's economic downturn.

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

At June 30, 2011, the Commonwealth's governmental funds reported combined ending fund balances of \$2.65 billion, an increase of \$498 million in comparison with the prior year. \$122.6 million is nonspendable and is comprised of inventories and cash with fiscal agents that must remain intact. The \$2.17 billion is restricted for certain purposes and is not available to fund current operations. The \$362 million is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

### General Fund

The General Fund is the primary operating fund of the Commonwealth. The fund balance at June 30, 2011, was \$313 million. The balance reported reflects an increase of \$225.8 million from the previously reported amount, which represents a increase of 262%. The major factor for the increase is enhanced federal participation in Medicaid; thus, reducing the state's share of these expenditures.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$6 million represents the nonspendable amount, \$57 million is assigned and represents continuing appropriations and the remaining \$249 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The following governmental funds experienced significant changes during the year:

### Major Special Revenue Funds

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced a significant decrease in grant revenue as a result of the decrease in American Reinvestment and Recovery Act (ARRA), resulting in a significant decrease in federal fund expenditures. The Transportation Fund experienced an increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of \$122 million.

**Proprietary Funds** - The Commonwealth's proprietary funds reported net assets of \$(693) million, which included \$(848) million in the enterprise funds and \$155 million in the internal service funds. This is a total decrease in net assets of \$50.6 million from the previous year.

The overall decrease in net assets is due to an increase in claims expense within the Insurance Administration Fund. In addition, in the Unemployment Compensation Fund the unemployment benefit payments decreased; however, there was an overall decrease in net assets because revenues were not sufficient to cover expenditures.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, as the national and state economy failed to fully recover, the official revenue forecast for the General Fund was decreased. The General Fund revenues, for the year, exceeded the final budgetary estimates by approximately \$154.6 million. The original budgeted expenditures were decreased to accommodate revenue shortfalls. Actual expenditures for the year were approximately \$214 million less than the final budgeted amount.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets** - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$23.3 billion, with accumulated depreciation of \$1.1 billion, leaving a net book value of \$22.2 billion. This investment in capital assets includes land, improvements, buildings, equipment, and construction in progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 2.1 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$590 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$89.7 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the "Notes to the Financial Statements" of this report.

**Infrastructure Assets** – The Commonwealth has elected to utilize the “Modified Approach” as it relates to guidelines set forth in the GASB (Government Accounting Standards Board) Statement Number 34. Under this alternative method the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include nearly 63,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition level of infrastructure assets.
- The asset condition level established by the Commonwealth has approximately been met and exceeded for the past six years.
- Actual expenditures necessary to maintain and preserve infrastructure assets at target condition levels were approximately 19 percent less than the reported estimate of \$981.2 million for fiscal year 2011. However, while developing the estimated maintenance and preservation costs for fiscal year 2012, a \$162.5 million overstatement of the fiscal year 2011 was discovered. The 2011 estimated costs should have been reported as \$981.2 million. Had the fiscal year 2011 estimated costs been reported correctly the actual fiscal year 2011 expenditures were approximately 6 percent less than the revised estimate.

A more in-depth discussion of the Commonwealth’s infrastructure assets is located in the “Required Supplemental Information” section of this report.

**Debt Administration** - The Office of Financial Management as established in KRS 42.4201, is responsible for the oversight of the Commonwealth’s debt. The Office develops a long-term debt plan including criteria for the issuance of debt and an evaluation of the total state debt to be incurred. Debt is issued through the State Property and Buildings Commission and the Kentucky Asset/Liability Commission.

The Commonwealth of Kentucky’s bonded debt increased by \$281.8 million to \$6.2 billion, a 4.7% increase during the current fiscal year. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding to reduce future interest cost. No general obligation bonds were authorized or outstanding at June 30, 2011. Additional information on the Commonwealth’s long-term debt obligations can be found in Note 15 of the notes to the financial statements of this report.

## **ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The unemployment rate for the Commonwealth of Kentucky is currently 9.7 percent. The September rate is down 0.5 percentage points compared to the September 2010 level of 10.2 percent. The national unemployment rate has also fallen losing 0.7 percentage points from 9.7 percent in October 2010 to 9.0 percent in October 2011. Almost every labor sector is still struggling to rebound following the 2007 recession, with six of the eleven supersectors still below their pre-recession peaks.

Personal incomes in both Kentucky and the nation are improving, but employment is weak or flat. Federal money to Medicaid has helped curb the impact to the state budget. However, continued high federal budget deficits will make it increasingly unlikely that continued support will occur.

Dampened growth of two percent or just below is expected for the next two years for real gross domestic product. It is expected that the recovery will continue to be slow for output and employment. Additional risks due to the financial problems in the eurozone and higher inflation are asserting downward pressure on US economic growth prospects.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Commonwealth of Kentucky’s finances for all of Kentucky’s citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Kentucky, Finance and Administration Cabinet, Office of the Controller, 702 Capitol Avenue, Frankfort, KY 40601.

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 5)	\$ 795,488	\$ 188,870	\$ 984,358	\$ 1,398,687
Cash with fiscal agents (Note 5)	67,470	145,494	212,964	
Restricted cash (Note 5)		58,291	58,291	
Investments, net of amortization (Note 5)	1,660,835	110,673	1,771,508	2,853,850
Invested security collateral	491,890		491,890	
Receivables, net (Note 4)	2,343,121	285,347	2,628,468	3,986,280
Notes receivable	5,286		5,286	
Capital lease receivable (Note 4)	406,105		406,105	
Internal balances (Note 7)	(48,624)	48,624		
Inventories	57,940	2,348	60,288	35,282
Prepaid expenses	12,485	582	13,067	18,443
Deferred charges	77,478		77,478	57,459
Deferred outflow of resource-interest rate swap (Note 15)	27,536		27,536	
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)				345,202
Investments (Note 5)		386,603	386,603	1,309,425
Capital assets (Note 6):				
Land	168,233	21,817	190,050	261,115
Improvements other than buildings	16,489	122,602	139,091	308,273
Buildings	1,289,333	259,876	1,549,209	6,048,891
Machinery and equipment	599,002	60,169	659,171	1,831,680
Other capital assets				112,961
Easements and other intangibles	168,784	2,322	171,106	
Less: Accumulated depreciation and amortization	(911,611)	(226,281)	(1,137,892)	(3,591,762)
Construction in progress	1,892,549	114,715	2,007,264	431,782
Infrastructure	18,669,497		18,669,497	
Total Capital Assets	21,892,276	355,220	22,247,496	5,402,940
Other assets	301		301	379,248
Total Assets	27,789,587	1,582,052	29,371,639	15,786,816
<b>Liabilities</b>				
Accounts payable (Note 4)	1,302,883	71,855	1,374,738	400,329
Tax refunds payable	336,940		336,940	
Unearned revenue	211,036	21,738	232,774	208,331
Other liabilities		7,802	7,802	132,368
Liabilities from restricted assets				7,356
Obligations under securities lending	491,890		491,890	
Derivative instrument-interest rate swap (Note 15)	27,536		27,536	
Noncurrent liabilities:				
Due within one year (Note 15)	549,737	242,618	792,355	292,059
Due in more than one year (Note 15)	12,500,741	2,086,502	14,587,243	6,013,266
Total Liabilities	15,420,763	2,430,515	17,851,278	7,053,709
<b>Net Assets</b>				
Invested in capital assets, net of related debt	19,153,511	350,505	19,504,016	3,777,609
Restricted for:				
Debt service	137,921		137,921	381,142
Capital projects	379,234	297	379,531	195,097
Highways	769,276		769,276	
Other purposes (Note 1)		29	29	2,808,282
Unrestricted	(8,071,118)	(1,199,294)	(9,270,412)	1,570,977
Total Net Assets	\$ 12,368,824	\$ (848,463)	\$ 11,520,361	\$ 8,733,107

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 3,212,093	\$ 438,993	\$ 201,096	\$ 18,332
Legislative and judicial	400,786	21,177	3,218	
Commerce	113,156	36,774	24,293	197
Education and humanities	6,036,864	78,996	1,367,000	2,908
Human resources	7,652,130	484,958	5,262,066	7,107
Justice	887,611	22,121	83,636	2,843
Natural resources and environmental protection	198,067	43,338	98,844	
Public protection and regulation	164,052	83,816	6,918	
Transportation	1,340,012	218,846	24,256	666,540
Interest expense	377,725			
Total Governmental Activities	<u>20,382,496</u>	<u>1,429,019</u>	<u>7,071,327</u>	<u>697,927</u>
Business-Type Activities:				
State Parks	92,777	49,437	1,178	
Kentucky Lottery Corporation	566,117	772,349		
Kentucky Horse Park	14,804	7,798	1,590	2,326
Kentucky Public Employees Health Plan	1,624,444	1,752,908		
Insurance Administration	232,100	110,829	1,986	
Unemployment Compensation	1,521,994	471,876	948,358	
Total Business-Type Activities	<u>4,052,236</u>	<u>3,165,197</u>	<u>953,112</u>	<u>2,326</u>
Total Primary Government	<u>\$ 24,434,732</u>	<u>\$ 4,594,216</u>	<u>\$ 8,024,439</u>	<u>\$ 700,253</u>
<b>Component Units:</b>				
Authorities:				
Kentucky Housing Corporation	\$ 418,409	\$ 140,886	\$ 281,016	\$
Kentucky Higher Education Student Loan Corporation	46,019	77,006		
Universities, Colleges, & Related Entities:				
University of Kentucky	2,196,654	1,411,369	587,600	29,993
University of Louisville	881,960	477,841	172,887	
Kentucky Community and Technical College System	638,854	114,535	92,395	
Other component units	1,721,875	638,890	386,895	62,688
Total Component Units	<u>\$ 5,903,771</u>	<u>\$ 2,860,527</u>	<u>\$ 1,520,793</u>	<u>\$ 92,681</u>
<b>General Revenues (Note 1):</b>				
Taxes:				
Sales and gross receipt tax				
Individual income tax				
Corporate income tax				
Property tax				
License and privilege tax				
Severance tax				
Inheritance and estate tax				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	<b>Component Units</b>
\$ (2,553,672)	\$	\$ (2,553,672)	
(376,391)		(376,391)	
(51,892)		(51,892)	
(4,587,960)		(4,587,960)	
(1,897,999)		(1,897,999)	
(779,011)		(779,011)	
(55,885)		(55,885)	
(73,318)		(73,318)	
(430,370)		(430,370)	
(377,725)		(377,725)	
<u>(11,184,223)</u>		<u>(11,184,223)</u>	
	(42,162)	(42,162)	
	206,232	206,232	
	(3,090)	(3,090)	
	128,464	128,464	
	(119,285)	(119,285)	
	<u>(101,760)</u>	<u>(101,760)</u>	
	68,399	68,399	
<u>(11,184,223)</u>	<u>68,399</u>	<u>(11,115,824)</u>	
			\$ 3,493
			30,987
			(167,692)
			(231,232)
			(431,924)
			<u>(633,402)</u>
			<u>(1,429,770)</u>
5,152,345		5,152,345	
3,451,268		3,451,268	
317,578		317,578	
509,961		509,961	
29,690		29,690	
366,633		366,633	
45,144		45,144	
168,847		168,847	
14,071	208	14,279	1,163,125
7,146	56,203	63,349	172,940
9,727	597	10,324	785
444,309	21,902	466,211	807,140
206,078	<u>(206,078)</u>		
<u>10,722,797</u>	<u>(127,168)</u>	<u>10,595,629</u>	<u>2,143,990</u>
(461,426)	(58,769)	(520,195)	714,220
<u>12,830,250</u>	<u>(789,694)</u>	<u>12,040,556</u>	<u>8,018,887</u>
<u>\$ 12,368,824</u>	<u>\$ (848,463)</u>	<u>\$ 11,520,361</u>	<u>\$ 8,733,107</u>

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# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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## Major Funds

### General Fund

The General Fund is the Commonwealth's operating fund and accounts for and reports all financial resources appropriated by the General Assembly that are not required to be accounted for in other funds.

### Transportation Fund

The Transportation Fund Accounts for proceeds and reports specific revenue sources which are restricted or committed for the construction, preservation, and maintenance of roads.

### Federal Fund

The Federal Fund accounts for and reports monies received from the federal government that are restricted or committed to specific programs and operations.

### Agency Revenue Fund

The Agency Revenue Fund accounts for and reports specific taxes, fees, and charges that are restricted or committed to expenditures for a particular function or activity. The General Assembly usually appropriates this fund.

### Capital Projects Fund

The Capital Projects Fund accounts for and reports financial resources that are restricted, committed, or assigned for capital outlay as appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment other than that financed by proprietary funds, certain trust funds, and university and college funds.

### Debt Service Fund

The Debt Service Fund accounts for and reports financial resources which are restricted, committed, or assigned to expenditures for repayment of principal, interest, and administrative fees due on general long-term issues of the Commonwealth and for the accumulation of financial resources used to make such payments.

## Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page ..... 140

**COMMONWEALTH OF KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>Federal</u>	<u>Agency Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>								
Cash and cash equivalents (Note 5)	\$ 315,634	\$ 51,655	\$ 762	\$ 46,543	\$ 23,610	\$ 1,120	\$ 291,991	\$ 731,315
Cash with fiscal agents (Note 5)						48,943		48,943
Restricted cash (Note 5)				18,526				18,526
Investments, net of amortization (Note 5)	72,712	459,075		375,118	327,121	2,881	376,585	1,613,492
Invested security collateral	86,235	119,767		105,823	91,615		88,450	491,890
Receivables, net (Note 4)	867,609	137,339	1,155,483	71,204	11,464		99,077	2,342,176
Notes receivable				4,642			644	5,286
Capital lease receivable (Note 4)						406,105		406,105
Interfunds receivable (Note 7)	40,732	1,372	20,106	142,266	42,880		150,976	398,332
Interfund loans receivable (Note 7)							6,314	6,314
Inventories	6,099	46,302	121	2,607			48	55,177
Total Assets	<u>\$ 1,389,021</u>	<u>\$ 815,510</u>	<u>\$ 1,176,472</u>	<u>\$ 766,729</u>	<u>\$ 496,690</u>	<u>\$ 459,049</u>	<u>\$ 1,014,085</u>	<u>\$ 6,117,556</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable (Note 4)	\$ 363,207	\$ 97,891	\$ 660,136	\$ 62,893	\$ 22,639	\$	\$ 12,990	\$ 1,219,756
Tax refunds payable	336,941							336,941
Interfunds payable (Note 7)	104,106	5,549	160,278	34,616	175		141,730	446,454
Interfund loans payable (Note 7)				2,249				2,249
Obligations under securities lending	86,235	119,767		105,822	91,615		88,450	491,889
Deferred revenue	185,495	13,569	257,521	29,185	3,027	406,105	75,038	969,940
Total Liabilities	<u>1,075,984</u>	<u>236,776</u>	<u>1,077,935</u>	<u>234,765</u>	<u>117,456</u>	<u>406,105</u>	<u>318,208</u>	<u>3,467,229</u>
<b>Fund Balances:</b>								
Nonspendable (Note 1)	6,099	46,302	121	21,133		48,943	48	122,646
Restricted for (Note 1)		532,432	213,147	481,967	379,234	4,001	554,527	2,165,308
Committed to (Note 1)				15,162			133,474	148,636
Assigned to (Note 1)	57,456			13,702			13,332	84,490
Unassigned (Note 1)	249,482		(114,731)				(5,504)	129,247
Total Fund Balances	<u>313,037</u>	<u>578,734</u>	<u>98,537</u>	<u>531,964</u>	<u>379,234</u>	<u>52,944</u>	<u>695,877</u>	<u>2,650,327</u>
Total Liabilities and Fund Balances	<u>\$ 1,389,021</u>	<u>\$ 815,510</u>	<u>\$ 1,176,472</u>	<u>\$ 766,729</u>	<u>\$ 496,690</u>	<u>\$ 459,049</u>	<u>\$ 1,014,085</u>	<u>\$ 6,117,556</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011  
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds \$ 2,650,327

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and other non-depreciable assets	274,506	
Buildings, equipment, and other depreciable assets	1,558,508	
Infrastructure	18,669,497	
Accumulated depreciation	(658,782)	
Construction in progress	1,810,124	21,653,853

Certain revenues are earned but not available, and therefore, are deferred in the funds. 760,026

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 83,853

Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 155,103

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease obligations	(21,785)	
Compensated absences	(218,596)	
Pollution remediation obligations	(19,590)	
Judgements and contingencies	(11,236)	
Lexington-Fayette Urban County Government Public Facilities Corporation (LFUCGPFC) - Memorandum of Understanding (MOU) obligations	(138,635)	
Net pension obligations	(4,213,106)	(4,622,948)

Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:

Bonds payable	(6,241,628)	
Notes payable	(1,715,915)	
Unamortized premiums and discounts	(248,572)	
Less deferred amounts on refundings	4,399	
Accrued interest payable	(109,674)	(8,311,390)

Net Assets of Governmental Activities \$ 12,368,824

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes	\$ 8,426,994	\$ 1,196,053	\$	\$ 387,293	\$	\$	\$ 103,162	\$ 10,113,502
Licenses, fees, and permits	33,617	132,478	3	160,656			3,509	330,263
Intergovernmental	14,398		7,826,418	14,426	160,571		645	8,016,458
Charges for services	10,596	9,487	966	609,665	1,614	95,700	183,174	911,202
Fines and forfeits	44,723	29	4	9,580			28,520	82,856
Interest and other investment income	1,369	2,517	137	5,805	7,168	929	11,167	29,092
Increase (decrease) in fair value of investments	2,908	(411)		(817)	(657)	29	(257)	795
Securities lending income	345	479		423	366		353	1,966
Other revenues	25,471	3,201	326,580	245,784	1,541		220,359	822,936
<b>Total Revenues</b>	<b>8,560,421</b>	<b>1,343,833</b>	<b>8,154,108</b>	<b>1,432,815</b>	<b>170,603</b>	<b>96,658</b>	<b>550,632</b>	<b>20,309,070</b>
<b>Expenditures</b>								
Current:								
General government	1,595,819		157,255	142,711			406,443	2,302,228
Legislative and judicial	357,175		3,328	32,288				392,791
Commerce	29,128		17,326	38,801			1,251	86,506
Education and humanities	4,652,950		1,342,663	36,411			93,579	6,125,603
Human resources	1,662,146		5,524,694	875,748			26,079	8,088,667
Justice	618,748		80,092	88,992			1,770	789,602
Natural resources and environmental protection	69,526		84,084	43,683			3,606	200,899
Public protection and regulation	17,467		7,154	72,439			66,378	163,438
Transportation	7,448	1,107,416	647,837	133,854			62,475	1,959,030
Debt service:								
Principal retirement						162,750	145,734	308,484
Interest and fiscal charges						252,811	98,728	351,539
Other expenditures						7,414	588	8,002
Securities lending expense	204	283		250	217		209	1,163
Capital outlay:								
Buildings					466,335			466,335
<b>Total Expenditures</b>	<b>9,010,611</b>	<b>1,107,699</b>	<b>7,864,433</b>	<b>1,465,177</b>	<b>466,552</b>	<b>422,975</b>	<b>906,840</b>	<b>21,244,287</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(450,190)	236,134	289,675	(32,362)	(295,949)	(326,317)	(356,208)	(935,217)
<b>Other Financing Sources (Uses)</b>								
Transfers in	325,346	2,893	310	441,230	136,467	280,367	666,332	1,852,945
Transfers out	(386,939)	(118,206)	(126,940)	(362,193)	(96,455)		(584,467)	(1,675,200)
Capitalized leases	3,812	1,152	461	1,428			11	6,864
Issuance of bonds:								
New issues					326,810		145,313	472,123
Refunding issues						153,965	86,625	240,590
Premiums					12,580	14,398	7,057	34,035
Discounts							(2,022)	(2,022)
Issuance of notes	733,784					3,586		737,370
Payments to refunded bond escrow agent						(139,491)	(94,151)	(233,642)
<b>Total Other Financing Sources (Uses)</b>	<b>676,003</b>	<b>(114,161)</b>	<b>(126,169)</b>	<b>80,465</b>	<b>379,402</b>	<b>312,825</b>	<b>224,698</b>	<b>1,433,063</b>
<b>Net Change in Fund Balances</b>	<b>225,813</b>	<b>121,973</b>	<b>163,506</b>	<b>48,103</b>	<b>83,453</b>	<b>(13,492)</b>	<b>(131,510)</b>	<b>497,846</b>
Fund Balances at July 1, as restated (Note 2)								
	86,204	461,249	(64,445)	484,714	295,781	66,436	827,379	2,157,318
Increase (decrease) in inventories	1,020	(4,488)	(524)	(853)			8	(4,837)
<b>Fund Balances at June 30</b>	<b>\$ 313,037</b>	<b>\$ 578,734</b>	<b>\$ 98,537</b>	<b>\$ 531,964</b>	<b>\$ 379,234</b>	<b>\$ 52,944</b>	<b>\$ 695,877</b>	<b>\$ 2,650,327</b>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011  
(Expressed in Thousands)**

Net Change in Fund Balances-Total Governmental Funds \$ 497,846

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Assets disposed of, net book value	(93,746)	
Donated assets, fair market value	601	
Buildings, equipment, and other depreciable assets	118,568	
Infrastructure	483,301	
Accumulated depreciation	<u>(61,240)</u>	447,484

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 115,842

Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities:

Prepaid Expenses	6,073	
Inventories	<u>(4,837)</u>	1,236

Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities. 8,146

Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.

Capital lease payments	4,715	
Compensated absence payments	(2,783)	
Pollution remediation payments	9,648	
Litigation payments	602	
Lexington-Fayette Urban County Government Public Facilities Corporation (LFUCGPFC) - Memorandum of Understanding (MOU) obligations	(138,635)	
Excess contributions to pension funds	<u>(376,481)</u>	(502,934)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond proceeds and premiums received	(1,482,095)	
Repayment of bond principal	308,484	
Payment to refunded bond escrow agent	233,642	
Accrued interest	(89,193)	
Loss on refunding	(2,809)	
Deferred issue costs	<u>2,925</u>	<u>(1,029,046)</u>

Change in Net Assets of Governmental Activities \$ (461,426)

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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# PROPRIETARY FUNDS FINANCIAL STATEMENTS

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## Enterprise Funds (All Major)

### State Parks Fund

The State Parks Fund accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

### Kentucky Lottery Corporation

The Kentucky Lottery Corporation, empowered by KRS 154A, administers the Kentucky State Lottery and is pursuant to amended section 226 of the Constitution of Kentucky as ratified by voters of the Commonwealth.

### Kentucky Horse Park Fund

The Kentucky Horse Park Fund accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

### Insurance Administration Fund

The Insurance Administration Fund accounts for insurance risk pools operated by the state. These include:

*Workers' Compensation Fund* provides benefits for workers with illnesses, which are not attributable to one employer.

*Coal Workers' Pneumoconiosis* provides benefits for workers with pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal.

*Petroleum Storage Tank Environmental Assurance Program* provides for the cleanup of leaking underground storage tanks in amounts that exceed the insurance required of the owners and operators.

*Mine Subsidence Insurance Program* provides coverage against losses arising out of or due to mine subsidence within the Commonwealth.

*Bond Pool Program* provides coverage to reclaim surface mined land when the permit holder has forfeited bonds posted for such purpose.

### Kentucky Public Employees Health Insurance Fund

The Kentucky Public Employees Health Insurance Fund accounts for the revenues and expenses incurred in the commercial operation of the health insurance program for state employees, teachers and retirees.

### Unemployment Compensation Fund

The Unemployment Compensation Fund accounts for assessed employer contributions and related unemployment compensation payments.

## Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page.....150

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 3,814	\$ 13,319	\$ 387
Cash on deposit with the federal government (Note 5)			
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)		22,670	
Receivables, net (Note 4)	1,160	31,486	641
Interfunds receivable (Note 7)	68		
Inventories	1,781		567
Prepaid expenses	62	351	
Total Current Assets	<u>6,885</u>	<u>67,826</u>	<u>1,595</u>
Noncurrent assets:			
Restricted investments (Note 5)			298
Investments, net of amortization (Note 5)	8,147	64,602	
Receivables, net		5,322	74
Capital assets (Note 6):			
Land	16,922	442	4,453
Improvements other than buildings	101,814	375	20,413
Buildings	222,988	7,346	29,542
Machinery and equipment	13,965	39,739	4,879
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(157,432)	(40,863)	(26,860)
Construction in progress	30,595		84,120
Total Capital Assets	<u>231,174</u>	<u>7,039</u>	<u>116,547</u>
Total Noncurrent Assets	<u>239,321</u>	<u>76,963</u>	<u>116,919</u>
Total Assets	<u>246,206</u>	<u>144,789</u>	<u>118,514</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable (Note 4)	3,766	4,753	2,819
Judgments payable	142		
Interfunds payable (Note 7)	2,007		75
Interfund loans payable (Note 7)			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	66		318
Prize liability		40,201	
Compensated absences (Note 15)	626	104	377
Deferred revenue	2,581		63
Other liabilities		6,258	
Total Current Liabilities	<u>9,188</u>	<u>51,316</u>	<u>3,652</u>
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	110		3,048
Prize liability		60,084	
Compensated absences (Note 15)	4,677	938	265
Loans payable the federal government (Note 15)			
Other liabilities (Note 15)			1,544
Total Noncurrent Liabilities	<u>4,787</u>	<u>61,022</u>	<u>4,857</u>
Total Liabilities	<u>13,975</u>	<u>112,338</u>	<u>8,509</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	230,998	7,039	112,008
Restricted for:			
Capital projects			297
Other purposes (Note 1)			
Unrestricted	1,233	25,412	(2,300)
Total Net Assets	<u>\$ 232,231</u>	<u>\$ 32,451</u>	<u>\$ 110,005</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds			Governmental Activities- Internal Service Funds	
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2011	
\$ 55,044	\$ 111,969	\$ 4,337	\$ 188,870	\$ 64,171
		145,494	145,494	
	58,291		58,291	
18,190	85,082	142,492	279,051	945
26	50,904		50,998	2,425
			2,348	2,765
	169		582	6,411
<u>73,260</u>	<u>306,415</u>	<u>292,323</u>	<u>748,304</u>	<u>76,717</u>
381,146	5,159		386,603	
4,152	10,015	1,087	88,003	47,342
	900		6,296	
			21,817	18,285
			122,602	3,133
			259,876	266,812
1,586			60,169	118,922
			2,322	1,675
(1,126)			(226,281)	(252,829)
			114,715	82,425
<u>460</u>			<u>355,220</u>	<u>238,423</u>
<u>385,758</u>	<u>16,074</u>	<u>1,087</u>	<u>836,122</u>	<u>285,765</u>
<u>459,018</u>	<u>322,489</u>	<u>293,410</u>	<u>1,584,426</u>	<u>362,482</u>
853	32,304	27,360	71,855	7,094
			142	
167	125		2,374	4,128
				2,864
104,948	83,853		188,801	18,758
6,093	4,763		10,856	864
			384	2,029
			40,201	
1,016	111		2,234	923
		19,094	21,738	1,114
			6,258	
<u>113,077</u>	<u>121,156</u>	<u>46,454</u>	<u>344,843</u>	<u>37,774</u>
1,015,505			1,015,505	153,514
52,579			52,579	5,028
			3,158	7,063
			60,084	
495	139		6,514	4,000
		948,662	948,662	
			1,544	
<u>1,068,579</u>	<u>139</u>	<u>948,662</u>	<u>2,088,046</u>	<u>169,605</u>
<u>1,181,656</u>	<u>121,295</u>	<u>995,116</u>	<u>2,432,889</u>	<u>207,379</u>
460			350,505	229,331
			297	
	29		29	
(723,098)	201,165	(701,706)	(1,199,294)	(74,228)
<u>\$ (722,638)</u>	<u>\$ 201,194</u>	<u>\$ (701,706)</u>	<u>\$ (848,463)</u>	<u>\$ 155,103</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Business-Type Activities-</b>		
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Horse Park</b>
<b>Operating Revenues:</b>			
Charges for sales and services:			
State parks sales and services	\$ 49,437	\$	\$
Lottery sales		772,349	
Horse park admissions and sales			7,798
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	1,731		1,590
Total Operating Revenues	<u>51,168</u>	<u>772,349</u>	<u>9,388</u>
<b>Operating Expenses:</b>			
Personal services	50,026		5,993
Utilities, rental, and other services	16,803	1,279	2,891
Commodities and supplies	14,533		2,285
Grants and subsidies			
Depreciation and amortization	10,206	1,329	1,128
Travel	338	63	
Reinsurance expense			
Claims expense			
Reinsurance expense			
Claims adjustment expense			
Prize expense		475,397	
Other expenses		82,333	2,384
Total Operating Expenses	<u>91,906</u>	<u>560,401</u>	<u>14,681</u>
Operating Income (Loss)	<u>(40,738)</u>	<u>211,948</u>	<u>(5,293)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of capital assets	(846)	44	(27)
Interest and other investment income		5,801	
Increase (decrease) in fair value of investments	(12)	(3,357)	(64)
Interest expense	(25)	(5,716)	(96)
Other revenues (expenses)		157	372
Total Nonoperating Revenues (Expenses)	<u>(883)</u>	<u>(3,071)</u>	<u>185</u>
Income (Loss) before Capital Contributions and Transfers	(41,621)	208,877	(5,108)
Capital contributions			2,326
Transfers in	37,545		4,898
Transfers out	(2,301)	(212,234)	(299)
Change in Net Assets	<u>(6,377)</u>	<u>(3,357)</u>	<u>1,817</u>
Net Assets at July 1, as restated (Note 2)	238,608	35,808	108,188
Net Assets at June 30	<u>\$ 232,231</u>	<u>\$ 32,451</u>	<u>\$ 110,005</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds				Governmental
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2011	Activities-Internal Service Funds
\$	\$	\$	\$	\$
			49,437	
			772,349	
			7,798	
110,829	1,752,908		1,863,737	
		1,441,108	1,441,108	
				185,541
1,986			5,307	3,205
112,815	1,752,908	1,441,108	4,139,736	188,746
19,667	6,890		82,576	69,279
2,120	1,584	85	24,762	27,681
1,381	51		18,250	47,244
		1,521,909	1,521,909	312
102			12,765	15,683
370	11		782	80
				962
197,933	1,525,122		1,723,055	50,723
2,606			2,606	
	81,922		81,922	(48)
			475,397	
2	8,864		93,583	
224,181	1,624,444	1,521,994	4,037,607	211,916
(111,366)	128,464	(80,886)	102,129	(23,170)
			(829)	(650)
11,431	292	83	17,607	853
42,144	(32)	124	38,803	(20)
			(5,837)	(253)
(7,919)	500		(6,890)	60
45,656	760	207	42,854	(10)
(65,710)	129,224	(80,679)	144,983	(23,180)
			2,326	113
23,334			65,777	42,601
(46,479)	(618)	(9,924)	(271,855)	(11,388)
(88,855)	128,606	(90,603)	(58,769)	8,146
(633,783)	72,588	(611,103)	(789,694)	146,957
\$ (722,638)	\$ 201,194	\$ (701,706)	\$ (848,463)	\$ 155,103

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Business-Type Activities</b>		
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Horse Park</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$ 49,237	\$ 718,555	\$ 8,437
Cash received from customers - state	97		
Cash payments to suppliers for goods and services	(29,691)	(521,609)	(6,491)
Cash payments for employee salaries and benefits	(50,580)	(12,138)	(5,935)
Cash payments for claims expense			
Cash payments from other sources	1,731		372
Cash payments to other sources			
Net Cash Provided (Used) by Operating Activities	<u>(29,206)</u>	<u>184,808</u>	<u>(3,617)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds	37,545		4,898
Transfers to other funds	(2,301)	(212,234)	(299)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>35,244</u>	<u>(212,234)</u>	<u>4,599</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(5,815)	(1,434)	(2,592)
Principal paid on revenue bond maturities and equipment contracts	(60)		(169)
Interest paid on revenue bonds and equipment contracts	(10)		(97)
Proceeds from the sale of capital assets			
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(5,885)</u>	<u>(1,434)</u>	<u>(2,858)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(187)		(1,033)
Proceeds from the sale of investment securities		27,796	2,055
Interest and dividends on investments	(12)	(424)	
Net Cash Provided (Used) in Investing Activities	<u>(199)</u>	<u>27,372</u>	<u>1,022</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(46)	(1,488)	(854)
Cash and Cash Equivalents at July 1	3,860	14,807	1,242
Cash and Cash Equivalents at June 30	<u>\$ 3,814</u>	<u>\$ 13,319</u>	<u>\$ 388</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ (40,738)	\$ 211,948	\$ (5,293)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	10,206	1,329	1,128
Interest and other investment income			
Miscellaneous nonoperating income (expense)		136	372
Change in assets and liabilities:			
(Increase) decrease in assets:			
Receivables, net	(534)	(943)	95
Interfund receivables	97		
Inventories	(202)	93	83
Prepaid expenses	(6)		
Other assets		254	
Increase (decrease) in liabilities:			
Accounts payable	250	402	(68)
Interfund payables	1,466	17	75
Claims liability			
Claims adjustment liability			
Compensated absences	(216)	16	
Deferred revenue	334		(9)
Other liabilities	137	(28,444)	
Net Cash Provided (Used) by Operating Activities	<u>\$ (29,206)</u>	<u>\$ 184,808</u>	<u>\$ (3,617)</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$ (12)	\$ (3,357)	\$ (64)
Contributions of capital assets	148	14	2,326
Capital assets acquired through leases			2,428
Accretion of investments held to fund grand prizes, which increased prize liability		5,716	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 136</u>	<u>\$ 2,373</u>	<u>\$ 4,690</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

<b>- Enterprise Funds</b>				<b>Governmental</b>
<b>Insurance Administration</b>	<b>Kentucky Public Employees Health Plan</b>	<b>Unemployment Compensation</b>	<b>Totals June 30, 2011</b>	<b>Activities - Internal Service Funds</b>
\$ 112,552	\$ 178,710	\$ 1,437,703	\$ 2,505,194	\$ 68,964
(3,833)	1,434,008		1,434,105	115,360
(19,566)	(85,681)	(85)	(647,390)	(68,043)
(94,534)	(2,885)		(91,104)	(69,622)
(6,434)	(1,499,908)		(1,594,442)	(30,736)
	92,097		87,766	3,264
	(900)	(1,382,911)	(1,383,811)	(1,590)
<u>(11,815)</u>	<u>115,441</u>	<u>54,707</u>	<u>310,318</u>	<u>17,597</u>
23,334			65,777	42,601
(46,479)	(618)	(9,924)	(271,855)	(11,388)
<u>(23,145)</u>	<u>(618)</u>	<u>(9,924)</u>	<u>(206,078)</u>	<u>31,213</u>
(7)			(9,848)	(12,234)
			(229)	(4,858)
			(107)	(553)
			439	439
<u>(7)</u>			<u>(10,184)</u>	<u>(17,206)</u>
(1,328,035)			(1,329,255)	(16,859)
1,367,821	12,006	2,188	1,411,866	8,726
9,222	292	207	9,285	848
<u>49,008</u>	<u>12,298</u>	<u>2,395</u>	<u>91,896</u>	<u>(7,285)</u>
14,041	127,121	47,178	185,952	24,319
41,003	43,139	102,652	206,703	39,852
<u>\$ 55,044</u>	<u>\$ 170,260</u>	<u>\$ 149,830</u>	<u>\$ 392,655</u>	<u>\$ 64,171</u>
\$ (111,366)	\$ 128,464	\$ (80,886)	\$ 102,129	\$ (23,170)
102			12,765	15,683
(8,175)	500		(7,167)	60
1,436	41,100	(5,955)	35,199	(407)
9	(50,904)	1	(50,797)	(1,254)
	(104)		(26)	(6)
	(25,562)		(110)	(904)
			(25,308)	
139	2,312	934,060	937,095	2,697
(80)	125		1,603	5,056
102,250	9,742		111,992	19,694
3,896	874		4,770	(48)
94	30		(76)	(264)
		2,549	2,874	460
(120)	8,864	(795,062)	(814,625)	
<u>\$ (11,815)</u>	<u>\$ 115,441</u>	<u>\$ 54,707</u>	<u>\$ 310,318</u>	<u>\$ 17,597</u>
\$ 42,144	\$ (32)	\$ 124	\$ 38,803	\$ (20)
			2,488	113
			2,428	1,244
			5,716	
<u>\$ 42,144</u>	<u>\$ (32)</u>	<u>\$ 124</u>	<u>\$ 49,435</u>	<u>\$ 1,337</u>

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## **FIDUCIARY FUNDS FINANCIAL STATEMENTS**

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**Pension (and Other Post Employment Benefit) Trust Funds** account for monies received for and expenses incurred by the various public employee retirement systems administered by the Commonwealth. Kentucky uses the following pension (and other post employment benefit) trust funds:

- Kentucky Employees Retirement System**
- County Employees Retirement System**
- Judicial Retirement Plan**
- State Police Retirement System**
- Kentucky Teachers' Retirement System**
- Legislators' Retirement Plan**
- Kentucky Public Employees' Deferred Compensation Authority**

**Agency funds** account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following agency funds:

- Commonwealth Choice Program**
- County Fees Trust Fund**
- Special Deposit Trust Fund**

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ALL FIDUCIARY FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Pension (and Other Post Employment Benefit) Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents (Note 5)	\$ 2,868,284	\$ 243,692
Investments, net of amortization (Note 5)		56,207
Pension trust fund investments (Note 5):		
Corporate and government bonds	6,416,394	
Common stocks	18,476,396	
Mortgages	1,561,086	
Mutual funds	2,400,369	
Real estate	515,222	
Invested security collateral	2,319,280	331,314
Receivables, net	484,767	49,243
Prepaid expenses	187	
Capital assets, net	13,531	
Total Assets	<u>35,055,516</u>	<u>680,456</u>
<b>Liabilities</b>		
Investments - accounts payable	101,357	
Accounts payable	134,197	237,250
Amounts held in custody for others		111,892
Obligations under securities lending	2,319,280	331,314
Total Liabilities	<u>2,554,834</u>	<u>680,456</u>
<b>Net Assets</b>		
Held in trust for:		
Employee pension and post employment benefits	32,500,682	
Total Net Assets	<u>\$ 32,500,682</u>	<u>\$</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**ALL FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**(Expressed in Thousands)**

	<b>Pension (and Other Post Employment Benefit) Trust Funds</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 2,243,470
Member	863,011
Total Contributions	<u>3,106,481</u>
Other Contributions:	
Recovery income	15,646
Medicare D receipts	22,409
Participant fees	7,514
Total Other Contributions	<u>45,569</u>
Investment income:	
Net increase (decrease) in fair value of investments	4,870,988
Interest	585,436
Dividends	156,065
Real estate operating income, net	30,611
Securities lending income, net	12,121
Total Investment Income	<u>5,655,221</u>
Less: Investment expense	92,350
Less: Securities lending expense	4,737
Net Investment Income	<u>5,558,134</u>
Other additions	
Total Additions	<u>8,710,184</u>
<b>Deductions</b>	
Benefit payments	3,137,126
Refunds	44,888
Administrative expenses	51,367
Capital project expense	2,286
Self funding insurance costs	130,260
Healthcare premiums subsidies	242,818
Other deductions, net	229,058
Total Deductions	<u>3,837,803</u>
Change in Net Assets	4,872,381
<b>Net Assets Held In Trust</b>	
Net Assets at July 1	27,628,301
Net Assets at June 30	<u>\$ 32,500,682</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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# COMPONENT UNITS FINANCIAL STATEMENTS

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## Major Component Units

### **Kentucky Housing Corporation**

The Kentucky Housing Corporation was authorized under KRS Chapter 198A in 1972 to increase the supply of housing for persons of lower income by making and participating in insured construction loans. The Corporation also makes and participates in insured mortgage loans when financing is not available from private lenders under reasonable equivalent terms and conditions.

### **Kentucky Higher Education Student Loan Corporation**

The Kentucky Higher Education Student Loan Corporation was empowered by KRS Chapter 164A to finance state and federally insured loans to students attending eligible post secondary institutions through direct loans to students and the purchase of student loans from lenders.

### **Universities, Colleges, and Related Entities**

The Universities, Colleges, and Related Entities account for all transactions relating to the nine State-supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The major component units-universities, colleges, and related entities are:

**University of Kentucky**

**University of Louisville**

**Kentucky Community and Technical College System**

## Non-Major Component Units

The non-major component units are presented beginning on page .....176

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<b>UNIVERSITIES, COLLEGES, AND RELATED ENTITIES</b>		
	<b>University of Kentucky</b>	<b>University of Louisville</b>	<b>Kentucky Community and Technical College System</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 302,838	\$ 123,452	\$ 268,186
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	10,989	20,869	38
Accounts receivable, net	209,636	83,710	33,133
Interest receivable	2,543		2,998
Inventories	25,595	1,208	
Prepaid expenses	6,371	228	1,820
Other current assets	2,090	8,057	
<b>Total Current Assets</b>	<b>560,062</b>	<b>237,524</b>	<b>306,175</b>
Noncurrent assets:			
Restricted cash (Note 5)	76,948	52,952	36,007
Long-term investments (Note 5)	37,654	846,177	140,408
Restricted long-term investments (Note 5)	1,127,186	5,275	
Long-term receivables, net	44,104	53,107	5,999
Deferred charges			
Capital assets (Note 6):			
Land	64,676	77,837	27,105
Improvements other than buildings	182,863	10,064	10,373
Buildings	2,070,705	1,041,366	669,070
Machinery and equipment	780,685	439,200	170,921
Other capital assets			
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(1,309,430)	(617,604)	(349,880)
Construction in progress	119,672	51,169	55,599
<b>Total Capital Assets</b>	<b>1,909,171</b>	<b>1,002,032</b>	<b>583,188</b>
Other assets	19,731	3,914	
<b>Total Noncurrent Assets, Net</b>	<b>3,214,794</b>	<b>1,963,457</b>	<b>765,602</b>
<b>Total Assets</b>	<b>3,774,856</b>	<b>2,200,981</b>	<b>1,071,777</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	190,296	68,766	8,269
Current portion of long-term debt:			
Notes payable (Note 15)	2,105	8,748	
Bonds payable (Note 15)	11,835	22,403	
Capital lease obligations (Note 10)	43,736	1,944	3,572
Compensated absences (Note 16)	491		12,051
Claims liability			
Deferred revenues	68,625	56,724	39,266
Payable from restricted assets			
Other current liabilities	20,010	11,893	14,575
<b>Total Current Liabilities</b>	<b>337,098</b>	<b>170,478</b>	<b>77,733</b>
Noncurrent liabilities:			
Notes payable (Note 15)	21,878	22,954	
Bonds payable (Note 15)	253,935	290,707	
Capital lease obligations (Note 10)	398,461	23,242	21,282
Compensated absences (Note 16)	6,009		
Other long-term liabilities	125,314	78,952	93,533
<b>Total Noncurrent Liabilities</b>	<b>805,597</b>	<b>415,855</b>	<b>114,815</b>
<b>Total Liabilities</b>	<b>1,142,695</b>	<b>586,333</b>	<b>192,548</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,218,504	656,816	558,334
Restricted for:			
Debt service	5,859	39,526	
Capital projects	42,049	26,222	39,638
Other purposes (Note 1)	759,003	666,602	57,185
Unrestricted	606,746	225,482	224,072
<b>Total Net Assets</b>	<b>\$ 2,632,161</b>	<b>\$ 1,614,648</b>	<b>\$ 879,229</b>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

AUTHORITIES			
Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Non-Major Component Units	All Component Units Totals June 30, 2011
\$ 69,502	\$ 39,188	\$ 595,521	\$ 1,398,687
267,903		31,384	31,384
9,999	829	223,024	522,823
	35,443	126,223	463,530
		8,266	49,250
		8,479	35,282
		10,024	18,443
37,114	209,860	68,893	326,014
<u>384,518</u>	<u>285,320</u>	<u>1,071,814</u>	<u>2,845,413</u>
	53,592	94,319	313,818
1,030,192	8,028	268,568	2,331,027
		176,964	1,309,425
1,108,475	1,494,708	767,107	3,473,500
34,261	20,598	2,600	57,459
		90,408	261,115
1,089		104,973	308,273
		2,262,714	6,048,891
5,036		422,214	1,831,680
4,616	14,044	112,961	112,961
(6,409)	(13,915)	(1,294,524)	(3,591,762)
		205,342	431,782
<u>4,332</u>	<u>129</u>	<u>1,904,088</u>	<u>5,402,940</u>
<u>12,387</u>		<u>17,202</u>	<u>53,234</u>
<u>2,189,647</u>	<u>1,577,055</u>	<u>3,230,848</u>	<u>12,941,403</u>
<u>2,574,165</u>	<u>1,862,375</u>	<u>4,302,662</u>	<u>15,786,816</u>
46,925	19,418	66,655	400,329
		9,985	24,928
4,090		48,067	169,040
86,635	100	8,441	57,693
	2,030	25,161	39,733
		665	665
		43,716	208,331
		7,356	7,356
57,388	363	28,139	132,368
<u>195,038</u>	<u>21,911</u>	<u>238,185</u>	<u>1,040,443</u>
	616,557	31,051	692,440
2,014,050	1,035,110	728,913	4,322,715
		73,019	516,004
		1,328	7,337
27,067	61,987	87,917	474,770
<u>2,041,117</u>	<u>1,713,654</u>	<u>922,228</u>	<u>6,013,266</u>
<u>2,236,155</u>	<u>1,735,565</u>	<u>1,160,413</u>	<u>7,053,709</u>
4,332	129	1,339,494	3,777,609
261,021	62,401	12,335	381,142
		87,188	195,097
19,656		1,305,836	2,808,282
53,001	64,280	397,396	1,570,977
<u>\$ 338,010</u>	<u>\$ 126,810</u>	<u>\$ 3,142,249</u>	<u>\$ 8,733,107</u>

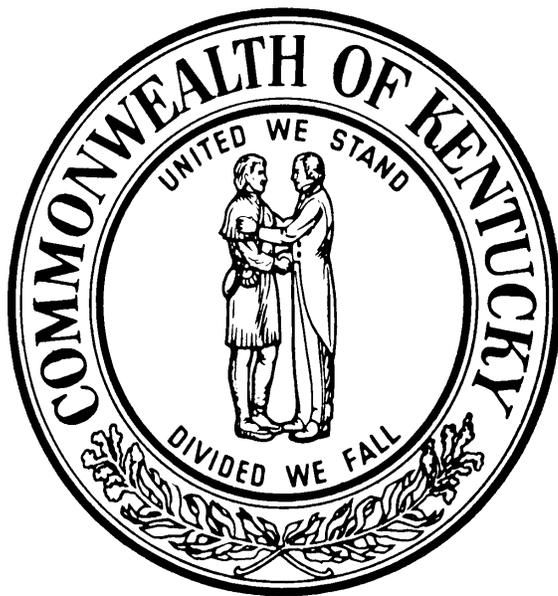
**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>UNIVERSITIES, COLLEGES, AND RELATED ENTITIES</b>		
	<b>University of Kentucky</b>	<b>University of Louisville</b>	<b>Kentucky Community and Technical College System</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 2,196,654	\$ 881,960	\$ 638,854
Total Expenses	<u>2,196,654</u>	<u>881,960</u>	<u>638,854</u>
<b>Program Revenues:</b>			
Charges for services	1,411,369	477,841	114,535
Operating grants and contributions	587,600	172,887	92,395
Capital grants and contributions	29,993		
Total Program Revenues	<u>2,028,962</u>	<u>650,728</u>	<u>206,930</u>
<b>Net Program (Expense) Revenue</b>	<u>(167,692)</u>	<u>(231,232)</u>	<u>(431,924)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	104,734	249,336	253,160
Unrestricted investment earnings	43	122,936	5,695
Gain on sale of capital assets			
Miscellaneous general	305,099	(10,410)	227,628
Total General Revenues	<u>409,876</u>	<u>361,862</u>	<u>486,483</u>
Change in Net Assets	<u>242,184</u>	<u>130,630</u>	<u>54,559</u>
Net Assets at July 1, As Restated (Note 2)	2,389,977	1,484,018	824,670
Net Assets at June 30	<u>\$ 2,632,161</u>	<u>\$ 1,614,648</u>	<u>\$ 879,229</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**AUTHORITIES**

<b>Kentucky Housing Corporation</b>	<b>Kentucky Higher Education Student Loan Corporation</b>	<b>Non-Major Component Units</b>	<b>All Component Units Totals June 30, 2011</b>
\$ 418,409	\$ 46,019	\$ 1,721,875	\$ 5,903,771
418,409	46,019	1,721,875	5,903,771
140,886	77,006	638,890	2,860,527
281,016		386,895	1,520,793
421,902	77,006	62,688	92,681
3,493	30,987	1,088,473	4,474,001
		(633,402)	(1,429,770)
		555,895	1,163,125
		44,266	172,940
		785	785
		284,823	807,140
		885,769	2,143,990
3,493	30,987	252,367	714,220
334,517	95,823	2,889,882	8,018,887
<b>\$ 338,010</b>	<b>\$ 126,810</b>	<b>\$ 3,142,249</b>	<b>\$ 8,733,107</b>



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## **NOTES TO FINANCIAL STATEMENTS**

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**SIGNIFICANT ACCOUNTING POLICIES****A. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for state governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements for the Universities, Colleges, and Related Entities Funds have been prepared according to standards established by GASB Statement 35.

**B. Financial Reporting Entity**

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14, as amended by GASB 39. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and also those that are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable for the organization or when exclusion of the organization would cause the Commonwealth's financial statements to be misleading or incomplete.

Component units may be blended or discretely presented. Blended component units are those that either provide services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. Amounts related to blended component units are included as if the component units were part of the primary government. All other component units are discretely presented, or shown separately from the primary government.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, Kentucky Public Employees' Deferred Compensation Authority and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, and the Kentucky Grain Insurance Corporation. (See pages 114 and 115 for a complete list of component units' addresses.)

**Blended Component Units**

The following legally separate organizations provide services entirely or almost entirely to the State or otherwise exclusively, or almost exclusively, that benefit the State, and therefore, these organizations' balances and transactions are reported as though they were part of the State's primary government by using the blending method.

**Kentucky Lottery Corporation (KRS 154A.020)**

The Kentucky Lottery Corporation is empowered by the Legislature to administer the Kentucky state lottery games. The board of directors is comprised of one ex officio member and seven members appointed by the Governor with the advice and consent of the Senate.

**Kentucky Retirement System (KRS 61.645)**

The Kentucky Retirement System administers the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The board consists of the Commissioner of the Department of Personnel, five members elected by the retirement systems, and three members appointed by the Governor.

**Kentucky Teachers' Retirement System (KRS 161.220)**

The Kentucky Teachers' Retirement System is an independent agency and instrumentality of the Commonwealth. It provides pension benefit plan coverage to employees of local school districts and educational agencies of the State. The board includes two ex officio members and seven elected members.

**Judicial Form Retirement System (KRS 21.530)**

The Judicial Form Retirement System accounts for monies and securities, including contributions and earnings, which will be used to pay benefits to the members of the Legislators' Retirement Plan and the Judicial Retirement Plan. The board consists of eight members; three are appointed by the Supreme Court, two by the Governor, one by the President of the Senate, one by the Speaker of the House of Representatives, and one by the President and Speaker jointly.

**Turnpike Authority of Kentucky (KRS 175.430)**

The Turnpike Authority is a body corporate and politic. It was created solely to perform essential governmental functions and to serve the public purposes of constructing, acquiring, financing, and operating turnpike and other road projects for the use, safety, convenience and general welfare of the traveling public, by leasing such projects to the Transportation Cabinet. The Governor and six other ex officio members comprise the authority.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Kentucky Public Employees' Deferred Compensation Authority**  
(KRS 18A.230 to 18A.275)

The Kentucky Employees' Deferred Compensation Authority administers two deferred compensation plans as authorized by sections 457 and 401(k) of the United States Internal Revenue Code. The plans are defined contribution plans with 762 participating employers. Under provisions of the Plans, employees of the Commonwealth and agencies thereof, including persons in the public school systems, universities, or local governments, are eligible to contribute on a pre-tax basis through payroll deductions. In no event shall the 457, 401(k) or Deemed IRA trust Funds be used for, or diverted to, purposes other than the exclusive benefit of the participants and beneficiaries or in the payment of the expenses of the Plans and Trust.

**Kentucky School Facilities Construction Commission** (KRS 157.617)

This commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the commission.

**Administrative Entities**

The State Property and Buildings Commission, Kentucky Asset/Liabilities Commission, Kentucky Tobacco Settlement Trust Corporation, Kentucky Savings Bond Authority, Kentucky Gas Pipeline Authority, and the Board of Agriculture are legally separate entities of an administrative nature. They are comprised of elected and appointed officials from various state agencies, and have no cost associated with them. Therefore, there is no separate presentation for these entities.

**State Property and Buildings Commission** (KRS 56.450)

This commission is a public body corporate that issues all revenue bonds for state agencies, unless those agencies are specifically authorized by other provisions of the Kentucky Revised Statutes to issue bonds. The commission is composed of six ex officio members.

**Kentucky Asset/Liability Commission** (KRS 56.861)

This commission is a public body corporate that takes a comprehensive view of the Commonwealth's finances and develops policies and strategies to minimize the impact of fluctuating revenue receipts and interest rates on the Commonwealth's interest-sensitive assets and liabilities. The commission consists of five ex officio members.

**Kentucky Tobacco Settlement Trust Corporation** (KRS 248.480)

The Kentucky Tobacco Settlement Trust Corporation is a public body corporate that performs essential governmental and public functions by assisting in the implementation of the national tobacco grower settlement trust agreement. The board of directors is comprised of five ex officio members and nine members appointed by the Governor with the advice and consent of the Senate and House of Representatives.

**Kentucky Savings Bond Authority** (KRS 293.030)

This authority is a body corporate and politic that promotes investment by the general public in bonds of the Commonwealth and helps to reduce interest costs to the Commonwealth or its agencies. The authority consists of seven commissioners, three ex officio members and four members appointed by the Governor.

**Kentucky Gas Pipeline Authority** (KRS 353.752)

This authority is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development. The authority consists of nine members, the Secretary of the Finance and Administration Cabinet, the Secretary of the Commerce Cabinet, the Secretary of the Environmental and Public Protection Cabinet, a member designated by the Kentucky Oil and Gas Association, a member designated by the Kentucky Society of Professional Engineers, a member designated by the Kentucky Gas Association, a citizen member appointed by the governor, and two legislative members.

**Board of Agriculture** (KRS 246.120)

This board is a body corporate that acts as an advisory board to the Commissioner of Agriculture, aids in the collection of information concerning crops, promulgates industrial information, and acts as an immigration committee. The board consists of five ex officio members and nine citizens of the Commonwealth appointed by the Governor.

**Discretely Presented Component Units**

The component units' column in the combined financial statements includes the data of the discretely presented component units described below. The component units are legally separate entities. However, there is a financial interdependence or the primary government controls the selections of the board and operations. They are reported together in a separate column to reflect that they are legally separate, but their interdependence requires that they be included as part of the reporting entity.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2011

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#### **Kentucky River Authority (KRS 151.710)**

The Kentucky River Authority possesses the corporate powers that distinguish it as being legally separate from the Commonwealth. The authority is charged with developing comprehensive plans for the management of the Kentucky River Basin. The Governor appoints the twelve members of this authority. A financial benefit/burden exists between the Commonwealth and the Authority.

#### **Kentucky Housing Corporation (KRS 198A.030)**

The Housing Corporation is a body corporate and politic that performs essential governmental and public functions in improving and promoting the health and welfare of the citizens of the Commonwealth by the production of residential housing in Kentucky. The board of directors consists of six ex officio members and eight members appointed by the Governor. The Commonwealth has the ability to impose its will since it may appoint, hire, reassign or dismiss management responsible for operations.

#### **Kentucky Higher Education Student Loan Corporation (KHESLC) (KRS 164A.050)**

KHESLC is a body corporate and politic created to perform essential governmental and public functions and purposes in improving and promoting the educational opportunities of the citizens of the Commonwealth. The Corporation is governed by board of directors appointed by the Governor, as prescribed in KRS 164A.050. The Commonwealth provides operating support to the Corporation, creating a financial benefit/burden relationship.

#### **Bluegrass State Skills Corporation (KRS 154.12-205)**

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the Kentucky Cabinet for Economic Development in creating and expanding programs offering skills, training and education. The board of directors consists of six ex officio members and twelve members appointed by the Governor. The Commonwealth has the ability to impose its will and there also exists a financial benefit/burden relationship.

#### **Kentucky State Fair Board (KRS 247.090)**

This board is a body corporate that accounts for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Three ex officio members and twelve members appointed by the Governor make up the fifteen-member board. The Commonwealth has the ability to impose it will and there also exists a financial benefit/burden relationship.

#### **Kentucky Center for the Arts Corporation (KRS 153.410)**

The Center for the Arts is a body corporate created by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The board consists of fifteen members appointed by the Governor. The Commonwealth provides significant operating support to the corporation, creating a financial benefit/burden relationship.

#### **Kentucky Educational Television Authority (KET) (KRS 168.030)**

KET is a public body corporate and politic that prescribes and enforces regulations governing the use of educational television and television facilities and related functions. KET also produces and transmits educational television programs. The authority consists of nine members. The Governor appoints five of these members. The board elects a liaison between the authority and the department on matters of curriculum. The Council on Postsecondary Education elects a representative of the University of Kentucky and a representative of the other state universities. The authority's members elect a chairman. A component unit of KET is the Kentucky Educational Television Foundation. The foundation is a non-profit Kentucky corporation that receives, holds and administers gifts and grants in the name of and with the approval of the authority. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

#### **Kentucky Economic Development Finance Authority (KEDFA) (KRS 154.20-010)**

KEDFA possesses the corporate powers necessary to distinguish it as legally separate from the Commonwealth. It was established to assist business enterprises in obtaining financial resources in order to promote the Commonwealth's long-term economic growth. The Kentucky Economic Development Partnership board appoints the five members of this authority. Additionally, other component units of the authority include The Kentucky Industrial Development Authority, the Kentucky Industrial Revitalization Authority, the Kentucky JOBS Development Authority, and the Kentucky Mortgage Insurance and Guarantee Corporation. The financial statements of the component units are combined with those of the authority. Commonwealth funds may be used for operating support to the Authority, creating a financial benefit/burden relationship.

#### **Kentucky Higher Education Assistance Authority (KHEAA) (KRS 164.742)**

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. The authority is governed by a board of directors consisting of 15 members appointed by the governor.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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KHEAA also oversees the Kentucky Educational Savings Plan Trust and the Commonwealth Postsecondary Education Prepaid Trust Fund, also known as Kentucky's Affordable Prepaid Tuition (KAPT), both of which are component units of KHEAA. Commonwealth funds are appropriated for program and operating support to the Authority, creating a financial benefit/burden relationship.

**Kentucky Council on Postsecondary Education**  
(KRS 164.011)

This council was established in 1997 under the direction of the Kentucky Postsecondary Education Improvement Act. The board consists of 16 members—13 citizens appointed by the Governor, one faculty member, one student, and the Commissioner of Education. This council coordinates change and improvement in Kentucky's postsecondary education system. This council strives to increase literacy, improve work-related skills, and to raise the number of students attending college and completing college degrees. The Commonwealth provides significant operating support to the Council, creating a financial benefit/burden relationship.

**Kentucky Infrastructure Authority** (KRS 224A.030)

This authority is a body corporate and politic created to perform essential governmental functions and to serve the local public agencies of the Commonwealth with respect to the construction and acquisition of infrastructure projects. The board consists of five ex officio members and five members appointed by the Governor. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

**Kentucky Agricultural Finance Corporation** (KAFC) (KRS 247.944)

KAFC is a corporation that seeks to improve and promote the health and general welfare of the Commonwealth's people through the advancement of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor. The Commonwealth provides significant operating support to the Corporation, creating a financial benefit/burden relationship.

**Kentucky Grain Insurance Corporation** (KGIC) (KRS 251.620)

KGIC is a body politic created to promote the Commonwealth's welfare by improving the economic stability of agriculture and protecting grain producers in the event of a financial failure of a grain dealer or warehouseman. The board of directors consists of four ex officio members and six members appointed by the Commissioner of the Department of Agriculture. The Commonwealth is responsible for any insufficiency of funds to pay claims creating a financial benefit/burden relationship.

**Kentucky Local Correctional Facilities Construction Authority**  
(KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing, and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor. The Commonwealth provides funds, staff assistants, facilities and materials required by the Authority in the conduct of its duties and activities, creating a financial benefit/burden relationship.

**Appalachian/Kentucky Artisans Gateway Center Authority** (The Kentucky Artisan Center) (KRS 148.561)

This authority is an independent, de jure municipal corporation and is a body corporate and politic. It is governed by a board of directors consisting of thirteen members. The authority operates and manages the Kentucky Artisan Center at Berea. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

**Kentucky Horse Park Foundation, Incorporated**

This foundation is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park (the Park). Although the Park does not control the timing or amount to receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the Park. The Foundation's fiscal year ended May 31, 2011 and amounts included are for the year then ended. The Commonwealth provides significant operating support to the Foundation, creating a financial benefit/burden relationship.

**Universities, Colleges, and Related Entities** (KRS 164.350)

Each board of regents or board of trustees is appointed by the Governor, and constitutes a body corporate with the power to receive and administer revenue and property. Commonwealth funds are appropriated for program and operating support to these entities, creating a financial benefit/burden relationship.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2011

C. Government-Wide Financial Statements

**Government-Wide Financial Statements** - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary component units are not included in government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and pension and other employee benefit trust fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance (unearned revenues). Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories:

- (1) **Invested in capital assets, net of related debt**, consist of capital assets, net of accumulated depreciation and further reduced by debt net of cash balances, for debt related to the acquisition, construction, or improvement of those assets.
- (2) **Restricted net assets** result from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
- (3) **Unrestricted net assets** are those net assets that do not meet the definition of restricted net assets or invested in capital assets.

When restricted assets and unrestricted assets are both available for a particular purpose, the Commonwealth's objective is to use any restricted funds first, since unrestricted funds are available for any purpose and provide for greater financial flexibility. If the rules governing restricted assets are met, restricted assets may be the only funds used. However, there may be instances in which restricted funds may only be spent in proportion to unrestricted funds spent. Assets shown as restricted for "other purposes" for the Primary Government and Component Units are as follows:

**Restricted Net Assets**

(Expressed in Thousands)

Restricted for Other Purposes:	<u>Primary Government</u>	<u>Major Component Units</u>
	<u>Business Type Activities</u>	
Loans	\$	\$ 29,579
Education		128,997
Instruction		117,532
Scholarships and Fellowships		218,584
Research		308,734
Claims	29	
Other		699,020
<b>Totals</b>	<u>\$ 29</u>	<u>\$ 1,502,446</u>

A significant feature of the government-wide **Statement of Activities** is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permit both direct and indirect program expenses to be presented together in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type. The sales and gross receipts taxes reflected on the statement of activities for the governmental activities include various taxes that are computed using sales price or gross receipts of the reporting entity. For fiscal year 2011, the total amount of sales and gross receipts tax reported in the government wide statements was \$5,152,345,000 and comprised of:

**Sales and Gross Receipts Tax**

(Expressed in Thousands)

Sales and Use Tax	\$	2,934,207
Motor Fuels Tax		732,824
Motor Vehicles Usage Tax		381,995
Healthcare Provider Tax		278,907
Tobacco Products Tax		286,364
Insurance Premiums Tax		133,673
Limited Liability Entity Tax		214,125
Alcoholic Beverage Tax		113,841
Telecommunications Tax		62,192
Transient Room Tax		8,910
Parimutel and Race Track Admission Tax		5,307
<b>Total Sales and Gross Receipts Tax</b>	<u>\$</u>	<u>5,152,345</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2011

**D. Fund Financial Statements**

**Primary Government** - The accompanying financial statements are structured into three fund categories including governmental funds, proprietary funds, and fiduciary funds. Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (governmental or enterprise funds), and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Commonwealth's major funds are identified herein.

**Governmental Funds**

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial resources. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are either collected within the current period or their collection is expected shortly after the end of the current period in time to meet current liabilities. The State generally includes those revenues to be received up to 30 days following the end of the accounting period. Revenues expected to be collected after 30 days beyond the end of the accounting period are considered unavailable and are reported as deferred revenues. Deferred revenues also include amounts received but unearned as of June 30.

Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

In governmental funds, where the focus is on the flow of current resources, expenditures are usually recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; and principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

A description of major governmental funds follows:

**General Fund** - a major fund that accounts for and reports all financial resources appropriated by the General Assembly which are not required to be accounted for in another fund.

**Special Revenue Funds** - a category of governmental funds that accounts for the proceeds of specific revenue sources, other than for major capital projects, which are restricted or committed to expenditures for a specific purpose.

Included in this category are such funds as the transportation fund, federal fund, and agency revenue fund.

**Transportation Fund** - a major fund that accounts for and reports the proceeds of specific revenue sources that are restricted or committed to activities related to the preservation and maintenance of roads.

**Federal Fund** - a major fund that accounts for and reports monies received from the federal government that are restricted or committed to specific programs and operations.

**Agency Revenue Fund** - a major fund that accounts for and reports restricted taxes, fees, and charges that are restricted or committed to expenditures for a particular function or activity.

**Capital Projects Fund** - a major fund that is used to account for and report financial resources that are restricted, committed or assigned for capital outlay as appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

**Debt Service Fund** - a major fund used to account for and report financial resources which are restricted, committed, or assigned to expenditures for the repayment of general long-term obligations principle, interest, and related administrative costs.

**Proprietary Funds**

Proprietary funds use the full accrual basis of accounting, recognizing revenues and expenses when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net assets, the term "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes decreases in economic benefits and emphasizes the accrual basis of accounting.

Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expenses are further characterized by object (personal services, depreciation expense, travel expense, etc.).

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

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Furthermore, the Commonwealth has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's enterprise funds have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. Each proprietary component unit has individually made this election as disclosed in the separate audit reports.

**Enterprise Funds** - a category of proprietary funds used to account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of the Commonwealth and the operations of State agencies that provide goods or services to the general public on a user charge basis. Also included are the operations of the State's risk management pools.

**State Parks Fund** - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

**Kentucky Lottery Corporation** - a blended component unit presented as a major fund, empowered by KRS 154A to administer the Kentucky state lottery, created pursuant to amended Section 226 of the Constitution of Kentucky as ratified by the voters of the Commonwealth.

**Kentucky Horse Park Fund** - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

**Insurance Administration Fund** - a major fund that accounts for insurance risk pools operated by the State, including the Workers' Compensation Special Fund, Coal Workers' Pneumoconiosis Fund, Petroleum Storage Tank Environmental Assurance Program, Mine Subsidence Insurance Program, and Bond Pool Program.

**Kentucky Public Employees Health Plan** - a major fund that accounts for the revenues and expenses incurred in the commercial operation of the health insurance program for state employees, teachers, and retirees.

**Unemployment Compensation Fund** - a major fund that accounts for assessed employer contributions collected and related unemployment compensation payments to recipients.

**Internal Service Funds** - a category of proprietary funds that accounts for financing goods and services provided by one agency of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis. All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are both earned and measurable. Expenses are recognized at the time liabilities are incurred.

Since internal service funds usually exist to support governmental activities, they are normally included as part of the governmental activities reported in the government-wide statements, rather than being presented separately.

Specific activities reported under Internal Service Funds are:

1. Management/maintenance of State motor vehicle fleet
2. Industrial prison operations
3. Rental and maintenance operations for buildings
4. Computer and related data processing services
5. Printing services
6. Fire and tornado insurance programs
7. State workers' compensation program
8. Transportation Cabinet self-insured workers' compensation trust program

#### **Fiduciary Funds**

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of funds includes pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

**Pension and (Other Post Employment Benefit) Trust Funds** - account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems. This fund type also accounts for monies held in deferred compensation plans. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

**Agency Funds** - account for monies held by the Commonwealth for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. However, the agency fund uses the accrual basis of accounting when recognizing payables and receivables.

Specific activities listed under the Commonwealth's Agency Funds are:

1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Fees Fund holding monies for Kentucky Counties with a population of 70,000 or more

As discussed previously, because the fiduciary fund resources are not available to support government programs, fiduciary funds (and component units that are fiduciary in nature) are excluded from the government-wide financial statements. Inclusion of these funds would create a misleading view of the government's position and results of activities.

**E Presentation of Component Units**

Presentation of the underlying fund types of the individual component units (described previously) reported in the discrete column is available from each respective component unit's separately issued financial statements.

The Major Discretely Presented Component Units, including Universities and Colleges are:

- Kentucky Community and Technical College System
- Kentucky Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- University of Kentucky
- University of Louisville

The Non-Major Discretely Presented Component Units, including Universities, Colleges, and Related Entities are:

- Kentucky Agricultural Finance Corporation
- Kentucky Artisan Center at Berea
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky Educational Television Authority
- Kentucky Grain Insurance Corporation
- Kentucky Horse Park Foundation
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky River Authority
- Kentucky State Fair Board
- Bluegrass State Skills Corporation
- Kentucky Council on Postsecondary Education
- Eastern Kentucky University
- Kentucky State University
- Morehead State University
- Murray State University
- Northern Kentucky University
- Western Kentucky University

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2011, the primary government provided \$296,283,800 to the University of Kentucky, \$199,156,700 to the Kentucky Community and Technical College System, \$172,557,800 to the University of Louisville, and \$188,652,154 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$212,234,435 in proceeds from the Kentucky Lottery Corporation.

**F Cash and Cash Equivalents**

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2011 are \$3,447,675,517.

**G Investments**

This classification includes long-term investments that are stated at fair value. Investments of the Deferred Compensation Plan are reported at fair value. See Note 5 for investment details.

**H Securities Lending**

Cash and securities received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Certain component units of the state have deposits in the Commonwealth's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund.

**I Receivables**

Receivables in the Commonwealth's governmental and fiduciary funds primarily consist of Federal revenues, taxes, and interest on investments. Some governmental fund revenues are not susceptible to accrual prior to receipt, including licenses, fees, permits, and similar revenues that are recognized on the cash basis. Receivables in all other funds have arisen in the ordinary course of business. Receivables in the governmental funds are reported net of allowances for uncollectibles. Disaggregation of current accounts receivable and current taxes receivable are shown in Note 4.

**J Interfund Transactions**

The Commonwealth has the following types of interfund transactions: Interfund services provided and used - Charges for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements - Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
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assets in return or requirement of repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund that expends the resources.

The composition of the interfund transactions is presented in Note 7. Note that at the entity-wide level, the majority of interfund activity has been eliminated. This is to avoid the “doubling up” of such transactions so that revenues and expenses will not be reported more than once.

Transfers and receivables and payables between governmental activities and business-type activities have not been eliminated. Also, remaining are the results of activities between different functional categories. For example, services provided and used are not eliminated because doing so would misstate the expenses of purchasing function and the program revenues of the selling function.

**K. Inventories and Prepaid Expenses**

Inventories in the governmental funds and similar trust funds consist of expendable supplies held for consumption, the costs of which are recorded as an expenditure at the time of purchase.

Prepaid expenses, including the prepayment of services to vendors (e.g., prepaid insurance), are recorded similarly in the governmental fund statements.

Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used.

Inventories are valued at cost (first-in, first-out, or average cost). In the Governmental Activities column of the government-wide Statement of Net Assets, inventory and prepaid expenses are reported as an asset at cost when purchased, then expensed as used.

**L. Capital Assets and Depreciation**

Included in capital assets are real property, equipment, intangible assets and infrastructure (e.g. roads, bridges, sidewalks and similar items). These are reported in the government-wide statement of net assets, as governmental or business type activities. Capital assets are expensed at the time of acquisition in the fund financial statements for governmental and similar trust funds.

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is \$5,000 or greater. Intangible capital assets are capitalized when the cost is \$100,000 or more except

software which has a threshold of \$500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

The Kentucky Historical Society, Kentucky Horse Park and Kentucky Department of Parks hold and care for the State’s historical treasures. Among these are historical clothing; china; furniture and other furnishings; a variety of art and decorative art; political memorabilia; pioneer tools and equipment; guns and similar military artifacts; books, manuscripts, and photographs; musical instruments from Kentucky’s musical legends; Native American artifacts; fossilized bones and prehistory artifacts. These assets are not capitalized or depreciated as the assets could not be valued and have inexhaustible useful lives.

The primary government values capital assets at historical cost, estimated historical cost or fair market value at the time of donation. The estimate of historical cost for the primary government was based on appraised value as of June 30, 1986, indexed to the date of acquisition.

Assets are depreciated on the straight-line basis over their estimated useful lives. The table below shows the useful life by asset type for the primary government. Infrastructure assets are not being depreciated, as the Commonwealth has elected to use the modified approach, as defined by GASB statement 34. As a result, certain maintenance and preservation costs are expensed when incurred. Additions and improvements to infrastructure assets are capitalized when capacity and efficiency has increased.

<b>Asset</b>	<b>Useful Life (Expressed in Years)</b>
Land improvements	10-60
Buildings	10-75
Machinery and equipment	3-25
Infrastructure	20-40
Intangibles	2-40

It is the Commonwealth’s policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB 62.

The Kentucky Center for the Arts Corporation’s discretely presented component unit financial statements for Fiscal Year 2011 do not contain the Center’s capital assets. The Finance and Administration Cabinet, Office of Statewide Accounting Services, Financial Reporting Branch, adjusted the Commonwealth of Kentucky’s Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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**M Governmental Fund Equity**

The Commonwealth uses two classifications for governmental fund equity; spendable and nonspendable. The nonspendable classification is further categorized as (a) not in spendable form and (b) legally or contractually required to be maintained intact. The spendable classification is categorized as restricted, committed, assigned and unassigned.

**Nonspendable** - represents the portion of fund balance that is not in spendable form and therefore cannot be appropriated for future expenditures. Nonspendable includes inventories, prepaid expenses, long term notes and loans receivable and any funds which are legally or contractually required to remain intact.

**Spendable categories** - The restricted fund category represents resources that can be spent only for the specific purposes as established by agreements external to state government; contractual agreements, agreements with creditors and grantors, and laws established by other governments. Laws enacted by the Commonwealth also restrict fund balance when both the revenue source and expenditure restrictions are enacted concurrently or in close proximity. The revenue source must be external to state government and the restriction must be legally enforceable; meaning third parties can compel the Commonwealth to comply with the restriction.

The committed fund category represents resources that can be spent only for specific purposes as established by formal action of the legislature with the governor's approval. Commitment of resources is not enforceable by external parties and the commitment can be removed in much the same way as it was originally committed. Committed funds include current legally enforceable restrictions of previously levied revenue sources.

The assigned fund category represents resources that do not meet the criteria for restricted or committed because the legislation which created the revenue source did not restrict the use of funds to the degree necessary or the resources were placed in the special revenue funds by the executive branch with the intent of appropriating at a later date. In funds other than the general fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

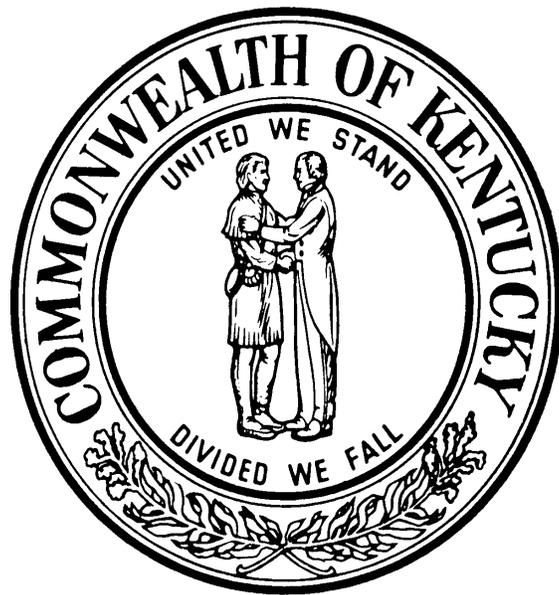
Unassigned fund balance is the classification for residual spendable fund balance for the general fund. In all other funds unassigned classification is used to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted.

The classifications of governmental fund balance are shown in the table on page 62.

The Commonwealth generally segregates restricted, committed, and assigned resources by account (sub-fund) within the governmental funds, other than the general fund. When resources meeting more than one of these spendable classifications are commingled in an account in the state's accounting system the assumed order of spending is restricted first, committed second, and finally assigned.

In accordance with KRS 42.0201(4) the state controller; the executive director of the Office of Financial Management and the state budget director are designated as the group responsible for developing and maintaining the Commonwealth's strategic financial management program and as such these parties are responsible for assigning the Commonwealth's fund balances.

KRS 45.305 established a budget reserve trust fund account within the general fund. Within thirty days of year end deposits are required to be made at the lesser of : Fifty percent (50%) of the general fund surplus or the amount necessary to make the balance equal to five percent (5%) of the actual general fund receipts collected during the fiscal year just ended. Payments to the account are suspended for the current fiscal year when the account balance is equal to or greater than five percent (5%) of the actual general fund receipts collected during the fiscal year just ended. Money in this account may be appropriated by the General Assembly.



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**Constraints on Fund Balance**

(Expressed in Thousands)

	General Fund	Major Special Revenue Funds		
		Transportation Fund	Federal Fund	Agency Revenue Fund
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventories	\$ 6,099	\$ 46,302	\$ 121	\$ 2,607
Cash with fiscal agents				18,526
<b>Restricted for:</b>				
General government			26,794	96,182
Legislative and judicial			41	18,225
Commerce			8,324	64,561
Education and humanities			10,387	13,016
Human resources			160,578	98,313
Justice			5,630	16,405
Natural resources and environmental protection			1,383	17,787
Public protection and regulation			10	47,813
Transportation		532,432		109,665
Debt service				
<b>Committed to:</b>				
General government				4,824
Commerce				81
Education and humanities				386
Justice				50
Natural resources and environmental protection				603
Public protection and regulation				304
Transportation				8,914
<b>Assigned to:</b>				
General government	4,137			6,882
Legislative and judicial	14,649			198
Commerce	15,937			599
Education and humanities	5,666			1,326
Human resources	16,351			750
Justice				727
Natural resources and environmental protection				253
Public protection and regulation	410			2,954
Transportation	306			13
<b>Unassigned</b>	249,482		(114,731)	
<b>Total Fund Balances</b>	<b>\$ 313,037</b>	<b>\$ 578,734</b>	<b>\$ 98,537</b>	<b>\$ 531,964</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
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<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
\$ 48,943		\$ 55,129
		67,469
	112,707	235,683
	328	18,594
	52,650	125,535
	10,665	34,068
	125,805	384,696
	31,149	53,184
	17,643	36,813
		47,823
	28,287	670,384
4,001		4,001
		4,824
		81
		386
		50
		603
		304
		8,914
		11,019
		14,847
		16,536
		6,992
		17,101
		727
		253
		3,364
		319
		134,751
<b>\$ 52,944</b>	<b>\$ 379,234</b>	<b>\$ 1,954,450</b>

**N. Deferred Revenue**

Deferred revenues are treated as liabilities in the governmental funds until all requirements for revenue recognition are met.

**O. Long-Term Obligations**

Long-term liabilities that will be financed from governmental funds are presented in the Governmental Activities column of the government-wide Statement of Net Assets. This total reported amount of long-term liabilities includes the following:

1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.
2. Compensated absences includes accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 16.  
  
Sick leave for the Primary Government is earned one day per month with unlimited accumulation. All of the qualifying retiring employees' sick leave balances, expressed in months, shall be added to their service credit for the purpose of determining their annual retirement.  
  
There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 16 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.
3. Outstanding capital lease obligations for governmental funds.
4. Judgments and contingent liabilities of governmental funds that will be paid with noncurrent resources.
5. Long-term liabilities of internal service funds.

Long-term obligations generally exclude those amounts reported as expenditures for compensated absences, judgments, contingencies, and employer pension contributions in the governmental funds since these amounts would normally be liquidated with expendable available financial resources.

Long-term liabilities of all proprietary and pension trust funds are reported in their individual fund statements. Long-term liabilities of enterprise and internal service funds are also presented in the government-wide Statement of Net Assets as a single total in the Business-type Activities and Governmental Activities columns respectively. Fiduciary funds' long-term liabilities are not displayed on the government-wide Statement of Activities.

**P. Conduit Debt**

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$2,664,060,199 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

**Note 2**

**CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR-PERIOD ADJUSTMENTS**

The fund balances/net assets as previously reported have been restated or reclassified to conform to generally accepted accounting principles and to correct balances for erroneously recorded transactions.

**Governmental Activities** - Beginning net assets for the Commonwealth's governmental activities have been restated for reclassification of Ky Access from a discretely presented component unit to an agency of the primary government and a prior period error. The net effect is an increase of \$9,070,000.

**Business Type Activities** - Beginning net assets for the Commonwealth's business type activities have been restated for the reason noted below in the section for Enterprise Funds. The net effect is an increase of \$10,579,000.

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Notes to Financial Statements

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**General Fund** – The General Fund was restated for implementation of GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The effect on fund balance is a net increase of \$6,617,000.

**Debt Service Fund** – The Debt Service Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net increase of \$613,000.

**Non-Major Governmental Funds**

**Agency Revenue Fund** – The Agency Revenue Fund was restated for implementation of GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The effect on fund balance is a net increase of \$3,065,000.

**Special Benefits Fund** – The Special Benefits Fund was restated for implementation of GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The effect on fund balance is a net increase of \$3,788,000.

**Other Special Revenue Fund** – The Other Special Revenue Fund was restated for implementation of GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The effect on fund balance is a net decrease of \$5,280,000.

**Enterprise Funds** – The State Parks Fund within the Enterprise Funds was restated for prior period errors. The effect on net assets is an increase of \$10,579,000.

**Internal Service Funds** – The Property Management Fund within the Internal Service Funds was restated for implementation of GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The effect on fund balance is a net increase of \$266,000.

**Component Units – Authorities:**

**Kentucky Access** - Kentucky Access was previously reported as a non-major discretely presented component unit, but it is no longer a component unit. The effect on net assets is an increase of \$1,834,000.

**Component Units – Universities, Colleges, and Related Entities:**

**Western Kentucky University** – Western Kentucky University restated net assets for a prior period adjustment on a pledge receivable recorded by their Foundation. The effect on net assets is a decrease of \$747,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$1,087,000.

**Note 3**

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Enterprise Funds** – The Insurance Administration Fund has a net assets deficit of \$722,638,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods. The Unemployment Compensation Fund has a net assets deficit of \$701,706,000, due to an increase in demand for unemployment insurance payments.

**B. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$150,118,000. The deficit is the result of accumulated claims liabilities of the Commonwealth’s self-insured workers’ compensation programs, and is to be funded in future periods. The Central Printing Fund has a net assets deficit of \$271,000. The deficit is the result of competitive pressure from other state agencies and outside printing sources. Central Printing is unable to develop billing rates that would cover their costs resulting in a negative fund balance.

**C. Component Units – Authorities** – The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of \$802,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future. The Bluegrass State Skills Corporation has a net assets deficit of \$17,000 resulting from the recognition of a long-term compensated absence liability.

**Note 4**

**DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE**

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2011. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating “Accounts Payable” and “Net Receivables” are described below.

Amounts reported as “Taxes Receivable” are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2011. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The “Current Taxes Receivable” for Governmental Activities and Business-Type Activities are described below.

Under the modified accrual basis of accounting, as used in the fund statements, amounts outstanding but owed at the end of the year may be recorded in one of two ways. If the receivable is measurable and expected to be collected within 30 days, revenue is recognized. However, if the receivable is not expected to be collected within 30 days, it is not considered to be available to liquidate the liabilities of the current period and will be reported as deferred revenue. Furthermore, unearned revenue is always reported as deferred revenue. Deferred revenue is reported as a liability until meeting the criteria for revenue recognition.

**Disaggregation of Payables and Receivables  
(Expressed in Thousands)**

	Governmental Activities			Total Governmental Activities	Business-Type Activities	Total Primary Government
	Major Funds	Non-major Funds	Internal Service Funds			
<b>Current Payables</b>						
Personal services	\$ 138,954	\$ 385	\$ 3,529	\$ 142,868	\$ 37,470	\$ 180,338
Utilities, rental and other services	33,834	242	1,183	35,259	1,223	36,482
Commodities and supplies	14,596	115	1,358	16,069	2,605	18,674
Grants and subsidies	897,513	10,003	26	907,542	27,613	935,155
Capital outlay	85,531	78	967	86,576	69	86,645
Travel	1,454	8	4	1,466	16	1,482
Interest Payable	109,784	(33)	27	109,778		109,778
Other	1,133	2,192		3,325	2,859	6,184
<b>Total Current Payables</b>	<b>\$ 1,282,799</b>	<b>\$ 12,990</b>	<b>\$ 7,094</b>	<b>\$ 1,302,883</b>	<b>\$ 71,855</b>	<b>\$ 1,374,738</b>
<b>Current Receivables</b>						
Charges for services	\$ 37,581	\$ 42,769	\$ 940	\$ 81,290	\$ 118,369	\$ 199,659
Taxes receivable	2,005,310	25,539		2,030,849		2,030,849
Investment receivable	2,119	2,080	3	4,202	21	4,223
Intergovernmental revenue	1,141,817	162		1,141,979	99,096	1,241,075
Other	110,282	52,825	2	163,109	69,657	232,766
Allowances for uncollectables	(1,054,010)	(24,298)		(1,078,308)	(8,092)	(1,086,400)
<b>Total Current Receivables</b>	<b>\$ 2,243,099</b>	<b>\$ 99,077</b>	<b>\$ 945</b>	<b>\$ 2,343,121</b>	<b>\$ 279,051</b>	<b>\$ 2,622,172</b>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Taxes Receivable**

**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Total Primary Government</b>
	<b>Major Funds</b>	<b>Non-Major Funds</b>	
<b>Current Taxes Receivable</b>			
Sales and gross receipts	\$ 967,617	\$ 1,408	\$ 969,025
Individual income	750,604		750,604
Corporate	68,275		68,275
Property	129,420		129,420
License and privilege	3,427	761	4,188
Coal severance	63,617	14,330	77,947
Inheritance and estate	9,211	630	9,841
Miscellaneous	13,139	8,410	21,549
<b>Total Current Taxes Receivable</b>	<b>\$ 2,005,310</b>	<b>\$ 25,539</b>	<b>\$ 2,030,849</b>

The State Property and Buildings Commission has issued revenue bonds and the Kentucky Asset Liability Commission has issued notes and entered into lease agreements to finance capital projects for the University of Kentucky, Kentucky State Fair Board, Kentucky Higher Education Assistance Authority and Eastern Kentucky University. The bond issues are shown as liabilities of the State Property and Buildings Commission in the entity wide financial

statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

**Future debt service payments for leases receivable as of June 30, 2011, are as follows (Expressed in Thousands):**

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 20,630	\$ 18,857	\$ 39,487
2013	21,495	17,994	39,489
2014	22,475	17,009	39,484
2015	23,520	15,960	39,480
2016	24,645	14,838	39,483
2017-2021	132,650	55,708	188,358
2022-2026	117,065	24,961	142,026
2027-2031	43,625	2,486	46,111
<b>Total leases receivable</b>	<b>\$ 406,105</b>	<b>\$ 167,813</b>	<b>\$ 573,918</b>

Note 5

**EQUITY IN POOLED CASH AND INVESTMENTS,  
CASH, AND INVESTMENTS**

The Commonwealth maintains an internal cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. In addition, investments are separately held by several of the State's funds and component units. Legally authorized investments vary by fund but generally include: obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. In addition to these, pension plans and certain Component Units are permitted to purchase common stocks, corporate bonds and real property and mineral rights. The Commonwealth is also eligible to invest in reverse repurchase agreements.

**PRIMARY GOVERNMENT**

**Custodial Credit Risk-Deposits** – The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the Commonwealth's deposits for the Primary Government, excluding pension and (OPEB) trust funds, was \$909,462,909 and the bank balance was \$909,580,360. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name.

**Custodial Credit Risk-Investments** - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commonwealth holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the Commonwealth are administered by the Office of Financial Management. The investments held in the Commonwealth's investment pool are insured or registered, or held by the Commonwealth of Kentucky or its agent in the Commonwealth's name.

The credit risk mix of the retirement systems, and other component units, is disclosed in the financial statement footnotes of those individual entities.

Statutes require that securities underlying repurchase agreements must have a fair value of at least 102 percent of the cost of the repurchase agreement. The fair value of securities underlying

repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

**Securities Lending Program** – State statutes authorize the Commonwealth to enter into securities lending agreements. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth's US Treasuries, agencies and corporate bonds in exchange for cash. The cash is invested in short-term securities. After rebate and expenses the Commonwealth receives 80 percent of the profit earned. The securities transferred are a part of the total investments reported above. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$1,341,415 in securities lending income. On June 30, 2011, the fair value of the securities transferred was \$871,142,003 and the fair value of the securities purchased by the Commonwealth was \$823,203,380. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. The Commonwealth requires 102% collateralization on all repurchase agreements. The agent also indemnifies the Commonwealth from any losses from borrowers. The Commonwealth lends its securities generally on an overnight basis. Over 20 percent of the reinvested securities mature in less than one month. Thirty percent of the invested securities are in a Credit Suisse security that was received in 2009 in exchange for securities that had become impaired. The remaining purchased securities have laddered maturities covering the next three years. The securities purchased in the securities lending portfolio reset on a monthly or quarterly basis effectively matching the securities lent.

**Options** - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation, should the option be exercised. On June 30, 2011, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has regulatory limits on investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. It also has limits on portfolio durations for the same purpose.

The primary government's investments (excluding the pension and (OPEB) trust funds) at June 30, 2011, are presented below. All investments are presented by investment type.

**Cash And Investments By Type  
Primary Government**

**I. Cash:**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 581,736,585	\$ 582,217,036
Cash with Fiscal Agents	67,479,549	67,479,549
Cash with Feds	145,493,972	145,493,972
Other	114,752,803	114,389,803
Total Cash	<u>\$ 909,462,909</u>	<u>\$ 909,580,360</u>

**II. Investments:**

**Investments Managed Based On Maturities**

**Debt Securities**

	<u>Fair Value</u>	<u>&lt; 1 year</u>	<u>1-5 Years</u>
U.S. Government & Agency Obligations	\$ 97,698,123	\$ 5,206,814	\$ 92,491,309
Total Debt Securities	<u>97,698,123</u>	<u>\$ 5,206,814</u>	<u>\$ 92,491,309</u>

**Investments Managed Based Upon Duration**

**Debt Securities**

	<u>Fair Value</u>	<u>Effective</u>
Cash Equivalents	702,699,899	0.068
Fixed Income Mutual Funds	314,174,799	8.165
U.S. Government & Agency Obligations	1,066,121,901	1.271
Mortgage-Backed Securities	239,878,055	2.509
Corporate Obligations	75,568,778	0.743
Asset Backed Securities	141,736,864	0.774
Municipal Obligations	62,656,647	0.634
Other	1,384,395	4.476
Total Debt Securities	<u>2,604,221,338</u>	
Portfolio Effective Weighted Duration		<u>1.836</u>

**Other Investments**

Cash Equivalents	47,677,175
Fixed Income Mutual Funds	19,513,998
Common Stock	35,048,342
Securities Lending Invest	823,203,380
Total Other Investments	<u>925,442,895</u>
Total Investments	<u>\$ 3,627,362,356</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth is statutorily limited as to credit ratings, at the time of purchase. Commercial paper must be rated in the highest category by a nationally recognized rating agency. United States denominated corporate, Yankee, and Eurodollar securities must be rated in one of the three highest categories by a nationally recognized rating agency. Asset-backed securities must be rated in the highest category by a nationally recognized rating agency. Certificates of Deposit and Bankers acceptances must be rated in one of the three highest categories by a nationally recognized rating agency. By regulation all mortgage pass-through securities and collateralized mortgage obligations must be issued by U.S. government agencies or by government sponsored entities.

The primary government's, excluding the pension and (OPEB) trust funds, rated debt investments as of June 30, 2011, and the ratings are presented in the following table.

**Investments and Credit Ratings**

**Primary Government**

	<b>Standard &amp; Poor's/Moody's Credit Ratings</b>				
	<b>AAA/Aaa</b>	<b>AA/Aa</b>	<b>A</b>	<b>BBB/Baa</b>	<b>B/B</b>
Cash Equivalents	\$ 469,912,829	\$	\$	\$	\$
Fixed Income Mutual Funds					
U.S. Government & Agency Obligations	1,482,056,605				
Mortgage-Backed Securities	219,409,910	1,833,789		3,666,735	1,994,666
Corporate Obligations	62,708,925	44,177,653	36,884,330	1,786,496	
Common Stock					
Asset Backed Securities	23,834,533	3,469,889	7,496,190	14,637,577	396,630
Municipal Obligations	25,243,807	23,841,763	25,767,458	715,750	
Securities Lending					
Other	56,938,803				
<b>Total Investments</b>	<b>\$ 2,340,105,412</b>	<b>\$ 73,323,094</b>	<b>\$ 70,147,978</b>	<b>\$ 20,806,558</b>	<b>\$ 2,391,296</b>
					<b>Total Fair Value of Investments</b>
	<b>CCC/Caa</b>	<b>CC and Lower</b>	<b>Unrated</b>	<b>NA</b>	
Cash Equivalents	\$	\$	\$ 232,787,070	\$	\$ 702,699,899
Fixed Income Mutual Funds				10,830,241	10,830,241
U.S. Government & Agency Obligations					1,482,056,605
Mortgage-Backed Securities	3,160,336	9,812,618	774,034		240,652,088
Corporate Obligations			27,402		145,584,806
Common Stock				25,786,714	25,786,714
Asset Backed Securities	9,538,755	3,283,073			62,656,647
Municipal Obligations					75,568,778
Securities Lending				823,203,380	823,203,380
Other			1,384,395		58,323,198
<b>Total Investments</b>	<b>\$ 12,699,091</b>	<b>\$ 13,095,691</b>	<b>\$ 234,972,901</b>	<b>\$ 859,820,335</b>	<b>\$ 3,627,362,356</b>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Regulation limits the amount owned of any given issuer of corporate and commercial paper to \$25,000,000. At June 30, 2011, the primary government had no investments which would constitute a concentration of credit risk.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Commonwealth's policy historically has been to invest only in securities in U.S. denominations. The Kentucky Workers' Compensation Funding Commission's (KWCF) investment policy allows up to 10% of the Special Fund and UEF portfolio to be invested in international equities. As of June 30, 2011, less than 1% of the portfolio was invested in international equities.

**PENSION AND (OPEB) TRUST FUNDS**

**Custodial Credit Risk-Deposits and Investments**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the deposits for the Pension and (OPEB) trust funds was \$67,550,617 and the bank balance was \$67,550,617.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Of the Pension and (OPEB) Trust Funds, only Kentucky Retirement Systems has investments subject to custodial credit risk. The investments are listed as foreign currency in the amount of \$12,674,970 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Kentucky Revised Statutes (KRS 61.650) grants the responsibility for the investment of plan net assets to the Board of Trustees of the Retirement Systems. Each System has very specific policies regarding their investment activity. A detailed discussion of those policies can be found in the notes to the audited financial statements of the various Pension and (OPEB) Trust Funds.

The Pension and (OPEB) Trust Funds investments at June 30, 2011, are presented below. All investments are presented by investment type.

**Cash and Investments by Type  
Pension and (OPEB) Trust Funds**

**I. Cash**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 10,349,660	\$ 10,349,660
Money Market	18,082,716	18,082,716
Other	39,118,241	39,118,241
Total Cash	<u>\$ 67,550,617</u>	<u>\$ 67,550,617</u>

**II. Investments:**

**Investments Managed Based On Maturities**

<b>Debt Securities</b>	<u>Fair Value</u>	<u>1-5 Years</u>	<u>6-15 Years</u>	<u>15-30 Years</u>
Fixed Income Mutual Funds	\$ 100,218,070	\$ 100,218,070	\$	\$
U.S. Government & Agency Obligations	1,009,282,565	40,889,477	968,393,088	
Mortgage-Backed Securities	589,668,401		243,091,496	346,576,905
Corporate Obligations	1,849,822,244	42,245,818	1,807,576,426	
Asset Backed Securities	52,940,222			52,940,222
Municipal Obligations	509,893,503		509,893,503	
Mortgage Loans	90,802,918			90,802,918
Total Debt Securities	<u>4,202,627,923</u>	<u>\$ 183,353,365</u>	<u>\$ 3,528,954,513</u>	<u>\$ 490,320,045</u>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<u>Fair Value</u>	<u>Effective</u>	<u>Macaulay</u>
Cash Equivalents	198,065,796	0.471	
U.S. Government & Agency Obligations	2,986,127,502	4.175	
Mortgage-Backed Securities	106,243,781	4.573	
Corporate Obligations	810,751,833	4.826	
Asset Backed Securities	87,723,121	0.652	
Asset Backed Securities	602,883,065		3.110
Municipal Obligations	93,306,981	10.571	
Mortgage Loans	17,870,636	2.041	
Guaranteed Investment Contract/Annuities	23,321,901	1.461	
Total Debt Securities	<u>4,926,294,616</u>		
Portfolio Weighted Effective Duration		<u>4.181</u>	
Portfolio Weighted Macaulay Duration			<u>3.110</u>

**Other Investments**

Cash Equivalents	732,403,417
Common Stock	18,900,279,295
Limited Partnerships	1,618,038,695
Real Estate	515,221,363
Securities Lending	2,319,280,330
Other Investments	1,275,338,187
Total Other Investments	<u>25,360,561,287</u>
Total Investments	<u>\$ 34,489,483,826</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each Pension and (OPEB) Trust Fund has an investment policy that defines the types of investments and ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The Pension and (OPEB) Trust Funds, rated debt investments as of June 30, 2011, and the ratings are presented in the following table.

**Investments and Credit Ratings  
Pension and (OPEB) Trust Funds**

<u>Quality Rating</u>	<u>Amount</u>
AAA	\$ 1,123,892,253
AA+	36,750,657
AA	786,727,879
AA-	57,357,952
A+	124,430,298
A	1,304,892,026
A-	174,443,155
BBB+	72,775,286
BBB	665,400,542
BBB-	63,614,291
BB+	7,369,118
BB	145,304,612
BB-	30,402,324
B+	31,166,865
B	210,765,874
B-	32,172,492
CCC+	6,397,521
CCC	13,672,934
CCC-	1,590,633
D	3,394,737
Not Rated	146,997,653
Total Credit Risk Debt Securities	<u>5,039,519,102</u>
Cash Equivalents	732,403,417
U.S. Government & Agencies	4,021,843,428
Corporate Obligations	42,245,818
Common Stock	18,900,279,295
Limited Partnerships	1,618,038,695
Real Estate	515,221,363
Securities Lending	2,319,280,330
Other	<u>1,300,652,378</u>
Total Investments	<u>\$ 34,489,483,826</u>

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of the Kentucky Public Employees Deferred Compensation Authority's (KPEDCA) there is a policy limiting the amount of investment in a single issuer to 5% or less of the investment portfolios fair value. The following KPEDCA Fund investment contracts represent 5% or more of investments held in trust for Plan benefits at June 30, 2011:

<u>Asset Description</u>	<u>Amount</u>
State Street Bank	\$ 92,782,461
JP Morgan	111,824,999
Pacific Life Insurance	107,511,328
ING Life & Annuity	112,968,388
Monumental Life	92,245,039
Rabobank Nederland	85,599,028

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

With the exception of the KPEDCA fixed contract fund the Pension and (OPEB) Trust Funds do not have a formal policy that addresses investments in foreign currency. Additional disclosures regarding

the Pension and (OPEB) Trust Funds exposure to foreign currency risk can be found in the notes to the audited financial statements of the individual pension and (OPEB) trust funds.

The Pension and (OPEB) Trust Funds, investments in foreign currency as of June 30, 2011, are presented in the following table.

**Foreign Currency Risk  
Pension and (OPEB) Trust Funds**

<u>Foreign Currency</u>	<u>Equity</u>	<u>None Designated</u>	<u>Total</u>
Australian dollar	\$ 1,196,140	\$	\$ 1,196,140
Australian dollar	132,037,410		132,037,410
Brazilian Real	4,885,751		4,885,751
British pound sterling	185,055,877		185,055,877
Canadian dollar	187,129,214		187,129,214
Chinese Yuan	521,787		521,787
Columbian Peso	1,222,930		1,222,930
Czech Koruna	2,086,584		2,086,584
Danish krone	22,090,375		22,090,375
Euro	600,615,872		600,615,872
Hong Kong dollar	92,981,013		92,981,013
Hungarian Forint	71		71
Indonesian Rupiah	2,246,546		2,246,546
Japanese yen	369,522,034		369,522,034
Malaysian ringgit	2,426,541		2,426,541
Mexican Peso	4,031,899		4,031,899
New Taiwan dollar	6,606,811		6,606,811
New Zealand dollar	1,894,885		1,894,885
Norwegian krone	15,935,741		15,935,741
Philippine Peso	138,885		138,885
Russian Ruble	1,036,961		1,036,961
Singapore dollar	30,792,978		30,792,978
South African rand	3,066,051		3,066,051
South Korean won	5,677,169		5,677,169
Swedish krona	32,302,958		32,302,958
Swiss franc	131,892,439		131,892,439
International equity mutual fund (various currencies)	1,120,019,804		1,120,019,804
American Funds Euro Pacific Growth Fund	73,390,211		73,390,211
Federated Int'l Small Co. Fund	19,320,940		19,320,940
Dodge & Cox International Stock Fund	17,394,120		17,394,120
Baring Asset Management	401,567,223		401,567,223
Baillie Gifford	504,036,473		504,036,473
Black Rock	84,200,375		84,200,375
UBS Global Asset Management	667,852,908		667,852,908
Total Securities Subject To Foreign Currency Risk	4,725,176,976		4,725,176,976
USD (Securities Held By International Investment Managers)		2,183,974,701	2,183,974,701
USD in (ADR) American Depositary Receipt investments		844,422,782	844,422,782
Total International Investment Securities	<u>\$ 4,725,176,976</u>	<u>\$ 3,028,397,483</u>	<u>\$ 7,753,574,459</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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**Securities Lending Program**

Kentucky Revised Statutes permit the retirement systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the retirement system's custodial bank(s) either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. At June 30, 2011, the retirement systems have no credit risk exposure to borrowers because the amounts the retirement systems owe the borrowers exceed the amounts the borrowers owe the retirement systems. The retirement systems cannot pledge or sell collateral securities unless the borrower defaults. More detail of individual policies may be found in the audited financial statements of each retirement system.

**Derivatives**

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The Kentucky Retirement Systems was the only Pension and (OPEB) Trust Fund to have investment derivatives at June 30, 2011. More detail on those individual investment derivatives may be found in the audited financial statements of Kentucky Retirement Systems.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2011

**MAJOR DISCRETELY PRESENTED COMPONENT UNITS**

**Custodial Credit Risk-Deposits and Investments**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the major discretely presented component units' deposits was \$1,022,664,380 and bank balance was \$1,026,935,968.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the component unit will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Each component unit has informal policies to control custodial credit risk and those policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the custodial credit risk maintained for investments held by the major discretely presented component units for the fiscal year ended June 30, 2011.

**Custodial Risk**

**Discretely Presented Major Component Units**

**I. Deposits**

**Cash And Equivalents (original maturity 90 days or less):**

Deposits are uninsured and

a) uncollateralized;	\$
b) collateralized with securities held by the pledging financial institution; or	9,629,687
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.	312,182
Total Deposits Subject To Custodial Credit Risk	<u>\$ 9,941,869</u>

**II. Non-Current Cash And Investments:**

Non-current cash and investments which are uninsured, are not registered in the name of the Commonwealth, and are held by either

(a) the counterparty or	\$ 878,442,657
(b) the counterparty's trust department or agent but not in the Commonwealth's name.	219,624,718
Total Non-Current Cash And Investments Subject To Custodial Credit Risk	<u>\$ 1,098,067,375</u>

**Investment Types:**

	<u>Type A (counterparty)</u>	<u>Type B (trust or agent)</u>
<b>Debt Securities</b>		
Cash Equivalents	\$	\$ 31,189,540
Fixed Income Mutual Funds		112,699,143
U.S. Government & Agency Obligations	17,891,962	1,689,000
Mortgage Backed Securities		78,000
Corporate Obligations	32,322,999	
Municipal Obligations	4,818,805	
Total Debt Securities	<u>55,033,766</u>	<u>145,655,683</u>
<b>Other Investments</b>		
Cash Equivalents	1,900,000	1,445,529
Fixed Income Mutual Funds	79,829,000	
Common Stock	89,168,606	26,450,941
Alternatives	420,312,000	
Real Estate	3,767,274	
Funds Held In Trust By Others		45,141,000
Other Various	228,432,011	931,565
Total Other Investments	<u>823,408,891</u>	<u>73,969,035</u>
Total Type A	<u>878,442,657</u>	Total Type B <u>219,624,718</u>
Total Non-Current Cash And Investments Subject To Custodial Credit Risk		<u>\$ 1,098,067,375</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The component units have numerous policies that limit the amounts and types of investments as a means of managing the exposure to fair value losses arising from increasing interest rates. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the investments held by the major discretely presented component units for the fiscal year ended June 30, 2011.

**Cash And Investments By Type  
Discretely Presented Major Component Units**

**I. Cash**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 601,411,617	\$ 605,683,205
Money Market	91,421,763	91,421,763
Other	329,831,000	329,831,000
Total Cash	<u>\$ 1,022,664,380</u>	<u>\$ 1,026,935,968</u>

**II. Investments:**

**Investments Managed Based On Maturities**

<b>Debt Securities</b>	<u>Fair Value</u>	<u>&lt; 1 year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>&gt; 10 Years</u>
Cash Equivalents	\$ 51,694,029	\$ 39,724,029	\$ 8,013,000	\$ 3,957,000	\$
U.S. Government & Agency Obligations	130,309,767	55,690,086	74,254,681	365,000	
Corporate Obligations	1,467,000		1,467,000		
Guaranteed Investment Contract/Annuities	15,209,615	931,525	10,258,905	205,058	3,814,127
Total Debt Securities	<u>198,680,411</u>	<u>\$ 96,345,640</u>	<u>\$ 93,993,586</u>	<u>\$ 4,527,058</u>	<u>\$ 3,814,127</u>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<u>Fair Value</u>	<u>Effective</u>	<u>Modified</u>
Cash Equivalents	215,012,000		
Fixed Income Mutual Funds	112,699,143	4.000	
Fixed Income Mutual Funds	183,705,000		3.346
U.S. Government & Agency Obligations	133,762,896	0.142	
U.S. Government & Agency Obligations	24,657,000		5.033
Mortgage Backed Securities	954,171,075	2.519	
Corporate Debt	3,177,413	2.780	
Corporate Debt	20,655,000		3.330
Other Investments	2,463,000		5.450
Total Debt Securities	<u>1,650,302,527</u>		
Portfolio Effective Weighted Duration		<u>2.032</u>	
Portfolio Modified Weighted Duration			<u>3.547</u>

**Other Investments**

Fixed Income Mutual Funds	77,562,529
Common Stock	578,086,945
Corporate Bonds	32,322,999
Alternatives	698,721,257
Real Estate	56,012,177
Funds Held In Trust By Others	45,141,000
Other	157,889,979
Total Other Investments	<u>1,645,736,886</u>
Total Investments	<u>\$ 3,494,719,824</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each component unit has an investment policy that defines the types of investments and ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The major discretely presented component units, investments as of June 30, 2011, and the ratings are presented in the following table.

**Investments and Credit Ratings  
Discretely Presented Major Component Units**

	Standard & Poor's/Moody's Credit Ratings						Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	BBB/Baa	Unrated	NA	
Cash Equivalents	\$ 3,511,000				\$ 225,812,000	\$ 37,747,529	\$ 267,070,529
Fixed Income Mutual Funds		112,699,143			79,829,000	184,443,000	376,971,143
U.S. Government & Agency Obligations	252,184,896				24,399,767	13,999,000	290,583,663
Mortgage Backed Securities	954,171,075						954,171,075
Corporate Obligations	2,729,936	1,193,374	21,112,933	10,822,169	23,489,000		59,347,412
Common Stock					551,636,004	26,450,941	578,086,945
Guaranteed Investment Contracts/Annuities				295,617	15,841,615	323,000	16,460,232
Alternatives					698,721,257		698,721,257
Real Estate					56,012,177		56,012,177
Funds Held In Trust By Others					45,141,000		45,141,000
Other					151,222,826	931,565	152,154,391
<b>Total Investments</b>	<b>\$ 1,212,596,907</b>	<b>\$ 113,892,517</b>	<b>\$ 21,112,933</b>	<b>\$ 11,117,786</b>	<b>\$ 1,872,104,646</b>	<b>\$ 263,895,035</b>	<b>\$ 3,494,719,824</b>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. All of the major discretely presented component units except the Kentucky Housing Corporation (KHC) has policies in place that limit the amount that can be invested in a single issuer to 5% of the total portfolio market value. KHC places no limit on the amount they may invest in any one issuer. More than five percent of the KHC's investments are in Fannie Mae, GNMA, U.S. Treasury and Dreyfus. These investments are 29%, 45%, 5% and 16%, respectively, of the KHC's total investments.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Policies for controlling foreign currency risk will vary with each component unit, individual policies can be found in the notes to the financial statements of the respective component unit.

Of the major discretely presented component units only the University of Kentucky has foreign currency risk as of June 30, 2011. The university has \$7,165 in a pooled private equity fund and \$49,463 in common stock.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 6**

**CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011  
(Expressed in Thousands):

	Primary Government			Ending Balance
	Beginning Balance Restated	Additions	Decreases	
<b>Primary Government:</b>				
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 164,125	\$ 4,119	\$ (11)	\$ 168,233
Construction in progress	2,227,496	519,904	(854,851)	1,892,549
Infrastructure	18,018,686	738,277	(87,466)	18,669,497
Easements and Other Intangibles	115,435	9,123		124,558
Total capital assets not being depreciated	<u>20,525,742</u>	<u>1,271,423</u>	<u>(942,328)</u>	<u>20,854,837</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	15,600	889		16,489
Buildings	1,179,513	111,341	(1,521)	1,289,333
Machinery and Equipment	581,845	55,714	(38,557)	599,002
Easements and Other Intangibles	6,169	38,057		44,226
Total capital assets, being depreciated/amortized	<u>1,783,127</u>	<u>206,001</u>	<u>(40,078)</u>	<u>1,949,050</u>
<i>Less accumulated depreciation/amortization:</i>				
Improvements other than buildings	(7,115)	(578)		(7,693)
Buildings	(478,259)	(27,075)	1,649	(503,685)
Machinery and Equipment	(380,026)	(46,686)	31,427	(395,285)
Easements and Other Intangibles	(2,363)	(2,585)		(4,948)
Total accumulated depreciation	<u>(867,763)</u>	<u>(76,924)</u>	<u>33,076</u>	<u>(911,611)</u>
Total capital assets, being depreciated/amortized, net	<u>915,364</u>	<u>129,077</u>	<u>(7,002)</u>	<u>1,037,439</u>
Governmental activities capital assets, net	<u>\$ 21,441,106</u>	<u>\$ 1,400,500</u>	<u>\$ (949,330)</u>	<u>\$ 21,892,276</u>
<b>Business-type activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,845	\$ 500	\$ (528)	\$ 21,817
Construction in progress	129,969	12,012	(27,266)	114,715
Total capital assets, not being depreciated	<u>151,814</u>	<u>12,512</u>	<u>(27,794)</u>	<u>136,532</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	112,686	9,916		122,602
Buildings	240,981	19,001	(106)	259,876
Machinery and Equipment	59,518	2,832	(2,181)	60,169
Easements and Other Intangibles	2,322			2,322
Total capital assets, being depreciated/amortized	<u>415,507</u>	<u>31,749</u>	<u>(2,287)</u>	<u>444,969</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(58,011)	(2,889)		(60,900)
Buildings	(108,292)	(7,481)	39	(115,734)
Machinery and Equipment	(48,148)	(2,295)	1,903	(48,540)
Easements and Other Intangibles	(991)	(116)		(1,107)
Total accumulated depreciation	<u>(215,442)</u>	<u>(12,781)</u>	<u>1,942</u>	<u>(226,281)</u>
Total capital assets, being depreciated/amortized, net	<u>200,065</u>	<u>18,968</u>	<u>(345)</u>	<u>218,688</u>
Business-type activities capital assets, net	<u>\$ 351,879</u>	<u>\$ 31,480</u>	<u>\$ (28,139)</u>	<u>\$ 355,220</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Depreciation expense, charged to functions/programs of the primary government as follows:**

(Expressed in Thousands)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Government	\$ 8,327	\$
Legislative and Judicial	527	
Commerce	2,617	
Education and Humanities	3,855	
Human Resources	3,660	
Justice	20,814	
Natural Resources and Environmental Protection	1,898	
Public Protection and Regulation	168	
Transportation	19,374	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	15,684	
State Parks		10,206
Lottery Corporation		1,329
Horse Park		1,128
Insurance Administration		118
Total depreciation expense by activities	<u>\$ 76,924</u>	<u>\$ 12,781</u>

**Discretely presented major component units**

Capital asset activity for the year ended June 30, 2011

(Expressed in Thousands):

	<u>Component Units</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 164,267	\$ 8,611	\$ (2,171)	\$ 170,707
Construction in progress	602,085	91,328	(466,973)	226,440
Totals, capital assets not being depreciated	<u>766,352</u>	<u>99,939</u>	<u>(469,144)</u>	<u>397,147</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	165,622	37,678		203,300
Buildings	3,193,033	594,466	(1,322)	3,786,177
Machinery and Equipment	1,333,794	125,378	(49,706)	1,409,466
Total capital assets, being depreciated/amortized	<u>4,692,449</u>	<u>757,522</u>	<u>(51,028)</u>	<u>5,398,943</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(72,896)	(5,197)	14	(78,079)
Buildings	(1,189,857)	(89,024)	783	(1,278,098)
Machinery and Equipment	(879,609)	(98,509)	37,057	(941,061)
Total accumulated depreciation	<u>(2,142,362)</u>	<u>(192,730)</u>	<u>37,854</u>	<u>(2,297,238)</u>
Total capital assets, being depreciated/amortized, net	<u>2,550,087</u>	<u>564,792</u>	<u>(13,174)</u>	<u>3,101,705</u>
Component units capital assets, net	<u>\$ 3,316,439</u>	<u>\$ 664,731</u>	<u>\$ (482,318)</u>	<u>\$ 3,498,852</u>

**Depreciation expense, charged to functions/programs of discretely presented major component units as follows:**

(Expressed in Thousands)

Kentucky Housing Corporation	\$ 502
Kentucky Higher Education Student Loan Corporation	214
University of Kentucky	111,859
University of Louisville	51,992
Kentucky Community and Technical College System	28,163
Total depreciation expense by functions/programs	<u>\$ 192,730</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2011**

**Note 7**

**INTERFUND TRANSACTIONS**

**Interfund Transfers In and Out**

The table below shows the interfund operating transfers for fiscal year 2011  
(Expressed in Thousands):

<b>Transfers In</b>	<b>Transfers Out</b>				
	<b>General Fund</b>	<b>Transportation Fund</b>	<b>Federal Fund</b>	<b>Agency Revenue Fund</b>	<b>Capital Projects Fund</b>
General Fund	\$		\$ 165	\$ 41,435	\$ 10,252
Transportation Fund	333		63	1,361	734
Federal Fund				306	4
Agency Revenue Fund	36,569		60,634		9,147
Capital Projects Fund	1,385	10,218	6,178	28,415	
Debt Service	201,431	10,919	48,149	2,108	2,240
Non-Major Governmental Funds	113,403	97,069	7,957	288,510	3,569
State Parks Fund	29,713		116		7,500
Kentucky Horse Park Fund	3,335		4		1,559
Insurance Administration Fund			23		23,311
Internal Service Funds	770		3,651	41	38,139
Fiduciary Funds				17	
<b>Total</b>	<b>\$ 386,939</b>	<b>\$ 118,206</b>	<b>\$ 126,940</b>	<b>\$ 362,193</b>	<b>\$ 96,455</b>

Reasons for transfers:

- 1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them;
- 2) to move resources from funds recording the revenue to the Debt Service Fund, for debt service payments;
- 3) to move resources from the funds recording the revenue to the Capital Projects Fund to finance acquisition of capital assets; and
- 4) to move resources from the Kentucky Lottery Corporation to the General Fund.

**Interfund Receivables and Payables**

The table below shows the interfund receivables and payables for fiscal year 2011  
(Expressed in Thousands):

<b>Interfund Receivables</b>	<b>Interfund Payables</b>				
	<b>General Fund</b>	<b>Transportation Fund</b>	<b>Federal Fund</b>	<b>Agency Revenue Fund</b>	<b>Capital Projects Fund</b>
General Fund	\$	\$ 4,827	\$ 2,912	\$ 23,533	\$ 67
Transportation Fund	7		351	1,012	2
Federal Fund	11,631			7,797	30
Agency Revenue Fund	23,271	718	116,662		23
Capital Projects Fund	3		40,005	861	
Non-Major Governmental Funds	21,129		293	3,555	42
State Parks Fund	44	2	22		
Kentucky Public Employees Health Plan	46,421				
Insurance Administration Fund	2				
Internal Service Funds	1,598	2	33	107	11
<b>Total</b>	<b>\$ 104,106</b>	<b>\$ 5,549</b>	<b>\$ 160,278</b>	<b>\$ 36,865</b>	<b>\$ 175</b>

Reasons for interfund payables and receivables:

- 1) to record sales by proprietary funds to other funds;
- 2) to record reimbursements of expenditures made in one fund for another fund;
- 3) to distribute program cost among funds; and
- 4) to record short-term loans from one fund to another.

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**June 30, 2011**

**Transfers Out**

Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Horse Park Fund	Kentucky Public Employees Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 15,597	\$ 764	\$ 200,500	\$ 99	\$ 118	\$ 43,396	\$	\$ 9,765	\$ 3,255	\$ 325,346
38								364	2,893
331,514					2,413		505	448	441,230
85,794	1,500					1,978	999		136,467
15,409	37						74		280,367
136,099		11,734				7,946	45		666,332
16			200						37,545
									4,898
									23,334
									42,601
				500	670				1,187
<u>\$ 584,467</u>	<u>\$ 2,301</u>	<u>\$ 212,234</u>	<u>\$ 299</u>	<u>\$ 618</u>	<u>\$ 46,479</u>	<u>\$ 9,924</u>	<u>\$ 11,388</u>	<u>\$ 4,067</u>	<u>\$ 1,962,510</u>

**Interfund Payables**

Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Kentucky Employee Health Plan	Insurance Administration Fund	Internal Service Funds	Total
\$ 3,787	\$ 1,747	\$ 2	\$ 123	\$ 70	\$ 3,664	\$ 40,732
648						1,372
1,442	55	63	2	29	1	20,106
2,011						142,266
129,335	4			68	2,864	42,880
4,483						157,290
24						68
	201	10			463	50,904
						26
<u>\$ 141,730</u>	<u>\$ 2,007</u>	<u>\$ 75</u>	<u>\$ 125</u>	<u>\$ 167</u>	<u>\$ 6,992</u>	<u>\$ 2,425</u>
						<u>\$ 458,069</u>

**Note 8**

**PENSION PLANS AND OTHER POST EMPLOYMENT BENEFITS**

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System’s administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The Commonwealth is the predominant employer for KERS and for note disclosure purposes will be considered as a single employer plan.

CERS, a multiple employer cost sharing defined benefit pension plan, provides for retirement, disability, and death benefits to plan members.

SPRS is a single-employer defined benefit plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended

contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve month prior to the effective date of the COLA. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>	<u>Percent Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned

**COMMONWEALTH OF KENTUCKY**

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service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based of the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

Kentucky Retirement Systems commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which Kentucky Retirement Systems assumes the financial risk for providing healthcare to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-funded plan.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

The Judicial Retirement Plan is a single employer defined benefit plan, which provides retirement, disability and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the 60 month average earnings of the position held by the member at retirement not to exceed 1.50%. Contribution rates are established by KRS 21.525.

The percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by the Fund</u>
4 years - 9 years 11 months	25%
10 years - 14 years 11 months	50%
15 years - 19 years 11 months	75%
20 years or more	100%

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925% benefit rate and the 60 month average earnings of the position held by the member at the time of his retirement not to exceed 1.50%. Contribution rates are established by KRS 21.525.

The percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by the Fund</u>
4 years - 9 years 11 months	25%
10 years - 10 years 11 months	50%
11 years - 11 years 11 months	55%
12 years - 12 years 11 months	60%
13 years - 13 years 11 months	65%
14 years - 14 years 11 months	70%
15 years - 15 years 11 months	75%
16 years - 16 years 11 months	80%
17 years - 17 years 11 months	85%
18 years - 18 years 11 months	90%
19 years - 19 years 11 months	95%
20 years or more	100%

The financial statements are prepared using the accrual basis of accounting. Plan member contributions to the plan are recognized when due and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plans.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

The Judicial Form Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing to the Judicial Form Retirement System, P.O. Box 791, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-5310.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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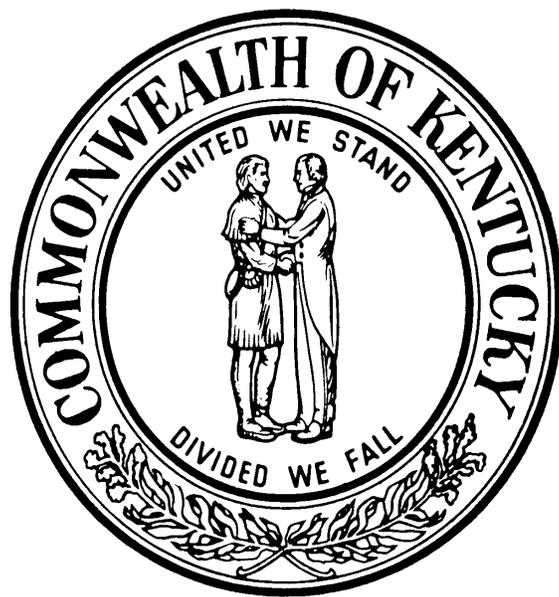
The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for local school districts and other educational agencies in the state.

The Commonwealth is the predominant contributor to KTRS and for note disclosure purposes it will be considered as a single employer plan.

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Plan investments are reported at fair value. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and security pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

COLA are one and one-half percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.



**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2011**

	<b>Kentucky Legislators' Retirement Plan</b>		<b>Kentucky Judicial Retirement Plan</b>		<b>State Police Retirement System</b>	
	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>
Contribution rates:						
State Plan members	18.00%	5.0%-6.0%	14.00%	1.00%	45.54%	8.0%-9.0%
Portion of State Contribution for Health Insurance						
Annual required contribution (ARC) (Thousands)	\$2,140		\$10,302	\$696	\$18,463	\$25,773
Contributions made (Thousands)	\$942		\$4,534	\$306	\$12,657	\$11,051
Actuarial valuation date	July 1, 2011		July 1, 2011		June 30, 2011	
Actuarial cost method	Projected unit credit		Projected unit credit		Entry age normal	
Amortization method	Interest + 1% Unfunded Past Liability open		Interest + 1% Unfunded Past Liability open		Level percent closed	
Remaining amortization period	25 years		25 years		26 years	
Asset valuation method	Market value		Market value		Five-year smoothed market	
Actuarial assumptions:						
Investment rate of return	7.00%		7.00%		7.75%	4.50%
Inflation Rate					3.50%	
Projected salary increases	1%-3.5%		1%-4%		4.5%-20.0%	
Increases in Health Insurance Cost	5% - 11%		5% - 11%		5.0%-10.5%	
(Dollar amounts in thousands)						
Actuarial Required						
Contribution (ARC)	\$ 2,140	\$	\$ 10,302	\$ 696	\$ 18,463	\$ 25,773
Interest on NPO/NOPEBO	(34)	(22)	(58)	(11)	2,635	4,939
Adjustment to ARC	39	26	71	13	(1,868)	(4,221)
Annual pension cost	2,145	4	10,315	698	19,230	26,491
Contributions made	942		4,534	306	12,657	11,051
Increase (Decrease) in NPO/NOPEBO	1,203	4	5,781	392	6,573	15,440
NPO/NOPEBO beginning of year	(465)	(305)	(843)	(159)	34,004	109,757
NPO/NOPEBO as of 6/30/11	\$ 738	\$ (301)	\$ 4,938	\$ 233	\$ 40,577	\$ 125,197
Percentage APC contributed	43.9%		44.0%	43.8%	65.8%	41.7%
<b>6/30/2010</b>						
Annual Pension Cost	\$ 381	\$ 64	\$ 4,525	\$ 840	\$ 19,424	\$ 32,659
Percentage APC Contributed	83.9%	93.8%	98.8%	98.8%	48.9%	27.3%
NPO/NOPEBO as of 6/30/10	\$ (465)	\$ (305)	\$ (843)	\$ (159)	\$ 34,004	\$ 109,757
<b>6/30/2009</b>						
Annual Pension Cost	\$ 382	\$ 64	\$ 4,526	\$ 840	\$ 16,387	\$ 31,041
Percentage APC Contributed	83.8%	93.8%	98.8%	98.8%	50.0%	24.6%
NPO/NOPEBO as of 6/30/09	\$ (526)	\$ (309)	\$ (898)	\$ (169)	\$ 24,069	\$ 86,015

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

Kentucky Employees Retirement System				Kentucky Teachers' Retirement System	
Non-Hazardous		Hazardous		Pension	Insurance
Pension	Insurance	Pension	Insurance		
16.98%	5.0%-6.0%	26.12%	8.0%-9.0%	13.105%-14.105%	0.75%
9.105%-10.855%	1.0%-1.75%				
\$381,915	\$294,898	\$20,605	\$29,585	\$678,741	\$479,449
\$193,754	\$129,336	\$19,141	\$19,953	\$1,037,936	\$190,403
June 30, 2011				June 30, 2011	
Entry age normal				Entry age normal	
Level percent closed				Level percent open	
26 years				30 years	
Five-year smoothed market				Five-year smoothed market	Market value of assets
7.75%	4.50%	7.75%	3.50%	7.50%	7.5%-8.0%
3.50%		4.5% - 20.0%		3.50%	4.00% - 8.20%
4.75%-13.0%					
	5.0%-10.5%		5.0%-10.5%		5.0%-10.5%
\$ 381,915	\$ 294,898	\$ 20,605	\$ 29,585	\$ 678,741	\$ 479,449
60,246	54,839	18,070	6,361	43,225	36,070
(42,709)	(46,872)	(12,811)	(4,510)	(30,810)	(28,678)
399,452	302,865	25,864	31,436	691,156	486,841
193,754	129,336	19,141	19,953	1,037,936	190,403
205,698	173,529	6,723	11,483	(346,780)	296,438
777,375	1,218,674	233,163	82,093	576,329	806,697
<u>\$ 983,073</u>	<u>\$ 1,392,203</u>	<u>\$ 239,886</u>	<u>\$ 93,576</u>	<u>\$ 229,549</u>	<u>\$ 1,103,135</u>
48.5%	42.7%	74.0%	63.5%	150.2%	39.1%
\$ 363,775	\$ 376,581	\$ 17,820	\$ 35,046	\$ 581,594	\$ 463,761
39.6%	27.2%	99.1%	63.5%	72.0%	37.8%
<u>\$ 777,375</u>	<u>\$ 1,218,674</u>	<u>\$ 233,163</u>	<u>\$ 82,093</u>	<u>\$ 576,329</u>	<u>\$ 806,697</u>
\$ 304,510	\$ 380,431	\$ 21,925	\$ 36,152	\$ 563,860	\$ 470,911
36.9%	21.7%	72.3%	58.1%	71.1%	39.0%
<u>\$ 557,651</u>	<u>\$ 944,621</u>	<u>\$ 233,001</u>	<u>\$ 69,288</u>	<u>\$ 413,293</u>	<u>\$ 518,283</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2011**

**Schedule of Funding Progress - Retirement Funds**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<b><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
June 30, 2009	\$ 4,794,611,365	\$ 10,658,549,532	\$ 5,863,938,167	45.0	\$ 1,754,412,912	334.2
June 30, 2010	4,210,215,585	11,004,795,089	6,794,579,504	38.3	1,815,146,388	374.3
June 30, 2011	3,726,986,087	11,182,142,032	7,455,155,945	33.3	1,731,632,748	430.5
<b><u>Hazardous</u></b>						
June 30, 2009	\$ 502,503,287	\$ 674,411,781	\$ 171,908,494	74.5	\$ 146,043,576	117.7
June 30, 2010	502,729,009	688,149,451	185,420,442	73.1	143,557,994	129.2
June 30, 2011	510,748,505	721,293,444	210,544,939	70.8	133,053,792	158.2
<b><u>State Police Retirement System</u></b>						
June 30, 2009	\$ 329,966,989	\$ 602,328,868	\$ 272,361,879	54.8	\$ 51,660,396	527.2
June 30, 2010	304,577,292	612,444,806	307,867,514	49.7	51,506,712	597.7
June 30, 2011	285,580,631	634,379,401	348,798,770	45.0	48,692,616	716.3
<b><u>Judicial Retirement Plan</u></b>						
June 30, 2009	\$ 211,793,059	\$ 290,860,147	\$ 79,067,088	72.8	\$ 29,886,624	264.6
June 30, 2010	193,940,389	294,521,361	100,580,972	65.8	29,886,624	336.5
June 30, 2011	177,679,270	311,449,085	133,769,815	57.0	33,175,215	403.2
<b><u>Legislators' Retirement Plan</u></b>						
June 30, 2009	\$ 42,929,075	\$ 60,163,091	\$ 17,234,016	71.4	\$ 4,916,770	350.5
June 30, 2010	40,231,811	62,774,038	22,542,227	64.1	4,916,770	458.5
June 30, 2011	38,442,211	65,836,618	27,394,407	58.4	5,192,619	527.6
<b><u>Kentucky Teachers' Retirement System</u></b>						
June 30, 2009	\$ 14,885,981,000	\$ 23,400,426,000	\$ 8,514,445,000	63.6	\$ 3,253,077,000	261.7
June 30, 2010	14,851,330,000	24,344,316,000	9,492,986,000	61.0	3,321,614,000	285.8
June 30, 2011	14,908,138,000	25,968,692,000	11,060,554,000	57.4	3,451,756,000	320.4

**Schedule of Funding Progress - Insurance Funds**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Overfunded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<b><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
June 30, 2009	\$ 534,172,580	\$ 4,507,325,571	\$ 3,973,152,991	11.9	\$ 1,754,412,912	226.5
June 30, 2010	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
June 30, 2011	451,620,442	4,280,089,633	3,828,469,191	10.6	1,731,632,748	221.1
<b><u>Hazardous</u></b>						
June 30, 2009	\$ 301,634,592	\$ 491,132,170	\$ 189,497,578	61.4	\$ 146,043,576	129.8
June 30, 2010	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
June 30, 2011	329,961,615	507,058,767	177,097,152	65.1	133,053,792	133.1
<b><u>State Police Retirement System</u></b>						
June 30, 2009	\$ 123,526,647	\$ 364,031,141	\$ 240,504,494	33.9	\$ 51,660,396	465.5
June 30, 2010	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2
June 30, 2011	123,687,289	438,427,763	314,740,474	28.2	48,692,616	646.4
<b><u>Judicial Retirement Plan</u></b>						
June 30, 2009	\$ 43,816,525	\$ 39,816,215	\$ (4,000,310)	110.0	\$ 29,886,624	(13.4)
June 30, 2010	43,186,642	41,831,779	(1,354,863)	103.2	29,886,624	(4.5)
June 30, 2011	41,791,088	43,643,278	1,852,190	95.8	33,175,215	5.6
<b><u>Legislators' Retirement Plan</u></b>						
June 30, 2009	\$ 24,413,467	\$ 18,481,365	\$ (5,932,102)	132.1	\$ 4,916,770	(120.7)
June 30, 2010	23,908,481	19,434,535	(4,473,946)	123.0	4,916,770	(91.0)
June 30, 2011	23,337,392	20,533,088	(2,804,304)	113.7	5,192,619	(54.0)
<b><u>Kentucky Teachers' Retirement System</u></b>						
June 30, 2009	\$ 313,806,000	\$ 6,545,067,000	\$ 6,231,261,000	4.8	\$ 3,253,077,000	191.5
June 30, 2010	329,129,000	3,298,897,000	2,969,768,000	10.0	3,321,614,000	89.4
June 30, 2011	383,346,000	3,511,237,000	3,127,891,000	10.9	3,451,756,000	90.6

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

Membership of the retirement systems, at June 30, 2011, is shown in the following table:

	<b>Kentucky Employees Retirement System</b>		<b>County Employees Retirement System</b>		<b>State Police Retirement System</b>	<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Total</b>
	<b>Non-Hazardous</b>	<b>Hazardous</b>	<b>Non-Hazardous</b>	<b>Hazardous</b>					
Retirees and beneficiaries receiving benefits	38,597	3,064	43,211	6,468	1,263	309	171	44,419	137,502
Terminated plan members - vested	38,597	3,264	65,914	2,774	357	23	49	6,135	117,113
Active plan members	46,617	4,291	85,285	9,407	965	273	124	76,349	223,311
<b>Total Members</b>	<b>123,811</b>	<b>10,619</b>	<b>194,410</b>	<b>18,649</b>	<b>2,585</b>	<b>605</b>	<b>344</b>	<b>126,903</b>	<b>477,926</b>
Number of participating employers	372		1,396		1	1	1	208	1,979

Three year trend for contributions  
(Expressed in thousands):

	<b>Pension</b>		<b>Insurance</b>		<b>Total</b>	
	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
<b><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
2009	\$ 294,495	38.2%	\$ 362,707	22.8%	\$ 657,202	29.7%
2010	348,495	41.3%	376,556	27.2%	725,051	34.0%
2011	381,915	50.7%	294,898	43.9%	676,813	47.7%
<b><u>Hazardous</u></b>						
2009	\$ 15,708	100.9%	\$ 34,670	60.6%	\$ 50,378	73.1%
2010	17,815	99.1%	35,045	63.5%	52,860	75.5%
2011	20,605	92.9%	29,585	67.4%	50,190	77.9%
<b><u>State Police Retirement System</u></b>						
2009	\$ 15,952	51.3%	\$ 29,325	26.1%	\$ 45,277	34.9%
2010	18,765	50.6%	30,302	29.4%	49,067	37.5%
2011	18,463	68.6%	25,773	42.9%	44,236	53.6%
<b><u>Judicial Retirement Plan</u></b>						
2009	\$ 4,512	99.1%	\$ 838	99.1%	\$ 5,350	99.1%
2010	4,512	99.1%	838	99.0%	5,350	99.1%
2011	10,302	44.0%	696	44.0%	10,998	44.0%
<b><u>Legislator's Retirement Plan</u></b>						
2009	\$ 375	85.3%	\$ 60	100.0%	\$ 435	88.0%
2010	375	85.3%	60	100.0%	435	87.4%
2011	2,140	44.0%			2,140	44.0%
<b><u>Kentucky Teachers' Retirement System</u></b>						
2009	\$ 600,283	66.8%	\$ 468,812	39.2%	\$ 1,069,095	54.7%
2010	633,938	66.0%	459,047	38.2%	1,092,985	54.3%
2011	678,741	153.0%	479,449	39.7%	1,158,190	106.1%

**Note 9**

**EMPLOYEE BENEFIT PLAN**

**Kentucky Public Employees' Deferred Compensation Plan**

Employees of the Commonwealth, its cities, counties, and local school districts are eligible to participate in two deferred compensation plans as authorized by the United States Internal Revenue Code. These plans, labeled 457 and 401(k), after sections of the Code, are administered by the Personnel Cabinet and an independent Plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.245, selects the administrator to oversee the daily operations and technical compliance of the Plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the plan administrators holding fixed and variable annuity contracts (carriers). Both Plans permit employees to defer collecting a portion of their salary until future years. This deferment is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the 457 Plan and the 401(k) Plan are reported in a Pension Trust Fund within the fiduciary fund type, in compliance with Internal Revenue Code and GASB 32 requirements.

Of the \$725,503,597 in the 457 Plan at June 30, 2011 \$360,573,649 was applicable to the Commonwealth, while the remaining \$364,929,948 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$1,190,876,313 at June 30, 2011, of which \$452,446,921 was applicable to the state while the remaining \$738,429,392 represents other participating jurisdictions.

**Note 10**

**LEASE OBLIGATIONS**

The Commonwealth has entered into various leases for buildings and equipment. Generally, leases contain termination clauses providing for cancellation after a 30-, 60-, or 90-days written notice. In addition, certain leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

A portion of the capital lease liability for the University and College Fund is applicable to leases with the Commonwealth.

Changes in leases payable for the year ended June 30, 2011, are summarized in Note 15, Changes in Long-Term Obligations.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

*At June 30, 2011, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):*

Buildings and Equipment acquired through capital leases are recorded at the lesser of fair market value or present value of future minimum lease payments.

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units-Major</u>
Buildings	\$ 26,520	\$	\$ 459,122
Equipment	25,539	310	73,660
Other			77,049
Total	<u>52,059</u>	<u>310</u>	<u>609,831</u>
Less: Accumulated depreciation	<u>(26,755)</u>	<u>(139)</u>	<u>(108,143)</u>
Total Net of Depreciation	<u>\$ 25,304</u>	<u>\$ 171</u>	<u>\$ 501,688</u>

*Future minimum rental commitments for capitalizable leases as of June 30, 2011, are as follows (Expressed in Thousands):*

	<u>Primary Government</u>		<u>Component Units-Major</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Universities, Colleges, and Related Entities</u>	
2012	\$ 7,604	\$ 576	\$ 70,660	\$ 78,840
2013	5,818	544	67,527	73,889
2014	4,508	528	55,276	60,312
2015	3,351	507	49,198	53,056
2016	2,622	452	43,041	46,115
2017-2021	10,167	2,105	183,501	195,773
2022-2026	3,683		143,677	147,360
2027-2031			<u>49,991</u>	<u>49,991</u>
Total minimum lease payments	<u>37,753</u>	<u>4,712</u>	<u>662,871</u>	<u>705,336</u>
Less: Amount representing interest (1.50-63.60%)	<u>(6,876)</u>	<u>(1,170)</u>	<u>(170,634)</u>	<u>(178,680)</u>
Present value of future minimum lease payments	<u>\$ 30,877</u>	<u>\$ 3,542</u>	<u>\$ 492,237</u>	<u>\$ 526,656</u>

**Note 11**

**RISK MANAGEMENT**

The Commonwealth is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commonwealth utilizes the Risk Management Fund to account for these activities.

**Fire and Tornado Insurance:**

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$500,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$2,269,433 reported in the Program at June 30, 2011, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability

has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2011 and 2010 were:

	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2010</u>
Beginning of fiscal year liability	\$ 2,702,573	\$ 1,326,874
Incurred claims	7,392,318	39,955,871
Changes in estimates		
Claims payments	<u>(7,825,458)</u>	<u>(38,580,172)</u>
Balance at Fiscal Year End	<u>\$ 2,269,433</u>	<u>\$ 2,702,573</u>

**Self-Insured Workers' Compensation:**

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

The actuarially determined aggregate claims liability of \$147,195,678 reported in the Program at June 30, 2011, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2011 and 2010 were:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 133,533,497	\$ 130,785,487
Claims and claims adjustments incurred:		
Current year	20,371,606	19,083,735
Increase (Decrease) in Prior year	12,794,065	1,986,969
Total Claims and Claims Adjustments Incurred:	33,165,671	21,070,704
Claims and claims adjustment payments:		
Current year	(5,497,451)	(4,613,203)
Increase (Decrease) in Prior year	(14,006,039)	(13,709,491)
Total Claims and Claims Adjustment Payments	(19,503,490)	(18,322,694)
Balance at Fiscal Year End	<u>\$ 147,195,678</u>	<u>\$ 133,533,497</u>

**Transportation Cabinet Workers' Compensation:**

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2011 and 2010 were:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 22,282,187	\$ 24,053,754
Claims and claims adjustments incurred	3,472,000	3,388,000
Changes in estimates	6,112,259	(2,256,000)
Claims and claims adjustment payments	(3,167,799)	(2,903,567)
Balance at Fiscal Year End	<u>\$ 28,698,647</u>	<u>\$ 22,282,187</u>

**Note 12**

**RISK POOLS**

The Commonwealth's risk pools are the Insurance Administration Fund (enterprise fund) and the Grain Insurance Corporation (component unit). The Insurance Administration Fund includes the operations of five risk pools as follows: Workers' Compensation Insurance, Coal Workers Pneumoconiosis, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Corporation is reported as part of the primary government. The Grain Insurance Corporation is a risk pool reported as a discrete component unit.

**Risk Pools - Enterprise Funds**

**Workers' Compensation Insurance:**

The Kentucky Workers' Compensation Insurance Program, a risk sharing pool, covers preexisting conditions to protect employers from having to pay for injuries not sustained while under their employment, or more than once for disabilities resulting from the same accident. This Program encourages reemployment of injured workers at adequate wages by relieving the employer of the requirement of paying disability compensation in addition to full wages. The Program also covers claims against uninsured employers.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$877,397,314, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,284,847,000, discounted at 3.5 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$15,312,000, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$20,950,000, discounted at 3.5 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2011. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 1,467,116,000	\$ 1,533,571,000
Claims and claims adjustments incurred	6,760,000	7,159,000
Changes in estimates	(97,434,000)	(551,000)
Claims and claims adjustment payments	(70,645,000)	(73,063,000)
Balance at Fiscal Year End	<u>\$ 1,305,797,000</u>	<u>\$ 1,467,116,000</u>

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**Coal Workers' Pneumoconiosis Fund:**

The Coal Workers' Pneumoconiosis Fund (CWPF) was created within the Labor Cabinet through the enactment of House Bill No. 1 by the December 1996 Special Session of the General Assembly. The CWPF is liable for one-half of the income benefits and retraining incentive benefits for occupational pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal. The employer is liable for the remaining half.

In accordance with House Bill No. 1 from the December 1996 Special Session, the Kentucky Workers' Compensation Funding Commission shall impose a pneumoconiosis assessment to pre-fund the liabilities of the CWPF and to finance its administration. The assessment is 3.0 percent of workers' compensation premiums received on or after January 1, 1997, from employers engaged in the severance or processing of coal and an additional assessment of \$0.025 per ton imposed upon coal severed on or after January 1, 1997. All pneumoconiosis assessments collected by the Funding Commission are to be credited to a separate account within the Benefit Reserve Fund and to be transferred as necessary to pay administrative expenses and current claims of the CWPF.

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$14,510,474, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$17,623,000, discounted at 3.5 percent. The claims adjustment liability of \$1,069,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,299,000, discounted at 3.5 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 17,526,000	\$ 15,550,000
Claims and claims adjustments incurred	2,763,000	3,241,000
Changes in estimates	(319,000)	60,000
Claims and claims adjustment payments	<u>(1,048,000)</u>	<u>(1,325,000)</u>
Balance at Fiscal Year End	<u>\$ 18,922,000</u>	<u>\$ 17,526,000</u>

As stated above, the Coal Workers' Pneumoconiosis Fund was created by the December 1996 Special Session of the General Assembly. Therefore, there are no provisions for claims prior to 1997.

**Petroleum Storage Tank Environmental Assurance Program:**

The Office of the Petroleum Storage Tank Environmental Assurance Program, a risk sharing pool, was created in the 1990 regular session of the Kentucky General Assembly. The purpose of the Program is to assist petroleum storage tank owners or operators in complying with federal financial responsibility requirements relating to petroleum storage tanks and in cleaning up contamination caused by leaking tanks. A fee paid (at a rate of one and four-tenths cents per gallon) by dealers on each gallon of gasoline funds the Program and special fuels received in the Commonwealth funds the program.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims against the owners or operators for damages sustained as a result of leaking storage tanks. Claims paid by the Program are subject to deductibles that are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at \$1,000 per occurrence for owners or operators of five or less tanks, and at \$5,000 for owners or operators of six to ten tanks, and at \$25,000 for owners of more than ten tanks.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$249,383,873 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 240,719,503	\$ 240,382,101
Claims and claims adjustments incurred	35,148,825	28,542,988
Changes in estimates		
Claims and claims adjustment payments	<u>(26,484,455)</u>	<u>(28,205,586)</u>
Balance at Fiscal Year End	<u>\$ 249,383,873</u>	<u>\$ 240,719,503</u>

**Bond Pool:**

The Bond Pool was established in 1986 to provide an alternative bonding program for small to medium sized coal companies in Kentucky. Membership in the Pool is voluntary and prospective members must apply to become members. Applicants must meet standards set by the Bond Pool Commission to be accepted as members of the Bond Pool. These criteria, used to evaluate potential Bond Pool members, consider factors such as mining experience, reclamation history, and financial condition of the applicant.

**COMMONWEALTH OF KENTUCKY**

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The Commission, based on the standards considered in the application process, rates accepted members. The members are rated and assessed an initial membership fee based on this rating. This fee ranges from \$1,000 to \$2,500. Additionally members pay tonnage fees of \$.05 per ton of surface mined coal and \$.01 per ton for underground mined coal. Provisions are also in effect where the tonnage fee is suspended for members who have participated in the Program for 36 months, or when the Program balance exceeds \$7 million.

The coal companies participating in the Program are required to post a permit specific bond based on the number of acres permitted and their rating in the Program. The Bond Pool in turn provides coverage for reclamation costs that exceed the permit specific bond but limits claims to the total amount of bond required by the permit. The Bond Pool does not pay claims for costs incurred in excess of the required bond amount.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$20,165,137, as reported in the financial statements, is the aggregate actuarially determined claims liability. The total change in claims adjustment liability during fiscal year 2011 was a decrease of \$1,287,136. Changes in the Program’s aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 21,452,273	\$ 21,452,273
Claims and claims adjustments incurred		
Changes in estimates	(1,287,136)	
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 20,165,137</u>	<u>\$ 21,452,273</u>

**Mine Subsidence Insurance:**

The Mine Subsidence Insurance Program is administered by the Department of Insurance. The provisions of the Program require that all insurance policies issued or renewed that insure a structure located in any county in the Commonwealth, except those specifically exempted by KRS 304.44-60, shall include a separately stated premium for mine subsidence damage coverage. This premium is assessed at the amount determined by the Program, and the insurer is required to code this coverage to the Program. The insurer may refuse to provide coverage where preexisting damage is determined to exist. The Program provides coverage subject to a deductible of 2 percent of the policy’s total insured value or not less than \$250 and not more than \$500. The Mine Subsidence Program also limits its coverage to \$50,000 per structure.

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Mine Subsidence Program had no liabilities reported. Claims liability in Fiscal Year 2010 was also zero.

**Kentucky Employees Health Plan:**

Kentucky Employees Health Plan was established pursuant to KRS 18A.225, 18A.226, and 18A.227 to administrate and facilitate an employee health insurance program as part of a flexible benefits plan. The Department for Employee Insurance (the Department) is responsible for overseeing the Kentucky Employees Health Plan (KEHP).

The health benefits for governmental participants are funded by monthly premiums paid by individuals and state and local governmental units. A participant may extend coverage to dependents for an additional monthly premium based of the coverage requested. Premiums are collected by the Department and held in a trust fund until needed for the payment of benefits.

The Plan develops premium equivalent rates each year by utilizing historical trend information, current claims experience and national trends. An outside actuarial consultant advises the Plan Administrator regarding premium rates. If premium rates are changed, they become effective the beginning of a calendar year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Plan. If assets of the Plan were to be exhausted, participants would not be responsible for the Plan’s liabilities.

All state agencies and local boards of education in the Commonwealth are required to offer to their active employees the coverage selections offered by the Plan. Local government entities may elect to participate in the Plan.

The Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and of claims that have been incurred but not yet reported. The claims liability \$88,616,372 that was reported in the financial statements is the aggregate actuarially determined claims liability. Changes in the aggregate liabilities for claims and claims adjustment expenses for the past two years are as follows:

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

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	Fiscal Year 2011	Fiscal Year 2010
Beginning of fiscal year liability	\$ 78,000,000	\$ 92,944,000
Claims and claims adjustments incurred	1,513,794,807	1,504,737,813
Changes in estimates	4,267,010	(3,777,204)
Claims and claims adjustment payments	<u>(1,507,445,445)</u>	<u>(1,515,904,609)</u>
Balance at Fiscal Year End	<u>\$ 88,616,372</u>	<u>\$ 78,000,000</u>

**Risk Pools - Component Units**

**Grain Insurance:**

The Grain Insurance Program was established to promote economic stability in agriculture by providing coverage to grain producers for losses incurred in the event of a financial failure of a grain dealer or grain warehousemen. The Program is funded by a half-cent per bushel assessment on all marketed grain produced in Kentucky. The Program also has provisions that the assessment can be suspended when the balance of the Program reaches \$3 million and if suspended will be reapplied when the balance of the Program drops to \$2 million.

No claims liability was reported in the Program at June 30, 2011, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2010 was also zero.

**Note 13**

**DEFEASANCE OF LONG-TERM DEBT**

The School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged and the Commission does not experience an economic gain or loss on these transactions. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2011 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated October 28, 2010, were issued for the Anderson County School District Finance Corporation to refund a 1998A issue. The Commission's portion of the refunding issue was \$905,000 maturing October 1, 2011 through October 1, 2018 and carrying interest rates from .50% to 2.35%.

Revenue refunding bonds dated October 5, 2010, were issued for the Bourbon County School District Finance Corporation to partially refund a 1998 issue. The Commission's portion of the refunding issue was \$163,059 maturing June 1, 2011 through June 30, 2018 and carrying interest rates of 2.25%.

Revenue refunding bonds dated September 1, 2010, were issued for the Boyle County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$1,000,460 maturing March 1, 2011 through March 1, 2021 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated October 1, 2010, were issued for Calloway County School District Finance Corporation to partially refund a 2002 issue. The Commission's portion of the refunding issue was \$1,151,452 maturing June 1, 2011 through June 1, 2022 and carrying interest rates from .60% to 2.90%.

Revenue refunding bonds dated October 1, 2010, were issued for the Campbell County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$595,000 maturing April 1, 2011 through October 1, 2018 and carrying interest rates from .70% to 2.70%.

Revenue refunding bonds dated September 1, 2010, were issued for the Casey County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$726,975 maturing May 1, 2011 through May 1, 2021 and carrying interest rates of .50% to 2.55%.

Revenue refunding bonds dated September 23, 2010, were issued for the Christian County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$3,237,976 maturing January 1, 2011 through July 1, 2021 and carrying interest rates from 1.00% to 2.375%.

Revenue refunding bonds dated September 1, 2010, were issued for the Crittenden County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$900,589 maturing April 1, 2011 through October 1, 2023 and carrying interest rates from .50% to 2.60%.

Revenue refunding bonds dated September 15, 2010, were issued for the Danville Independent School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$1,130,000 maturing January 1, 2011 through July 1, 2018 and carrying interest rates from 1.00% to 2.00%.

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Revenue refunding bonds dated August 10, 2010, were issued for the Garrard County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$728,261 maturing April 1, 2011 through April 1, 2021 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated October 1, 2010, were issued for the Grant County School District Finance Corporation to refund a 1999 issue and a 2002 issue. The Commission's portion of the refunding issue was \$219,258 maturing February 1, 2011 through August 2018 and carrying interest rates from .60% to 2.75%.

Revenue refunding bonds dated June 2, 2011, were issued for the Grayson County School District Finance Corporation to refund a 1999C issue. The Commission's portion of the refunding issue was \$500,000 maturing October 1, 2011 through October 1, 2018 and carrying an interest rate of 2.00%.

Revenue refunding bonds dated August 12, 2010, were issued for the Green County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$905,261 maturing April 1, 2011 through April 1, 2021 and carrying interest rates from 2.00% to 3.00%

Revenue refunding bonds dated August 12, 2010, were issued for the Greenup County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$476,966 maturing March 1, 2011 through March 1, 2021 and carrying interest rates from 1.00% to 2.625%

Revenue refunding bonds dated March 1, 2011, were issued for the Henderson County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$1,651,730 maturing March 1, 2011 through February 1, 2021 and carrying interest rates from 1.00% to 3.00%

Revenue refunding bonds dated August 1, 2010, were issued for the Kenton County School District Finance Corporation to partially refund a 2002 issue. The Commission's portion of the refunding issue was \$19,632 maturing April 1, 2011 through April 1, 2022 and carrying interest rates from .50% to 2.50%

Revenue refunding bonds dated July 29, 2010, were issued for the Larue County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$1,678,853 maturing February 1, 2011 through August 1, 2021 and carrying interest rates from 1.50% to 3.125%

Revenue refunding bonds dated October 1, 2010, were issued for the Lawrence County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$154,196 maturing May 1, 2011 through November 1, 2014 and carrying interest rates from .70% to 1.50%

Revenue refunding bonds dated September 1, 2010, were issued for the Madison County School District Finance Corporation to refund a 1998B issue and a 2001 issue. The Commission's portion of the refunding issue was \$915,920 maturing February 1, 2011 through February 1, 2019 and carrying interest rates from .40% to 2.50%

Revenue refunding bonds dated September 14, 2010, were issued for the McCracken County School District Finance Corporation to partially refund a 2002 issue. The Commission's portion of the refunding issue was \$869,186 maturing January 1, 2011 through July 1, 2022 and carrying interest rates from .25% to 2.50%

Revenue refunding bonds dated August 1, 2010, were issued for the Monroe County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$528,005 maturing June 1, 2011 through June 1, 2021 and carrying interest rates from 1.00% to 2.75%

Revenue refunding bonds dated September 30, 2010, were issued for the Ohio County School District Finance Corporation to refund a 1999B issue. The Commission's portion of the refunding issue was \$517,757 maturing June 1, 2011 through June 1, 2014 and carrying interest rates from 1.00% to 1.50%

Revenue refunding bonds dated August 18, 2010, were issued for the Owen County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$1,618,622 maturing April 1, 2011 through April 1, 2021 and carrying interest rates from 2.00% to 2.875%

Revenue refunding bonds dated September 1, 2010, were issued for the Owsley County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$165,801 maturing February 1, 2011 through February 1, 2021 and carrying interest rates from .75% to 2.55%

Revenue refunding bonds dated September 1, 2010, were issued for the Powell County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$570,121 maturing March 1, 2011 through September 1, 2021 and carrying interest rates from 1.50% to 3.00%

Revenue refunding bonds dated April 1, 2011, were issued for the Rockcastle County School District Finance Corporation to refund a 2001 issue. The Commission's portion of the refunding issue was \$428,486 maturing April 1, 2012 through April 1, 2013 and carrying an interest rate of 1.00%

Revenue refunding bonds dated April 1, 2011, were issued for the Russell County School District Finance Corporation to refund a 2003 issue. The Commission's portion of the refunding issue was \$247,396 maturing September 1, 2011 through September 1, 2023 and carrying interest rates from 1.00% to 3.25%

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Revenue refunding bonds dated April 1, 2011, were issued for the Scott County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$397,231 maturing May 1, 2012 through May 1, 2015 and carrying interest rates from 1.00% to 1.80%

Revenue refunding bonds dated October 1, 2010, were issued for the Trimble County School District Finance Corporation to partially refund a 2002 issue. The Commission's portion of the refunding issue was \$786,366 maturing April 1, 2011 through April 1, 2022 and carrying interest rates from 1.00% to 3.00%

Revenue refunding bonds dated September 1, 2010, were issued for the Webster County School District Finance Corporation to partially refund a 2001 issue. The Commission's portion of the refunding issue was \$771,340 maturing May 1, 2011 through May 1, 2021 and carrying interest rates from 1.00% to 2.60%

The State Property and Buildings Commission issued the following Revenue and Revenue Refunding Bonds.

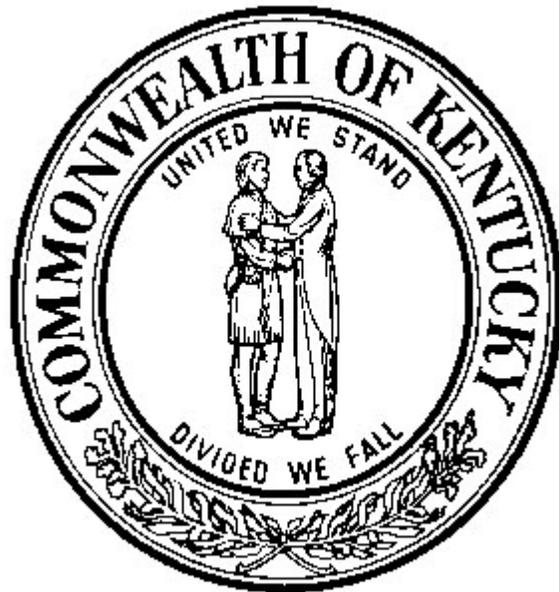
The State Property and Buildings Commission issued Revenue and Revenue Refunding Bonds; Project No. 98 dated July 13, 2010, in the amount of \$153,965,000. \$143,317,983 of the bond proceeds were deposited in Bond Repayment Fund for the refunding of prior issues of bonds and notes maturing July 15, 2010 through March 1, 2011 and carry interest rates of 2.50% to 5.50%; The refunding consisted of: Kentucky Asset/Liability Commission 2003 Series A notes partially refunded in the amount of \$14,580,000 maturing on July 15, 2010 and carrying an interest rate of 2.5% to 5.00%, Project 67 bonds fully refunded in the amount of \$6,280,000 maturing on September 1, 2010 and carrying an interest rate of 4.75% to 5.50%, Project 68 bonds partially refunded in the amount of \$7,835,000 maturing October 1, 2010 and carrying an interest rate of 4.90% to 5.75%, Project 69A bonds partially refunded in the amount of \$26,100,000 maturing on August 1, 2010 and carrying an interest rate of 4.20% to 5.25%, Project 69B bonds partially refunded in the amount of \$1,700,000 maturing August 1, 2010 carrying an interest rate of 5.00%, Project 69D bonds partially refunded in the amount of \$1,110,000 maturing on August 1, 2010 and carrying an interest rate of 5.50%, Project 71 bonds partially refunded in the amount of \$6,775,000 maturing August 1, 2010 carrying an interest rate of 4.20% to 5.50%, Project 74 bonds partially refunded in the amount of \$15,170,000 maturing August 1, 2010 through February 1, 2011 carrying an interest rate of 4.30% to 5.375% Project 76 bonds partially refunded in the amount of \$230,000 maturing August 1, 2010 carrying an interest rate of 4.125% Project 77 bonds partially refunded in the amount of \$4,540,000 maturing August 1, 2010 carrying an interest rate from 3.625% to 4.00%, Project 82 bonds partially refunded in the amount of \$3,220,000 maturing October 1, 2010 and carrying an interest rate from 2.70% to 5.00%, Project 83 bonds partially refunded in the amount of \$125,000 maturing October 1, 2010 with an interest rate of 2.50% , Project 85 bonds partially refunded in the amount of \$8,135,000 maturing

August 1, 2010 with an interest rate of 3.35%, Project 87 partially refunded in the amount of \$10,585,000 maturing March 1, 2011 and carrying an interest rate of 4.00% to 5.00%, Project 88 bonds partially refunded in the amount of \$17,350,000 maturing November 1, 2010 and carrying an interest rate of 5.00%, Project 89 bonds partially refunded in the amount of \$1,250,000 maturing November 1, 2010 and carrying an interest rate of 3.00%, Project 90 bonds partially refunded in the amount of \$7,485,000 maturing November 1, 2010 and carrying an interest rate from 3.00% to 5.00%, Project 93 bonds partially refunded in the amount of \$7,020,000 maturing February 1, 2011 and carrying an interest rate from 3.00% to 4.00%. The refunding will result in decrease cash flows in future periods of \$3,075,425 and a present value loss of \$2,143,261 at 3.72%.

The Turnpike Authority of Kentucky issued Economic Development Road Revenue and Revenue Refunding Bonds dated April 4, 2011 in the amount of \$115,175,000. The bonds mature July 1, 2016 through July 1, 2031 and carried interest rates of 3.0% to 5.00%. \$62,023,211 was deposited to the Bond Fund for Prior Bonds and used for refunding of Series 2001B bonds. All the bonds refunded had a maturing of July 1, 2016, 2017, 2018 and 2019. The refunding will result in net savings (increase in cash flows) of \$6,408,362 in future periods and a present value savings of \$6,410,922 at 4.050%.

#### Component Units

The Northern Kentucky University issued \$12,265,000 General Receipts Refunding Bonds, 2010 Series B dated October 21, 2010 with a net interest cost of 3.28%. The refunding bonds mature December 12, 2012. The proceeds partially refunded the underlying Certificates of Participation, series 2002 associated with student housing in the amount of \$11,747,000. The university had an economic gain of \$560,000. The refunding will result in an increase of cash flows of \$866,000.



**Note 14**

**RELATED ORGANIZATIONS**

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the Commonwealth's financial statements. They are the East Kentucky Corporation, Eastern Kentucky Exposition Center Corporation, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority, Kentucky Wood Products Competitiveness Corporation, Commonwealth Seed Capital, LLC, and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

**Note 15**

**LONG-TERM OBLIGATIONS**

**Long-Term Obligations**

**General Obligation Bonds** are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2011.

**Revenue Bonds** - General authorization for the use of revenue bonds is contained in Chapter 58 of the Kentucky Revised Statutes. Specific authority is contained in the legislation and related KRS chapters creating and empowering the various debt issuing entities. Reference to such legislation and laws is made throughout the following entity descriptions. Effective July 15, 1980, KRS 56.870 requires prior approval of debt financing projects by the Kentucky General Assembly sitting in regular or special sessions. Succeeding statutes establish the methods for this approval and the exemptions from it. The majority of new debt issues are approved through the appropriation act. Per KRS 56.873, effective July 15, 1980, revenue bonds having passed the above mechanisms, and not requiring Commonwealth appropriations, must receive an "A" rating by Moody's Investors Service or the equivalent rating by another qualified rating agency prior to their sale.

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax-exempt status of such municipal debt, whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by State Government in activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School Building Authority, and the Kentucky Infrastructure Authority,

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which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide debt service, principal and interest payments on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2011 the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

**The Kentucky State Property and Buildings Commission** is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

The Commission issued \$480,775,000 in revenue and revenue refunding bonds as follows:

\$3,430,000 Project No. 97 Taxable Agency Revenue Bonds, dated July 22, 2010. These Series 2010 Serial Bonds mature June 1, 2011 through June 1, 2025 and carry interest rates of 1.25% to 5.45%.

\$153,965,000 Project No. 98, Revenue and Revenue Refunding Bonds, dated July 13, 2010, were issued. These bonds mature August 1, 2011 through August 1, 2021 carrying interest rates of 2.00% to 5.00%.

\$323,380,000 Project No. 99, Revenue Bonds, dated November 17, 2010, were issued. These bonds consist of: \$98,065,000 Series A serial bonds maturing November 1, 2012 through November 1, 2021 and carrying interest rates of 2.00% to 5.00%; \$10,325,000 Series B (Federally Taxable) term bonds maturing November 1, 2012 and carrying an interest rate of 1.65%; \$31,640,000 Series C (Federally Taxable—Build America Bonds - Direct Payment to the Commission) Serial Bonds maturing November 1, 2019 through November 1, 2020 and carrying interest rates of 4.303% to 4.403%; \$73,785,000 5.373% Series C Term Bonds due November 1, 2025 carrying interest rates of 5.373% and \$109,565,000 5.921% Series C Term Bonds due November 1, 2030.

**The Turnpike Authority of Kentucky** was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor,

Lieutenant Governor, Attorney General, and Secretary of Transportation, Commissioner of Highways, State Highway Engineer, and Secretary of Economic Development. The Director of the Office of Financial Management currently serves as the Authority's Treasurer.

The Authority issued the following bonds during fiscal year 2011:

\$115,175,000 Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects), 2011 Series A, dated April 19, 2011. The bonds mature July 1, 2016 through July 1, 2031, and carry interest of 3.00% to 5.00%.

**Kentucky Gas Pipeline Authority** is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development.

The authority issued no bonds during fiscal year 2011.

**State Universities** - The Board of Trustees of the University of Kentucky and the Boards of Regents of the University of Louisville, Eastern Kentucky University, Western Kentucky University, Murray State University, Morehead State University, Kentucky State University, and Northern Kentucky University are authorized under KRS 56.495 to issue debt for the purpose of constructing educational buildings and housing and dining facilities. In addition, the University of Louisville is specifically authorized to issue debt for educational buildings under KRS 64.860 but is limited to \$16 million of refunding debt.

State supported universities issued \$62,590,000 in General Receipts Bonds to finance various new construction projects and renovation of existing facilities as follows:

**University of Kentucky** issued \$25,325,000 General Receipts Bonds dated November 17, 2010. The bonds consist of \$12,370,000 Taxable Build America Bonds, Series A maturing October 1, 2011 through October 1, 2024 and carrying interest rates of .500% to 4.500% and \$12,955,000 Taxable Qualified Energy Conservation Bonds, 2010 Series B maturing October 1, 2024 carrying an interest rate of 4.700%. The proceeds of the bond will be used for a project consisting of multiple energy conservation measures within sixty-one (61) educational and general buildings on the main campus.

**Northern Kentucky University** issued \$12,265,000 General Receipts Refunding Bonds, 2010 Series B, dated October 21, 2010. These bonds mature March 1, 2011 through September 1, 2027 carrying interest rates of 2.000% to 3.750%. The proceeds of the bond will be used to refund in advance of maturity the principle amount maturing on or after December 1, 2013 of a certain Facilities Lease dated as of July 1, 2002 between Fifth Third Leasing Company and the Commonwealth of Kentucky.

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### Notes to Financial Statements

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**The University of Louisville** issued \$25,000,000 in bonds as follows: \$4,058,000 General Receipts, Taxable Build America Bonds, 2010 Series A on December 29, 2010. These bonds mature September 1, 2012 through September 1, 2027 carrying interest rates of 1.10% to 5.75% and General Receipts Bonds, Taxable Qualified Energy Conservation Bonds, 2010 Series B, in the amount of \$20,942,000 carrying an interest rate of 5.50% and maturing on September 1, 2027. Both bond issues are subject to early redemption at the option of the University. The proceeds will be used for energy conservation measures within the educational and general buildings on the Health Science, Shelby and Belknap campus.

**The Kentucky Housing Corporation** was established in 1972 under KRS Chapter 198A, as a municipal corporation. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued \$226,000,000 in Housing Revenue Bonds which consisted of the following:

\$176,000,000 of Housing Revenue Bonds dated August 12, 2010, consisting of: \$26,220,000 Series B (Non-AMT) Serial Bonds maturing semi annually January 1 and July 1, 2011 through July 1, 2022 carrying interest rates of .500% to 3.950%; \$3,505,000 4.05% Series B Term Bonds (Non-AMT) due January 1, 2024; \$10,275,000 5.00% Series B Term Bonds (Non-AMT) due July 1, 2027; \$1,245,000 4.375% 2010 Series C Term Bonds (Non-AMT) due July 1, 2027; \$8,755,000 4.625% 2010 Series C Term Bonds (Non-AMT) due July 1, 2033; \$22,230,000 2010 Series D (AMT) bonds maturing semi annually January 1 and July 1, 2015 through July 1, 2020 and carrying an interest rate of 3.05% to 4.40%; \$19,435,000 5.125% 2010 Series D Term Bonds (AMT) due July 1, 2025; \$4,335,000 5.250% 2010 Series D Term Bonds (AMT) due January 1, 2027; \$1,555,000 2010 Series E (Non-AMT) bonds maturing July 1, 2020 through July 1, 2023 and carrying an interest rate of 3.65% to 4.00%; \$7,370,000 4.50% 2010 Series E Term Bonds (Non-AMT) due July 1, 2030; \$11,075,000 4.75% 2010 Series E Term Bonds (Non-AMT) due July 1, 2035 and \$60,000,000 3.81% 2010 Series C Term Bonds, subseries C-2 (Non-AMT) due July 1, 2041. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth.

\$50,000,000 Housing Revenue Bonds, consisting of: 2011 Series A (NON-AMT) Subseries C-3 dated May 12, 2011, consisting of: \$9,625,000 serial bonds maturing semi annually January 1 and July 1, 2012 through July 1, 2020 and carrying interest rates from .50% to 3.80% and 4.00% term bonds of \$2,535,000 due July 1, 2022, 4.5% term bonds of \$3,520,000 due July 1, 2025 and 5.00% term bonds of \$4,320,000 due January 1, 2028. 2009 Series C Bonds, Subseries C-3 (Non-AMT) dated December 23, 2009 consisting of: \$30,000,000 term bonds maturing July 1, 2041 carrying an interest rate of 3.55%.

**The Kentucky Infrastructure Authority** was created by House Bill 217, passed into law during the 1988 regular session of the Kentucky General Assembly, to assist governmental agencies of the State with respect to the construction and acquisition of infrastructure projects as defined in the legislation. Pursuant to this Act, which amends KRS Chapter 224A, all powers, duties, and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority, including administration of debt service on revenue bonds previously issued by the Authority, are transferred to the Kentucky Infrastructure Authority, which is established as a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the State.

The authority issued no bonds during fiscal year 2011.

**The Kentucky Higher Education Assistance Authority** is the Commonwealth of Kentucky's agency for improving higher education opportunities by insuring eligible student loans and providing other financial aid and related services to eligible students. The Authority is an issuer of student loans pursuant to the Federal Higher Education Act of 1965, as amended in Kentucky and Alabama. As such, the Authority is responsible for issuing loan insurance, providing collection assistance to lenders for delinquent loans, paying lender claims for loans, and collecting defaulted loans on which claims have been paid.

The authority issued no bonds during fiscal year 2011

**The Kentucky Higher Education Student Loan Corporation** is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by board of directors appointed by the Governor, as prescribed in KRS 164A.050. The Corporation is limited to a maximum principal outstanding of \$5 billion.

The authority issued no bonds during fiscal year 2011

**The Kentucky Local Correctional Facilities Construction Authority** is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

The authority issued no bonds during fiscal year 2011.

**The School Facilities Construction Commission** was created by act of the 1985 Extraordinary Session of the Kentucky General Assembly as the successor agency to the Kentucky School Building Authority (KSBA) and empowered pursuant to KRS 157.640 with all rights of

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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successorship necessary to assure all legal and contractual functions and liabilities associated with the outstanding bonds issued in the name of the Authority, including refunding of then existing Authority debt. The Commission is an independent corporate agency and instrumentality of the Commonwealth pursuant to KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of local school districts to issue bonds in the name of the Commission and to enter into lease agreements with local boards of education to finance construction of new facilities or major renovation of existing facilities; (2) enter into agreements which may provide for a percentage discount, on a biennially renewable basis, of annual lease agreements due the Commission for those districts which participate; and (3) enter into lease agreements with the Department of Education to build State-owned facilities operated by the Department of Education.

During the fiscal year ended June 30, 2011, the Commission sold \$116,792,734 school building revenue and revenue refunding bond issues having aggregate state participation of \$116,792,734 maturing through June 1, 2031, at interest rates of 1.400% to 13.00%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2011, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 484 Capitol Annex, Frankfort, Kentucky 40601.

**The Kentucky Agricultural Finance Corporation** is a public corporation and governmental agency of the Commonwealth established by Act of the 1984 General Assembly for the purpose of “improving and promoting the health, welfare, and prosperity of the people of the Commonwealth through the stimulation of existing agricultural ventures.” The Authority’s bond program is designed to help lender banks and other financial institutions assist eligible farmers in obtaining low interest loans through the issuance of tax-exempt agricultural revenue bonds. The Authority’s debt does not constitute a legal or moral obligation of the Commonwealth, and this debt is not included in these general-purpose financial statements.

The Corporation issued no bonds during the fiscal year ended June 30, 2011.

**The Kentucky Economic Development Finance Authority** established in 1958 under KRS Chapter 154, is an independent agency of the Commonwealth that operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no bonds during the fiscal year ended June 30, 2011.

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**Notes to Financial Statements**

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*The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2011, are as follows (Expressed in Thousands):*

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 4,115,270	1.00%-7.65%	2030
Kentucky School Facilities Construction Commission	828,498	1.00%-6.50%	2031
Turnpike Authority of Kentucky	1,297,860	2.00%-5.75%	2031
<b>Total</b>	<b>\$ 6,241,628</b>		

*Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2011, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2012	\$ 301,996	\$ 252,024	\$ 554,020
2013	337,505	269,079	606,584
2014	357,108	253,118	610,226
2015	377,302	236,694	613,996
2016	389,221	219,049	608,270
2017-2021	2,020,233	823,249	2,843,482
2022-2026	1,560,728	377,859	1,938,587
2027-2031	891,173	78,878	970,051
2032-2036	6,362	308	6,670
<b>Total</b>	<b>\$ 6,241,628</b>	<b>\$ 2,510,258</b>	<b>\$ 8,751,886</b>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky Housing Corporation *	\$ 2,096,570	0.60-6.06%	2042
Kentucky Infrastructure Authority	298,340	1.50-6.0%	2029
Kentucky Higher Education Student Loan Corporation	1,035,210	0.206-1.69%	2038
Kentucky Local Correctional Facilities Construction Authority *	9,575	5.25-5.25%	2015
University of Kentucky	265,770	.94-4.63%	2040
University of Louisville	313,050	1.10-6.46%	2035
Eastern Kentucky University	32,495	4.0-4.80%	2028
Western Kentucky University	184,095	1.50-5.00%	2028
Murray State University *	41,800	1.10-5.4%	2029
Morehead State University	49,800	1.27-6.0%	2029
Kentucky State University*	4,525	2.0-3.2%	2027
Northern Kentucky University	91,240	2.00-5.90%	2029
<b>Total Component Unit Revenue Bonds Payable</b>	<b>\$ 4,422,470</b>		

\* Amounts reflect original issue

*Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2011, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2012	\$ 165,560	\$ 597,087	\$ 762,647
2013	135,664	472,800	608,464
2014	137,805	338,235	476,040
2015	139,513	204,341	343,854
2016	130,077	136,950	267,027
2017-2021	757,417	599,033	1,356,450
2022-2026	697,164	439,403	1,136,567
2027-2031	1,091,960	274,405	1,366,365
2032-2036	729,835	116,517	846,352
2037-2041	432,920	17,523	450,443
2042-2046	4,555	85	4,640
<b>Total</b>	<b>\$ 4,422,470</b>	<b>\$ 3,196,379</b>	<b>\$ 7,618,849</b>

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**Notes to Financial Statements**

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**NOTES PAYABLE** At June 30, 2011, the following entities had notes payable:

**The Kentucky Asset/Liability Commission**, created by House Bill 5 enacted by the 1997 Extraordinary Session of the Kentucky General Assembly, develops policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and liabilities. It is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency.

The Commission issued \$737,370,000 in funding notes as follows:

\$467,555,000 Funding Notes, 2010 General Fund First Series (Taxable), dated August 26, 2010, to fund state medical insurance obligations of the Teachers Retirement System of the Commonwealth of Kentucky. These notes consists of \$137,975,000 of notes bearing interest rates of .841% to 4.204% maturing April 1, 2011 through April 1, 2020 and \$329,580,000 of term bonds bearing an interest rate of 3.165% due April 1, 2018.

\$269,815,000 in Funding Notes 2011, General Fund First Series, (Taxable) dated March 3, 2011 to fund state medical insurance obligations of the Teachers Retirement System of the Commonwealth of Kentucky. These notes consist of \$192,955,000 of notes bearing interest rates of 1.688% to 5.0397% maturing April 1, 2012 through April 1, 2019 and \$76,860,000 of term bonds bearing an interest rate of 5.339% due April 1, 2022.

**The Component Units** of the Commonwealth reported notes payable of \$1,372,487,000 in their individual audited financial statements, details concerning their notes payable are presented in the notes to those financial statements. A copy of their individual financial statements may be obtained from the component unit, at the address shown on pages 114 and 115.

**Other Long-term Liabilities** - The General Fund, special revenue, and internal service funds in which leases are recorded will liquidate the capital lease obligations. The compensated absences will be liquidated by applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The General Fund and transportation-related Special Revenue fund will generally liquidate other claims and judgments attributable to the governmental activities.

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**Notes to Financial Statements**

**June 30, 2011**

**Memorandum of Understanding (MOU)** - The Commonwealth of Kentucky has entered into an understanding with The Lexington-Fayette Urban County Government Public Facilities Corporation (LFUCGPFC). The Corporation has issued Lease Revenue Bond, Series 2011A (Eastern State Hospital) in the amount of \$138,635,000. These bonds are special and limited obligation of the corporation and do not constitute a debt, liability, or obligation or a pledge of the full faith and credit or taxing power of the Corporation or the Commonwealth of Kentucky. The bonds were issued in order to construct, furnish and equip a new State Mental Health Hospital with the understanding that the Commonwealth will fund the debt service of the Corporation by making Biennial Appropriations for this purpose. The net proceeds from the bond issue have been deposited in the Commonwealth of Kentucky's account and construction costs are being recorded as Construction in Progress. The debt service requirement for the memorandum of understanding is shown in the chart below.

**Pollution Remediation Liabilities** - GASB Statement 49 establishes the guidance reporting entities are to use in estimating and reporting potential cost which may be incurred for pollution remediation. GASB 49 requires the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;
- The Commonwealth is in violation of a pollution related permit or license;
- The Commonwealth is named or has evidence that it will be named as a responsible party by a regulator;
- The Commonwealth is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

The Commonwealth has remediation activities underway and these are in stages from site investigation, planning and design, clean up, and site monitoring. Several agencies, within state government, have as a part of their mission the responsibility to investigate possible pollution sites, and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to the estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. The amounts recorded as obligations are shown in the accompanying chart.

**Unemployment Insurance Liability** - The downturn in the economy created an increased demand for unemployment insurance payments. The increased demand depleted the funds the Commonwealth had on deposit with Federal government to pay claims. As a result, the Commonwealth has borrowed money from the Federal government to pay unemployment insurance claims. At June 30, 2011 the amount borrowed was \$948.7 million. The Commonwealth will continue to review ways to repay the loan and replenish the insurance fund.

***Future debt service requirements, under Memorandum of Understanding to be paid with State Funds, at June 30, 2011, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2012	\$	\$ 6,554	\$ 6,554
2013		7,085	7,085
2014	4,175	7,085	11,260
2015	4,380	6,877	11,257
2016	4,600	6,658	11,258
2017-2021	26,690	29,599	56,289
2022-2026	34,075	22,225	56,300
2027-2031	43,805	12,490	56,295
2032-2036	20,910	1,607	22,517
Total	<u>\$ 138,635</u>	<u>\$ 100,180</u>	<u>\$ 238,815</u>

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Notes to Financial Statements

June 30, 2011

*Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2011, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2012	\$ 129,260	\$ 71,181	\$ 200,441
2013	139,020	66,566	205,586
2014	144,035	61,504	205,539
2015	145,025	56,177	201,202
2016	146,330	50,550	196,880
2017-2021	653,815	161,289	815,104
2022-2026	306,895	42,255	349,150
2027-2031	51,535	2,491	54,026
Total	<u>\$ 1,715,915</u>	<u>\$ 512,013</u>	<u>\$ 2,227,928</u>

*Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2011, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2012	\$ 18,063	\$ 4,528	\$ 22,591
2013	4,949	3,965	8,914
2014	660,744	3,792	664,536
2015	3,890	882	4,772
2016	3,272	778	4,050
2017-2021	8,230	2,630	10,860
2022-2026	4,230	1,414	5,644
2027-2031	2,835	747	3,582
Thereafter	1,335	68	1,403
Total	<u>\$ 707,548</u>	<u>\$ 18,804</u>	<u>\$ 726,352</u>

*Changes in long-term liabilities for the fiscal year ended June 30, 2011, are summarized as follows (Expressed in Thousands)*

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
<b>Governmental Activities</b>						
Compensated absences	\$ 221,000	\$ 14,160	\$ (11,641)	\$ 223,519	\$ 47,327	\$ 176,192
Capital leases	32,341	8,108	(9,572)	30,877	6,076	24,801
Claims liability	158,519	70,320	(50,675)	178,164	19,622	158,542
Notes payable	1,089,740	737,370	(111,195)	1,715,915	129,260	1,586,655
Bonds payable	5,959,846	712,713	(430,931)	6,241,628	301,996	5,939,632
Unamortized premiums	253,509	34,035	(23,152)	264,392	12,792	251,600
Unamortized discounts	(14,988)	(2,022)	1,190	(15,820)	(766)	(15,054)
Deferred amount on refunding	(8,685)	(1,019)	5,305	(4,399)	(213)	(4,186)
Judgments and contingent liabilities	37,609	21,839	(22,947)	36,501	25,265	11,236
LFUCGPFC MOU obligations		138,635		138,635		138,635
Pollution remediation liabilities	35,017	3,375	(10,432)	27,960	8,378	19,582
Unfunded employer pension contributions	3,838,092	375,014		4,213,106		4,213,106
<b>Total Governmental Activities</b>	<u>11,602,000</u>	<u>2,112,528</u>	<u>(664,050)</u>	<u>13,050,478</u>	<u>549,737</u>	<u>12,500,741</u>
<b>Business-Type Activities</b>						
Compensated absences	8,778	2,222	(2,252)	8,748	2,234	6,514
Capital leases	127	3,644	(229)	3,542	384	3,158
Claims and claims adjustment liability	1,150,980	1,813,212	(1,696,451)	1,267,741	199,657	1,068,084
Prize liability	122,996	5,716	(28,427)	100,285	40,201	60,084
Judgments and contingent liabilities	126	197	(181)	142	142	
Loans payable to the Federal government	795,062	153,600		948,662		948,662
<b>Total Business-Type Activities</b>	<u>2,078,069</u>	<u>1,978,591</u>	<u>(1,727,540)</u>	<u>2,329,120</u>	<u>242,618</u>	<u>2,086,502</u>
<b>Total Primary Government</b>	<u>\$ 13,680,069</u>	<u>\$ 4,091,119</u>	<u>\$ (2,391,590)</u>	<u>\$ 15,379,598</u>	<u>\$ 792,355</u>	<u>\$ 14,587,243</u>
<b>Major Component Units</b>						
Compensated absences	\$ 18,443	\$ 16,067	\$ (13,929)	\$ 20,581	\$ 14,572	\$ 6,009
Capital leases	523,018	22,589	(53,370)	492,237	49,252	442,985
Notes payable	1,344,734	66,815	(735,217)	676,332	14,943	661,389
Bonds payable	4,022,234	276,143	(583,602)	3,714,775	120,973	3,593,802
<b>Total Major Component Units</b>	<u>\$ 5,908,429</u>	<u>\$ 381,614</u>	<u>\$ (1,386,118)</u>	<u>\$ 4,903,925</u>	<u>\$ 199,740</u>	<u>\$ 4,704,185</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

**Interest Rate Swap Agreements** - The Commonwealth currently has four outstanding interest rate swaps. Each of these swaps were entered into to synthetically fix the interest rate on floating rate bonds. The notes were issued concurrent with the execution of the swap. Each of the interest rate swaps amortizes to match the sinking fund schedule of the hedged notes. Additionally, the maturities exactly match the maturity schedule of the hedged debt. Note: The fair values are model determined values reconciled to indicative pricing from the counter-party.

**Credit Risk** - There are certain collateral and termination requirements triggered by credit rating and minimal capital thresholds for the counterparty, and termination requirements triggered by credit ratings thresholds for the Commonwealth Asset Liability Commission. Those thresholds are not being met as of June 30, 2011. There is no collateral pledged by either party to the interest rate swaps. The Commonwealth's credit risk is limited to the market value of the individual interest rate swaps. The counterparty is rated Aa3 by Moody's.

**Interest Rate Risk** - The Commonwealth's interest rate swaps were designed to synthetically fix the rate on four floating rate debt issuances. In order to achieve this goal, the amortization schedules, floating rate formula and index, pricing dates and other variables of

both the floating rate side of the swap and the debt are exactly matched. Using the Synthetic Instrument Method for determining hedge effectiveness showed a 100% for each derivative. Because the pricing dates, formulas and indices are identical, there is no basis risk.

**Termination Risk** - Mandatory termination of each of these swaps would be triggered if the credit ratings of the Commonwealth State Property and Building Commission were to fall below BBB by Standard and Poor's or Baa2 by Moody's or if the credit ratings of the counterparty were to fall below A3 by Moody's or A- by Standard and Poor's or if the credit ratings of the insurer falls below A3 by Moody's and A- by Standard and Poor's. Additional mandatory termination events include default, merger without assumption and failure to perform under the ISDA or indenture by any of the parties. The Commonwealth has the right to exercise optional early termination on each of these swaps with the consent of the insurer. The counterparty does not have the right of optional early termination. Any early termination shall occur at then current market levels.

The following table provides descriptive information for each interest rate swap.

**Terms of each Hedging Derivative  
Cashflow Interest Rate Swaps  
at June 30, 2011 (Expressed in Thousands)  
Governmental Activities**

Project Notes	Effective Date	Notional Amounts		Maturity Date	Pay-Fixed		Fair Value 6/30/2010	Fair Value 6/30/2011	Change in Fair Value
		Original	Outstanding		Rate	Variable Rate			
2007 ALCo	5/31/2007	\$ 25,210	\$ 17,195	11/1/2017	3.839%	67% 3M LIBOR +.4%	\$ (1,582)	\$ (1,326)	\$ 256
2007 ALCo	5/31/2007	71,310	68,410	11/1/2021	4.042%	67% 3M LIBOR +.52%	(9,249)	(8,154)	1,095
2007 ALCo	5/31/2007	70,935	70,935	11/1/2025	4.125%	67% 3M LIBOR +.55%	(12,210)	(10,301)	1,909
2007 ALCo	5/31/2007	75,625	65,515	11/1/2025	4.066%	67% 3M LIBOR +.53%	(9,193)	(7,755)	1,438
Total		\$ 243,080	\$ 222,055 **				\$ (32,234)	\$ (27,536)	\$ 4,698 *

\* The Change in Fair Value is classified as Deferred Outflow of Resources on the Statement Of Net Assets

\*\* The Total Outstanding Notional Amount equals the outstanding note liability which is classified as a liability on the Statement of Net Assets

**Governmental Activities  
Future debt service requirements for aggregated ALCo Notes Associated with Interest Rate Swaps at  
June 30, 2011, are as follows  
(Expressed in Thousands)**

Year Ending June 30	Principal	Interest	Net Swap Payments	Totals
2012	\$ 5,580	\$ 2,098	\$ 6,806	\$ 14,484
2013	5,810	2,078	6,606	14,494
2014	6,045	2,030	6,412	14,487
2015	6,295	1,986	6,211	14,492
2016	6,545	1,729	6,343	14,617
2017-2021	74,285	32,386	1,498	108,169
2022-2026	107,245	13,230	2,200	122,675
2027-2031	10,250	421	208	10,879
Total	\$ 222,055	\$ 55,958	\$ 36,284	\$ 314,297

Note 16

**COMMITMENTS AND CONTINGENCIES**

**Litigation** - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities, may impair future revenue sources, or may require the refund of prior collections. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the Commonwealth.

**Judgments and Contingencies** – A claim is a suit that has been filed but there has been no decision rendered by the court systems. Amounts reported include claims made against the Commonwealth during the period preceding June 30 of the current fiscal year. Claims are classified according to their chance of occurrence as either remote, possible, or probable. Claims are further classified as payable within one year, within future periods, or a combination of the two periods.

A judgment is any amount that is to be repaid as the result of a court decision or an award for the condemnation of private property. Reasons for such amounts also arise from employment, contracts, and government involvement of personnel or property. The General Fund, the Agency Revenue Fund, the Transportation Fund, and the State Parks Fund generally pay claims and judgments. These amounts are classified as either payable within one year, in future periods, or a combination of the two periods if they remain unpaid after June 30 of the current fiscal year.

**Federal Grants** - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

**Leases** - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice

to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business, similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2011 and 2010 amounted to \$137.7 million and \$124.2 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

**Compensated Absences** – Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2011, the estimated liability for annual and compensatory leave was \$223,519,000 for the governmental activities, and \$8,748,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$20,581,000 at June 30, 2011.

**Sick Leave** - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2011. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$331,155,733 and \$11,179,150, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 2011, had contractual commitments of approximately \$1,183,375,605 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 17 percent State funds, 67 percent Federal funds, and the remaining 16 percent with proceeds from the sale of revenue bonds.

**Deferred Revenue** – Deferred revenue may result from the recognition of assets before the earnings process is complete (unearned revenue), or if using the modified accrual basis of accounting, deferred revenue may represent unavailable revenues. “Unavailable” means that the assets are not available to finance expenditures of the current fiscal period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

<b>Note 17</b>
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**SUBSEQUENT EVENTS**

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2011, and prior to December 17, 2011, and reported other subsequent events for the same period, as described below.

**The State Property and Buildings Commission** issued \$367,295,000 Project No. 100 Revenue Bonds, dated July 7, 2011. These bonds consist of: \$354,635,000 Series A serial bonds maturing August 1, 2014 through August 1, 2031 and carrying interest rates of 2.00% to 5.00% and \$12,660,000 Series B ( Federally Taxable ) serial bonds maturing August 1, 2013 and carrying an interest rate of 1.270%. The bonds will be used to refund certain outstanding bonds of the Commission, to refund certain outstanding notes of the Kentucky Asset/Liability Commission and fund various projects for State agencies and component units.

\$73,905,000 Project No. 101 Revenue Refunding Bonds, dated November 1, 2011, was issued. These Bonds mature October 1, 2012 through October 1, 2020 carrying interest rates of 2.00% to 5.00%. The bonds will be used to refund certain outstanding bonds of the Commission and to refund certain outstanding bonds of the Kentucky Infrastructure Authority.

\$43,700,000 Project No. 73-4 (Taxable Fourth Series), Road Fund Revenue Bonds, dated November 15, 2011, was issued. These bonds mature November 1, 2012 through November 1, 2021 carrying interest rates of .950% to 3.909%. The net proceeds will be used to refund certain of the Commission's outstanding Road Fund Revenue Bonds.

**Murray State University** issued \$27,935,000 General Receipts and Refunding Bonds, dated July 26, 2011. The bonds consist of \$7,645,000 2011 Series A bonds consisting of serial bonds in the amount of \$6,825,000 maturing September 1, 2012 through September 1, 2031 and carrying interest rates of 2.000% to 4.500% and term bonds of \$820,000 maturing September 1, 2025 and carrying an interest rate of 4.00%, \$4,670,000 refunding 2011 Series B bonds consisting of serial bonds in the amount of \$4,460,000 maturing September 1, 2011 through September 1, 2019 carrying interest rates of 2.000% to 3.250% and term bonds in the amount of \$210,000 maturing September 1, 2021 carrying an interest rate of 3.750% and \$15,620,000 refunding 2011 Series C bonds consisting of serial bonds in the amount of \$13,740,000 maturing September 1, 2011 through September 1, 2027 carrying interest rates of 2.00% to 4.00% and term bonds in the amount of \$1,880,000 maturing on September 1, 2025 carrying an interest rate of 4.00%. The proceeds of the bond will be used for renovation of Elizabeth Hall and to refund certain outstanding Murray State University Bonds.

**Morehead State University** issued \$5,090,000 General Receipts Bonds, 2011 Series A dated July 25, 2011. These bonds consist of \$2,845,000 Series A serial bonds maturing November 1, 2012 through November 1, 2023 carrying interest rates of 2.000% to 3.625%; \$585,000 Series A Term Bonds due November 1, 2025 carrying an interest rate of 4.00%; \$625,000 Series A Term Bonds due November 1, 2027 carrying an interest rate of 4.00% and \$1,035,000 Series A Term Bonds due November 1, 2030 carrying an interest rate of 4.125%. The net proceeds will be used to renovate East Mignon Residence Hall.

**Northern Kentucky University** issued \$9,290,000 General Receipts Bonds, 2011 Series A, dated August 4, 2011. These bonds consist of \$8,040,000 Series A serial bonds maturing September 1, 2013 through September 1, 2030 carrying interest rates of 2.00% to 4.00% and \$1,250,000 Series A Term Bonds due September 1, 2028 carrying an interest rate of 4.00%. The net proceeds of the bonds will be used to finance the acquisition of two radio licenses and equipment that will significantly expand the broadcast area of the University's current public radio station and to acquire property in accordance with the land acquisition plan that was approved by the University's Board of Regents in March 2009.

**University of Louisville** issued \$33,790,000 General Receipts Bonds, 2011 Series A, dated August 24, 2011. These Bonds mature September 1, 2012 through September 1, 2031 carrying interest rates of 3.00% to 5.00%. The net proceeds of the bonds will be used to finance the acquisition, construction, installation and equipping of an approximately 128,700 square foot student recreation center.

**Western Kentucky University** issued \$6,905,000 General Receipts Refunding Bonds, dated November 15, 2011. These Bonds mature May 1, 2012 through May 1, 2023 carrying interest rates of 2.00% to 3.00%. The net proceeds of the bonds will be used by the University to refund all the University's outstanding Consolidated Educational Buildings Revenue Bonds, Series P.

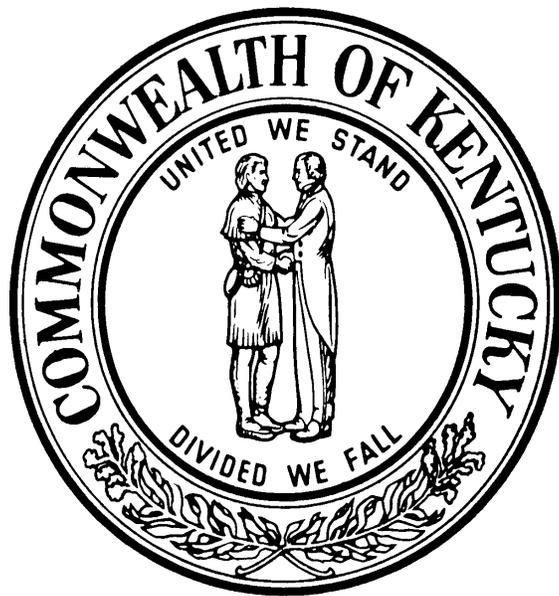
**Eastern Kentucky University** issued \$21,480,000 General Receipts Bonds, 2011 Series A dated December 8, 2011. These bonds consist of \$13,480,000 Series A serial bonds maturing October 1, 2012 through October 1, 2025 carrying interest rates of 2.00% to 3.50%; \$2,460,000 Series A Term Bonds due October 1, 2027 carrying an interest rate of 4.00%; \$2,660,000 Series A Term Bonds due October 1, 2029 carrying an interest rate of 4.00% and \$2,880,000 Series A Term Bonds due October 1, 2031 carrying an interest rate of 4.00%. The net proceeds will be used to construct new student housing, which will consist of an 83,000 square foot suite style facility located on the University's main campus.

**School Facilities Construction Commission** administers the Commonwealth's participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2011, and maturing as to principal through 2031 as displayed in the table on page 112.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2011**

**KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

<u>School District</u>	<u>Delivery Date</u>	<u>Principal at Issue</u>	<u>State Share</u>	<u>Interest Rates (%)</u>
Ashland Independent	07/19/11	\$ 720,000	\$ 720,000	3.750%-3.750%
Butler County	12/01/11	5,640,000	4,785,863	1.000%-2.750%
Bourbon County	10/20/11	3,940,000	387,701	.750%-3.625%
Campbell County	08/10/11	17,200,000	6,284,177	2.000%-4.375%
Carlisle County	10/27/11	4,010,000	1,631,545	4.600%-4.600%
Corbin Independent	09/30/11	5,000,000	3,199,428	4.350%-4.350%
Corbin Independent	11/01/11	396,000	389,289	1.750%-1.750%
Danville Independent	11/10/11	108,990	108,990	1.500%-4.300%
Elizabethtown Independent	11/15/11	4,625,000	396,049	1.500%-2.600%
Fleming County	11/09/11	11,918,000	2,888,709	4.650%-4.650%
Graves County	10/06/11	10,965,000	827,286	2.000%-3.125%
Greenup County	11/29/11	2,325,000	479,062	1.100%-2.625%
Hancock County	07/13/11	675,000	675,000	3.750%-3.750%
Hart County	11/01/11	2,760,000	227,489	.750%-2.500%
Hickman County	11/10/11	396,465	147,173	1.500%-4.300%
Jackson County	07/19/11	11,900,000	1,671,117	5.000%-5.000%
Laurel County	12/01/11	9,425,000	486,830	1.000%-2.800%
Letcher County	11/01/11	2,130,000	2,130,000	1.000%-3.125%
Marshall County	11/30/11	9,590,000	328,885	2.000%-2.625%
Meade County	10/01/11	590,000	590,000	1.900%-1.900%
Metcalfe County	12/14/11	11,153,000	3,871,321	4.650%-4.650%
Montgomery County	11/01/11	8,260,000	513,912	1.700%-3.800%
Muhlenberg County	10/20/11	6,560,000	800,082	1.250%-3.850%
Nelson County	11/02/11	8,670,000	2,102,623	.750%-4.000%
Pike County	11/30/11	11,000,000	9,426,923	4.620%-4.620%
Robertson County	09/13/11	18,380,000	16,962,942	4.500%-4.500%
Rowan County	11/15/11	5,915,000	2,187,755	1.000%-3.800%
Science Hill Independent	10/27/11	490,000	8,557	.700%-1.700%
Shelby County	11/22/11	9,620,000	1,617,068	.700%-2.800%
Spencer County	12/01/11	9,740,000	778,757	1.000%-2.625%
Warren County	11/17/11	5,870,000	330,758	1.500%-2.625%
Wayne County	09/27/11	2,377,000	2,377,000	1.500%-3.500%
		<u>\$ 202,349,455</u>	<u>\$ 69,332,291</u>	



**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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**Audited financial statements may be requested at the following addresses:**

Bluegrass State Skills Corporation  
Capital Plaza Tower  
500 Mero Street  
Frankfort, Kentucky 40601

Kentucky State University  
Office of Administrative Affairs  
400 East Main Street  
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky  
Room 78, Capitol Annex Building  
Frankfort, Kentucky 40601

Kentucky Lottery Corporation  
1011 West Main Street  
Louisville, Kentucky 40202-2623

Kentucky Transportation Cabinet  
200 Mero Street  
Frankfort, Kentucky 40622

Kentucky State Fair Board  
Kentucky Fair and Exposition Center  
P.O. Box 37130  
Louisville, Kentucky 40233-7130

Kentucky Center for the Arts  
5 Riverfront Plaza  
Louisville, Kentucky 40202-2989

Kentucky Educational Television  
600 Cooper Drive  
Lexington, Kentucky 40502

Kentucky Economic Development Finance Authority  
Capital Plaza Tower  
500 Mero Street  
Frankfort, Kentucky 40601

Kentucky Higher Education Assistance Authority  
1050 U.S. 127 South, Suite 102  
Frankfort, Kentucky 40601

Kentucky Housing Corporation  
1231 Louisville Road  
Frankfort, Kentucky 40601

Kentucky Higher Education Student Loan Corporation  
Financial Services Department  
10180 Linn Station Road, Suite C200  
Louisville, KY 40223

Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority  
1024 Capital Center Dr., Suite 340  
Frankfort, Kentucky 40601

Kentucky Teachers' Retirement System  
479 Versailles Road  
Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority  
Suite 261 Capitol Annex  
Frankfort, Kentucky 40601

University of Louisville  
2301 South 3rd Street  
108 Grawemeyer Hall  
Louisville, Kentucky 40292

Kentucky Judicial Form Retirement System  
P.O. Box 791  
Frankfort, Kentucky 40602

Western Kentucky University  
Vice President for Finance and Administration  
1 Big Red Way  
Bowling Green, Kentucky 42101-3576

Kentucky Horse Park  
4089 Iron Works Parkway  
Lexington, Kentucky 40511

Murray State University  
322 Sparks Hall  
Murray, Kentucky 42071

University of Kentucky  
301 Peterson Service Building  
Lexington, Kentucky 40506-0005

Eastern Kentucky University  
Vice President for Business Affairs  
521 Lancaster Avenue  
Richmond, Kentucky 40475-3101

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2011**

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Morehead State University  
Office of Accounting and Budgetary Control  
207 Howell-McDowell Administration Building  
Morehead, Kentucky 40351-1689

Kentucky Horse Park Foundation  
4089 Iron Works Parkway  
Lexington, Kentucky 40511

Northern Kentucky University  
Office of Business Affairs  
Lucas Administration Center  
726 Nunn Drive  
Highland Heights, Kentucky 41099-8101

Office of Public Employees Health Insurance  
State Office Building, 2<sup>nd</sup> Floor  
501 High Street  
Frankfort, KY 40601

Kentucky Community and Technical College System  
300 North Main Street  
Versailles, KY 40383

Kentucky River Authority  
70 Wilkinson Boulevard  
Frankfort, Kentucky 40601

Council on Postsecondary Education  
1024 Capital Center Drive, Suite 320  
Frankfort, Kentucky 40601

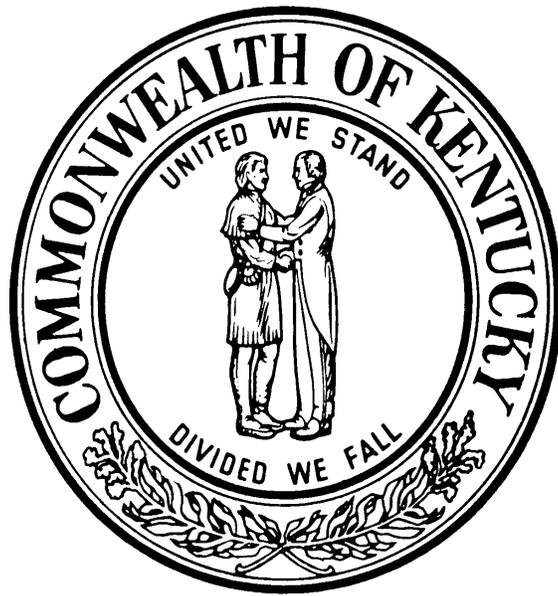
Office of the Petroleum Storage Tank  
Environmental Assurance Fund  
81 C. Michael Davenport Boulevard  
Frankfort, KY 40601

Kentucky Artisan Center at Berea  
P.O. Box 280  
Berea, KY 40403

Kentucky Public Employees'  
Deferred Compensation Authority  
101 Sea Hero Road, Suite 110  
Frankfort, KY 40601-5404

Workers' Compensation Program  
State Office Building, 3<sup>rd</sup> Floor  
501 High Street  
Frankfort, KY 40601

Kentucky Department of Labor – Special Fund  
1047 US Highway 127 S, Suite 4  
Frankfort, KY 40601



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

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**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 8,218,137	\$ 8,240,537	\$ 8,422,658	\$ 182,121
Licenses, fees, and permits	32,815	32,815	37,641	4,826
Intergovernmental	13,537	13,537	13,284	(253)
Charges for services	5,946	5,946	9,004	3,058
Fines and forfeits	58,248	58,248	44,767	(13,481)
Interest and other investment income			768	768
Lottery proceeds	205,400	205,400	200,500	(4,900)
Other revenues	36,857	36,857	30,816	(6,041)
Tobacco Settlement	111,310	111,310	99,821	(11,489)
Subtotal of Budgeted Revenues	<u>8,682,250</u>	<u>8,704,650</u>	<u>8,859,259</u>	<u>154,609</u>
<b>Other Budgeted Financial Resources:</b>				
Transfers in (interfund)		128,929	125,110	(3,819)
Total Budgeted Revenues	<u>8,682,250</u>	<u>8,833,579</u>	<u>8,984,369</u>	<u>150,790</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor	6,078	6,296	5,516	780
Office of Homeland Security	212	227	210	17
Kentucky Infrastructure Authority	2,430	2,464	1,524	940
Department of Veterans Affairs	16,651	17,308	16,847	461
Office of State Budget Director	3,175	3,450	3,153	297
State Planning Fund	181			
Unified Prosecutorial System:				
Commonwealth Attorneys	35,628	37,015	36,631	384
County Attorneys	30,548	31,804	31,685	119
Department of Agriculture	17,288	17,783	17,119	664
Office of the Attorney General	10,861	11,309	10,772	537
Auditor of Public Accounts	4,626	4,868	4,632	236
Registry of Election Finance	1,178	1,218	1,180	38
Military Affairs	9,678	22,515	19,460	3,055
Governor's Office for Local Development	8,559	8,758	8,287	471
Local Government:				
Economic Assistance Fund	54,422	64,152	64,151	1
Economic Development Fund	39,313	60,643	60,643	
Area Development Fund	570	570	561	9
Secretary of State	1,771	1,851	1,736	115
Secretary of Treasury	1,646	1,713	1,632	81
Board of Elections	3,930	3,966	3,926	40
School Facilities Construction Commission	101,433	93,644	93,296	348
Executive Branch Ethics Commission	452	467	460	7
Commission on Human Rights	1,722	1,779	1,725	54
Commission on Women	212	223	213	10
Council on Postsecondary Education	51,676	51,825	47,028	4,797
<b>Personnel:</b>				
General Operations	2,879	2,879		2,879
State Salary Compensation Fund	35,000			
State Group Health Insurance	1,741	1,741	1,624	117

	Original	Final	Actual	Variance
<b>Universities:</b>				
Eastern Kentucky University	\$ 68,865	\$ 70,263	\$ 70,263	\$
Kentucky State University	24,881	25,368	25,368	
Morehead State University	42,761	43,609	43,609	
Murray State University	48,920	49,913	49,913	
Northern Kentucky University	50,301	51,270	51,270	
University of Kentucky	290,415	296,284	296,284	
University of Louisville	169,638	172,558	172,558	
Western Kentucky University	74,298	75,796	75,796	
Kentucky Community and Technical College System	195,194	199,157	199,157	
<b>Finance and Administration:</b>				
General Administration & Support	7,127	7,431	6,907	524
Debt Service	311,487	311,487	212,748	98,739
Office of the Controllor	5,929	6,093	5,915	178
Department for Facilities Management	5,713	5,954	5,416	538
Kentucky Higher Education Assistance Authority	192,721	192,721	188,652	4,069
Special Accounts - Tobacco Settlement	114,318	102,830	99,821	3,009
Finance - County Costs	16,825	16,825	16,821	4
Department of Revenue:				
General Operations	74,717	76,592	74,436	2,156
Office of Property Valuation Administrators	34,973	36,598	35,519	1,079
Appropriations Not Otherwise Classified:				
Judgements		2,665	2,661	4
Board of Claims Awards	1,000	825	495	330
Guardian Ad Litem	2,200	11,047	11,047	
Prior Year Claims	450	50		50
Unredeemed Checks Refunded	970	2,540	2,538	2
Involuntary Commitments	60	60	40	20
Blanket Employee Bonds	75	75	60	15
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	2	3	3	
Police and Firemen Life Insurance	309	409	408	1
Attorney General Expense	350	603	603	
Medical Malpractice Liability Insurance Reimbursements	165	165	125	40
<b>Total General Government</b>	<u>2,178,719</u>	<u>2,209,854</u>	<u>2,082,639</u>	<u>127,215</u>
<b>Legislative and Judicial:</b>				
General Assembly	23,749	23,749	15,043	8,706
Legislative Research Commission	37,318	37,318	32,830	4,488
Judicial Retirement System	5,319	5,319	5,291	28
Court of Justice - Court Facility Use	237	237		237
Court of Justice - Operation and Administration	195,422	195,422	195,422	
Court of Justice - Local Facility Support	108,509	108,509	107,290	1,219
<b>Total Legislative and Judicial</b>	<u>370,554</u>	<u>370,554</u>	<u>355,876</u>	<u>14,678</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Commerce:</b>				
<b>Economic Development:</b>				
Office of the Secretary	\$ 13,518	\$ 13,777	\$ 13,026	\$ 751
Financial Incentives	24,137	24,180	6,022	18,158
Business Development	4,730	4,672	3,917	755
<b>Commerce Cabinet: Office of the Secretary</b>				
Kentucky Horse Park	2,762	2,863	2,685	178
Department of Parks	3,328	3,335	3,335	
Department of Travel	29,901	30,220	29,713	507
Berea Artisans Center	3,293	3,410	3,191	219
	301	307	298	9
<b>Total Commerce</b>	<u>81,970</u>	<u>82,764</u>	<u>62,187</u>	<u>20,577</u>
<b>Education:</b>				
General Administration and Program Support	4,418	4,571	4,300	271
Commission on the Deaf and Hard of Hearing	799	819	753	66
Kentucky Heritage Council	769	793	769	24
Kentucky Arts Council	3,076	3,116	3,046	70
Department of Education:				
Support Education Excellence In KY (SEEK)	2,725,530	2,725,361	2,725,361	
Executive Policy and Management	3,102	3,109	1,907	1,202
Bureau of Support Services	41,745	52,739	52,375	364
Learning Results Services	887,490	823,642	816,610	7,032
Kentucky Educational Television	12,228	12,568	12,216	352
Kentucky Historical Society	6,099	6,262	6,099	163
Kentucky Center for the Arts	917	917	903	14
Education Professional Standards Board	7,684	7,739	7,571	168
Libraries and Archives -				
Direct Local Aid	5,591	5,591	5,577	14
General Operations	5,826	6,015	5,834	181
Teachers' Retirement System	219,492	219,492	219,475	17
Workforce Investment:				
Office of the Blind	1,190	1,216	1,185	31
Employment and Training	1,710	1,710	1,063	
Technical Education	25,969	25,857	25,095	762
Vocational Rehabilitation	11,664	11,700	11,472	228
<b>Total Education and Humanities</b>	<u>3,965,299</u>	<u>3,913,217</u>	<u>3,901,611</u>	<u>10,959</u>
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Services	34,505	29,721	28,676	1,045
Department for Community Based Services	315,909	322,302	319,937	2,365
Office of the Inspector General		5,974	5,646	328
Office of Health Policy	497	523	468	55
Department for Aging and Independent Living	42,254	42,362	41,650	712
Department of Income Support	1,376	1,376	1,356	20
Department for Public Health	61,174	61,656	60,319	1,337
Department for Mental Health and Mental Retardation	183,671	184,193	182,877	1,316
Department for Human Support Services	428	54,240	54,216	24
Department for Medicaid Services	36,303	36,508	36,339	169
Medicaid Services Benefits	797,208	961,043	944,686	16,357
Commission for Children With Special Health Care Needs	4,985	5,153	4,985	168
<b>Total Human Resources</b>	<u>1,478,310</u>	<u>1,705,051</u>	<u>1,681,155</u>	<u>23,896</u>

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Justice:</b>				
Office of the Secretary	\$ 11,353	\$ 10,752	\$ 10,230	\$ 522
Department of State Police	55,770	59,580	58,456	1,124
Department of Juvenile Justice	76,468	78,764	77,517	1,247
Department for Public Advocacy	37,571	38,743	38,124	619
Department of Corrections:				
Management	8,606	9,745	8,905	840
Adult Institutions	259,399	257,859	256,445	1,414
Local Jail Allotment	14,322	14,322	14,103	219
Community Services and Local Facilities	144,421	148,796	148,152	644
<b>Total Justice</b>	<u>607,910</u>	<u>618,561</u>	<u>611,932</u>	<u>6,629</u>
<b>Natural Resources and Environmental Protection:</b>				
General Administration & Support	3,462	3,585	3,471	114
Energy Development & Independence	1,463	1,503	1,430	73
Kentucky River Authority	258	267	259	8
Kentucky Nature Preserves Commission	1,041	1,089	1,056	33
Environmental Protection	23,448	24,262	21,496	2,766
Department for Natural Resources	29,878	18,586	18,147	439
Mine Safety and Licensing	4,300	12,760	12,146	614
Surface Mining Reclamation and Enforcement		8,050	7,812	238
<b>Total Natural Resources and Environmental Protection</b>	<u>63,850</u>	<u>70,102</u>	<u>65,817</u>	<u>4,285</u>
<b>Public Protection and Regulation:</b>				
General Administration & Support	265	277	271	6
Board of Claims and Crime Victims Compensation	621	647	641	6
Board of Tax Appeals	384	404	397	7
Kentucky Racing Commission	2,999	3,017	2,894	123
Public Service Commission	13,498	13,819	9,316	4,503
Mine Safety Review Commission		164	159	5
Department of: Alcoholic Beverage Control	803	830	753	77
Housing, Buildings, and Construction	2,182	2,269	2,227	42
Labor:				
Workplace Standards	1,813	1,887	1,744	143
General Administration & Support	3,066	3,220	3,081	139
<b>Total Public Protection and Regulation</b>	<u>25,631</u>	<u>26,534</u>	<u>21,483</u>	<u>5,051</u>
<b>Transportation:</b>				
Highways	282	282		282
Public Transportation	4,830	4,830	4,455	375
<b>Total Transportation</b>	<u>5,112</u>	<u>5,112</u>	<u>4,455</u>	<u>657</u>
Total Expenditures	<u>8,777,355</u>	<u>9,001,749</u>	<u>8,787,155</u>	<u>213,947</u>
Excess of Revenues Over (Under) Expenditures	(95,105)	(168,170)	197,214	365,384
Fund Balance at July 1		(1,907,671)	152,028	
Non-Budgeted Items			(1,885)	
Fund Balance at June 30	<u>\$ (95,105)</u>	<u>\$ (2,075,841)</u>	<u>\$ 347,357</u>	<u>\$</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 1,123,195	\$ 1,123,195	\$ 1,190,617	\$ 67,422
Licenses, fees, and permits	3,453	3,453	132,209	128,756
Intergovernmental	10,320	10,320		(10,320)
Charges for services	127,454	127,454	9,487	(117,967)
Fines and forfeits	3	3	29	26
Interest and other investment income	1,400	1,400	1,998	598
Other revenues			4,359	4,359
Total Budgeted Revenues	<u>1,265,825</u>	<u>1,265,825</u>	<u>1,338,699</u>	<u>72,874</u>
<b>Non-Budgeted:</b>				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Transfers in (interfund)		995	3,178	2,183
Transfers in (intrafund)				
Total Non-Budgeted Revenue		<u>995</u>	<u>3,178</u>	<u>2,183</u>
Total Revenues	<u>1,265,825</u>	<u>1,266,820</u>	<u>1,341,877</u>	<u>75,057</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor				
Office of Homeland Security	250	250	250	
Kentucky Infrastructure Authority				
Office of State Budget Director				
Executive Branch Ethics Commission				
Department of Veterans Affairs				
Unified Prosecutorial System:				
Commonwealth Attorneys				
County Attorneys				
Department of Agriculture				
Office of the Attorney General				
Auditor of Public Accounts				
Military Affairs				
Governor's Office of Agricultural Policy:				
Agricultural Development - Statewide Phase				
Governor's Office for Local Development				
Secretary of State				
Secretary of Treasury	250	250	250	
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Dentistry				
Dietitians and Nutritionists				
Elections				
Embalmers and Funeral Home Directors				
Architects				
Landscape Architects				
Examiners of Psychologists				



**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
	\$	\$	\$	\$
Board of: (Continued)				
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Geologists				
Personnel				
Pharmacy				
Physical Therapists				
Podiatry				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Ky. Board of Investigators				
Massage Therapy				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
<b>Personnel:</b>				
General Operations				
Public Employee Deferred Compensation Authority				
<b>Universities:</b>				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
<b>Finance and Administration:</b>				
General Administration and Support	400	400	400	
Office of the Controller				
The Commonwealth Office of Technology				
Kentucky Higher Education Assistance Authority				
Finance - County Costs				
Kentucky Retirement Systems				
Department of Revenue:				
General Operations	2,325	1,923	1,923	
Office of Property Valuation Administrators		402	402	
Department for Facilities Management				
<b>Total General Government</b>	3,225	3,225	3,225	

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				226	226	217	9
				1,174	1,204	1,172	32
				53	53	36	17
				207	227	201	26
				47	47	43	4
				2,659	2,659	2,489	170
				5,518	5,518	4,896	622
				57	57	50	7
				179	189	184	5
				11	11	7	4
				108	128	116	12
				191	193	188	5
				83	83	58	25
				115	115	99	16
				778	798	775	23
				1,368	1,368	1,305	63
				399	399	391	8
				25	25	24	1
				1,445	1,445	1,124	321
				157	157	142	15
				238	238	206	32
				80	80	54	26
				121	130	128	2
				2,174	2,174	1,610	564
				685	685	477	208
256	276	276					
17,352	17,352	9,909	7,443	8,601	8,601	6,184	2,417
				20,282	25,961	25,193	768
				8,575	8,575	6,752	1,823
4,086	4,086	4,086		218,117	343,117	266,591	76,526
1,479	1,479	1,479		44,192	44,192	32,685	11,507
2,542	2,542	2,542		158,118	158,118	94,592	63,526
2,886	2,886	2,886		111,123	111,123	93,791	17,332
2,988	2,988	2,988		182,040	182,040	136,689	45,351
17,223	17,224	17,224		2,138,925	2,138,925	1,591,217	547,708
10,077	10,077	10,077		786,478	786,478	270,178	516,300
4,411	4,411	4,411		277,389	277,389	195,876	81,513
11,580	11,580	11,580		538,408	539,188	227,143	312,045
31,641	31,741	31,439	302	3,839	3,839	2,429	1,410
				7,028	7,028	6,150	878
50	4,864	1,029	3,835	305	305	197	108
2,471	3,693	3,166	527	22,339	25,739	22,043	3,696
				1,702	1,702	1,414	288
				26,191	26,191	23,932	2,259
	5	4	1	6,109	6,226	5,442	784
				3,701	5,782	5,719	63
513	513	343	170	1,043	1,043	1,043	
401,327	480,986	309,242	171,744	4,695,349	4,838,916	3,119,999	1,718,917

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Legislative and Judicial:</b>				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operation and Administration				
<b>Total Legislative and Judicial</b>				
<b>Commerce:</b>				
<b>Economic Development:</b>				
Office of the Secretary				
Financial Incentives				
Business Development				
<b>Commerce: Office of the Secretary</b>				
Department of Parks				
Department of Travel				
Berea Artisans Center	350	350	350	
Department of Fish and Wildlife Resources				
<b>Total Commerce</b>	350	350	350	
<b>Education:</b>				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
General Administration and Program Support				
Department of Education:				
Support Education Excellence In KY (SEEK)				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Education Professional Standards Board				
Libraries and Archives:				
Direct Local Aid				
General Operations				
Kentucky Teachers' Retirement System				
Workforce Investment:				
Office of the Blind				
Employment and Training				
Technical Education				
Vocational Rehabilitation				
<b>Total Education and Humanities</b>				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	750	750		750
				1,785	1,786		1,786
					167	164	3
5,054	5,260	3,410	1,850	47,781	47,780	32,259	15,521
5,055	5,261	3,410	1,851	50,316	50,483	32,423	18,060
	4,389	2,066	2,323	187	187		187
	98	44	54	1,579	1,579	1,224	355
155	142	74	68	300	300		300
				10,600	10,600	8,591	2,009
					16	11	5
				100	100	45	55
				1,728	1,728	1,686	42
17,311	19,251	15,068	4,183	30,693	33,583	33,177	406
17,466	23,880	17,252	6,628	45,187	48,093	44,734	3,359
				818	818	747	71
91	115	105	10	320	320	195	125
765	952	911	41	274	611	248	363
806	1,026	697	329	154	154	65	89
148	1,998	598	1,400	4,944	5,234	4,894	340
182,486	182,486	182,486					
1,016,067	979,691	692,603	287,088	3,358	3,045		3,045
16,028	228,304	205,159	23,145	2,243	2,556	27	2,529
700	700	252	448	1,151	2,637	1,316	1,321
445	545	174	371	703	703	263	440
304	474	316	158	870	871	614	257
724	724	386	338	896	896	555	341
2,165	3,515	2,189	1,326	1,427	2,103	1,678	425
				11,429	11,429	8,396	3,033
10,519	10,899	8,882	2,017	2,578	2,578	2,031	547
139,022	186,658	160,034	26,624	2,369	2,369	983	1,386
15,154	15,154	11,144	4,010	21,620	21,620	20,661	959
48,618	48,618	39,355	9,263	3,507	3,553	3,535	18
1,434,042	1,661,859	1,305,291	356,568	58,661	61,497	46,208	15,289

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Support	\$	\$	\$	\$
Department for Disability Determination Services				
Department for Community Based Services				
Office of Inspector General				
Office of Health Policy				
Department for Aging and Independent Living				
Department of Income Support				
Department for Public Health				
Department for Mental Health and Mental Retardation				
Department for Medicaid Services				
Medicaid Services Benefits				
Commission for Children with Special Health Care Needs				
Department for Human Support Services				
<b>Total Human Resources</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Justice:</b>				
Office of the Secretary				
Department of State Police	79,800	79,799	79,799	
Department for Public Advocacy				
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Correctional Institutions				
Community Service and Local Facilities				
<b>Total Justice</b>	<u>79,800</u>	<u>79,799</u>	<u>79,799</u>	<u>          </u>
<b>Natural Resources and Environmental Protection:</b>				
General Administration & Support				
Energy Development and Independence				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	300	300	300	
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
<b>Total Natural Resources and   Environmental Protection</b>	<u>300</u>	<u>300</u>	<u>300</u>	<u>          </u>
<b>Public Protection and Regulation:</b>				
Office of the Commissioner				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
Occupations and Professions				
Mine Safety Review Commission				
Department - of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
Labor: Workplace Standards				
General Administration & Support				
<b>Total Public Protection and Regulation</b>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 24,639	\$ 26,039	\$ 25,672	\$ 367	\$ 7,966	\$ 8,766	\$ 8,690	\$ 76
49,437	49,437	45,676	3,761		102	100	2
523,081	593,415	559,519	33,896	137,871	137,871	137,709	162
11,169	11,169	11,118	51	1,255	1,255	1,066	189
	875	252	623	821	821	404	417
20,497	22,030	21,756	274	2,255	4,027	3,484	543
36,932	36,932	33,874	3,058	19,734	19,632	19,549	83
239,986	239,987	193,259	46,728	116,297	116,297	104,294	12,003
40,350	40,350	35,743	4,607	242,538	242,538	230,260	12,278
62,181	64,382	63,279	1,103	24,590	24,590	13,566	11,024
4,363,555	4,732,040	4,667,532	64,508	358,478	389,878	359,640	30,238
4,415	4,415	3,193	1,222	6,972	6,972	6,896	76
3,384	5,584	5,100	484	95	95	20	75
<u>5,379,626</u>	<u>5,826,655</u>	<u>5,665,973</u>	<u>160,682</u>	<u>918,872</u>	<u>952,844</u>	<u>885,678</u>	<u>67,166</u>
17,236	17,236	15,800	1,436	5,729	5,729	4,927	802
35,505	37,505	27,296	10,209	20,032	21,332	18,199	3,133
2,196	2,414	2,266	148	4,020	4,020	3,916	104
15,156	15,156	14,513	643	14,635	14,635	10,131	4,504
206	206	160	46	50,316	50,316	47,456	2,860
275	375	328	47	135	275	146	129
18,464	19,764	19,603	161	5,534	5,584	5,233	351
264	639	470	169	3,557	10,958	6,122	4,836
<u>89,302</u>	<u>93,295</u>	<u>80,436</u>	<u>12,859</u>	<u>103,958</u>	<u>112,849</u>	<u>96,130</u>	<u>16,719</u>
978	1,073	1,037	36	453	778	692	86
36,599	36,599	27,523	9,076	4,066	7,567	2,845	4,722
				4,549	4,549	3,144	1,405
				257	257	195	62
43	66	57	9	242	378	255	123
23,955	26,588	24,817	1,771	34,078	35,806	29,868	5,938
5,795	5,795	4,780	1,015	4,552	4,568	3,489	1,079
631	631	565	66	2,158	3,179	1,631	1,548
10,625	10,626	9,958	668	2,928	3,241	2,518	723
37,572	37,573	26,636	10,937	8,994	8,874	2,939	5,935
<u>116,198</u>	<u>118,951</u>	<u>95,373</u>	<u>23,578</u>	<u>62,277</u>	<u>69,197</u>	<u>47,576</u>	<u>21,621</u>
				4,692	3,654	3,160	494
509	509	486	23	1,759	1,759	1,365	394
				26,140	27,020	19,838	7,182
				138	138	122	16
218	678	564	114	211	211	114	97
					1,149	1,055	94
				6	6	3	3
				4,897	4,897	4,259	638
				3,081	3,081	2,775	306
				9,213	9,671	8,371	1,300
1,150	1,150	1,048	102	14,041	14,166	12,860	1,306
	4,049	2,136	1,913	19,538	19,538	16,800	2,738
3,107	3,665	3,288	377	250	250		250
167	239	217	22	2,522	2,682	2,380	302
<u>5,151</u>	<u>10,290</u>	<u>7,739</u>	<u>2,551</u>	<u>86,488</u>	<u>88,222</u>	<u>73,102</u>	<u>15,120</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Transportation:</b>				
Administration & Support	\$ 68,791	\$ 69,500	\$ 62,344	\$ 7,156
Revenue Sharing	385,682	412,896	296,723	116,173
Air Transportation	10,433	12,401	4,923	7,478
Highways	930,730	938,133	622,850	315,283
Public Transportation				
Vehicle Regulation	22,648	22,648	20,960	1,688
Debt Service	74,747	107,247	97,069	10,178
Transfers to Capital Projects	12,450	12,450	5,797	6,653
BRAC Economic Development Road Bonds				
GARVEE Louisville Bridges Project Bonds				
2005 GARVEE Bond Series				
2005 Ed Bond Series				
<b>Total Transportation</b>	<u>1,505,481</u>	<u>1,575,275</u>	<u>1,110,666</u>	<u>464,609</u>
Total Expenditures	<u>1,589,156</u>	<u>1,658,949</u>	<u>1,194,340</u>	<u>464,609</u>
Excess of Revenues over (under)				
Expenditures	<u>(323,331)</u>	<u>(392,129)</u>	<u>147,537</u>	<u>539,666</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Trustees				
Proceeds from Issuance of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(323,331)	(392,129)	147,537	539,666
Fund Balances at July 1		(1,476,329)	356,228	
Non-Budgeted Items			(324)	
Fund Balances at June 30	<u>\$ (323,331)</u>	<u>\$ (1,868,458)</u>	<u>\$ 503,441</u>	<u>\$</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				20	20	7	13
					6,441	676	5,765
276	328	82	246	3,157	4,527	3,938	589
1,658,576	1,662,607	667,164	995,443	310,914	84,715	64,250	20,465
64,619	64,619	20,471	44,148	440	440	440	
1,050	5,800	2,051	3,749	14,209	14,208	9,090	5,118
				90,146	90,146	24,821	65,325
					226,199	30,504	195,695
				485,162	69,110	22,227	46,883
					416,052	93,527	322,525
<u>1,724,521</u>	<u>1,733,354</u>	<u>689,768</u>	<u>1,043,586</u>	<u>904,048</u>	<u>911,858</u>	<u>249,480</u>	<u>662,378</u>
<u>9,172,688</u>	<u>9,954,531</u>	<u>8,174,484</u>	<u>1,780,047</u>	<u>6,925,156</u>	<u>7,133,959</u>	<u>4,595,330</u>	<u>2,538,629</u>
		51,218				2,979,268	
						387	
						56,000	
						56,387	
		51,218				3,035,655	
		199,623				1,547,447	
		(16,731)				(3,124,548)	
<u>\$</u>	<u>\$</u>	<u>\$ 234,110</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,458,554</u>	<u>\$</u>

## Budgetary Reporting

The Commonwealth of Kentucky requires that each branch of government prepare and submit a recommended budget to the General Assembly for each of the two fiscal years to be included in a biennial budget. These budgets are prepared principally on the cash basis. The General Assembly reviews these budget requests, makes any necessary revisions, and legally adopts a biennial budget for each of the three branches of government. The Governor has the power to approve or veto each bill, or to make line-item vetoes, subject to legislative override.

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose.

Budgetary control is maintained at the budget unit level as designated by the budget bills enacted by the General Assembly (i.e., function, major program area, program, or unit of organization).

Appropriations for the General Fund and Road Fund shall be based upon revenue estimates prepared by the Consensus Forecasting Group and modifications made by the appropriations committee of the General Assembly. Official revenue estimates are not made for the other budgetary funds.

The Major Governmental funds, which have legally adopted annual budgets as part of the primary government, include the following: General, Transportation, Federal, and Agency Revenue.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except when the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a budget bill or for expenditure for any other purpose not contemplated in a budget bill. However, appropriations for budgetary funds other than the General Fund and the Transportation Fund may be amended upon approval by the State Budget Director and the Secretary of the Finance and Administration Cabinet.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts reported in the Capital Projects Fund and Transportation Fund are reported as restricted fund balance. All other encumbered and unencumbered appropriations lapse at the end of each fiscal year. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in the notes to the Required Supplemental Information section as follows.

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2011**

**Budgetary Basis vs. GAAP**

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2011, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Financial statement funds (same as budgetary funds)	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
Fund balance				
June 30, 2011:				
Budgetary basis	\$ 347,357	\$ 503,441	\$ 234,110	\$ 1,458,554
Adjustments:				
Accrued revenues	330,093	124,513	651,370	61,699
Accrued expenditures	(288,969)	(95,121)	(585,561)	(35,636)
Accrued transfers (net)	(17,782)		(52,225)	52,225
Total Accruals (1)	<u>23,342</u>	<u>29,392</u>	<u>13,584</u>	<u>78,288</u>
Reclassifications and other adjustments:				
Inventory balances (1)	6,099	46,302	121	2,607
To reclassify financial and other resources into financial statement fund types (2)	5,239	(401)	(149,278)	(1,026,011)
To record financial resources available as non-budgeted funds (3)	<u>(69,000)</u>			<u>18,526</u>
Fund Balance				
Fund balance June 30, 2011:				
GAAP Basis	<u>\$ 313,037</u>	<u>\$ 578,734</u>	<u>\$ 98,537</u>	<u>\$ 531,964</u>

- (1) Basis differences
- (2) Perspective differences
- (3) Entity differences

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2011**

**Infrastructure Assets Reported Using the Modified Approach**

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include approximately 63,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth is responsible to maintain.

In order to utilize the modified approach, the Commonwealth 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 Commonwealth.
- Document that the assets are being preserved approximately at, or above, the established condition level.

**Pavements**

Measurement Scale

The Kentucky Transportation Cabinet (KYTC) uses numerous methods to determine the condition of roadway pavements; however, the Pavement Condition Index (PCI) serves as KYTC’s primary method 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:

<u>Condition</u>	<u>PCI</u>
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 Commonwealth assesses pavement condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Good”, “Fair”, and “Poor” for the past five years.

<u>Condition</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Good	62.4%	62.8%	60.7%	58.9%	51.9%
Fair	22.6%	19.5%	24.8%	26.1%	32.9%
Poor	15.0%	17.7%	14.5%	15.0%	15.2%

**Bridges**

Measurement Scale

KYTC maintains information on its 8,933 bridges in compliance with the National Bridge Inspection guidelines established by the Federal Highway Administration. KYTC inspects all bridges at least once every two years and the condition 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.
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.

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2011**

<u>Assessed Conditions</u>	<u>Fiscal Year 2007:</u>			
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:	Estimated	\$ 700.0	\$ 120.0	\$ 820.0
	Actual	\$ 817.4	\$ 114.1	\$ 931.5
	<u>Fiscal Year 2006:</u>			
	Estimated	\$ 690.0	\$ 110.0	\$ 800.0
	Actual	\$ 734.5	\$ 64.5	\$ 799.0

<u>Calendar Year</u>	<u>Structurally Deficient</u>	<u>Deck Area</u>
		<u>Structurally Deficient</u>
2010	7.0%	6.5%
2009	7.4%	7.3%
2008	7.6%	8.7%
2007	6.1%	7.6%
2006	6.1%	8.2%

**Estimated and Actual Costs to Maintain**

The following table presents the Commonwealth'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 six fiscal years (in millions):

	<u>Roadways</u>	<u>Bridges</u>	<u>Total</u>
<u>Fiscal Year 2012:</u>			
Estimated	\$ 839.2	\$ 103.1	\$ 942.3
<u>Fiscal Year 2011:</u>			
Estimated	\$ 872.3	\$ 108.9	\$ 981.2
Actual	\$ 820.9	\$ 102.4	\$ 923.3
<u>Fiscal Year 2010:</u>			
Estimated	\$ 809.4	\$ 103.1	\$ 912.5
Actual	\$ 806.6	\$ 97.6	\$ 904.2
<u>Fiscal Year 2009:</u>			
Estimated	\$ 929.0	\$ 150.0	\$ 1,079.0
Actual	\$ 846.4	\$ 64.1	\$ 910.5
<u>Fiscal Year 2008:</u>			
Estimated	\$ 707.8	\$ 181.5	\$ 889.3
Actual	\$ 840.1	\$ 155.0	\$ 995.1

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
ENTITY RISK POOLS  
CLAIMS DEVELOPMENT INFORMATION  
FOR THE LAST TEN YEARS  
(Expressed in Thousands)**

**State Workers' Compensation Program**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Earned Premiums	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812	\$ 23,395	\$ 24,293	\$ 21,764	\$ 23,666	\$ 22,094
Administrative Expense	545	777	480	385	1,149	1,127	1,070	1,094	936	1,031
Incurred Claims as Originally Estimated	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006	19,084	20,372
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,846	3,733	3,656	4,520	4,131	4,898	4,078	4,907	4,613	5,497
One Year Later	7,320	7,449	7,225	7,233	7,862	8,716	7,585	8,252	8,675	
Two Years Later	9,260	9,330	8,596	9,347	9,632	10,947	9,316	9,328		
Three Years Later	10,414	10,627	10,008	10,424	10,873	12,259	10,364			
Four Years Later	11,236	11,432	10,921	11,209	11,609	12,981				
Five Years Later	11,990	12,182	11,842	11,798	12,126					
Six Years Later	12,717	12,883	12,644	12,334						
Seven Years Later	13,247	13,401	13,403							
Eight Years Later	13,757	13,851								
Nine Years Later	14,283									
Re-estimation of Incurred Claims:										
End of Fiscal Year	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006	19,084	20,372
One Year Later	20,172	20,514	19,209	18,824	17,769	19,152	17,770	19,270	20,373	
Two Years Later	18,805	19,888	18,694	17,659	17,758	20,192	17,851	18,313		
Three Years Later	19,198	19,894	18,682	17,753	18,338	20,618	18,483			
Four Years Later	19,546	19,442	18,446	18,502	18,755	21,460				
Five Years Later	19,233	19,685	18,946	18,717	19,417					
Six Years Later	19,450	20,487	19,282	18,937						
Seven Years Later	20,004	20,350	19,970							
Eight Years Later	20,129	20,783								
Nine Years Later	20,592									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	1,091	(559)	(350)	(1,963)	(76)	3,300	1,717	(2,693)	1,290	

SOURCE: Compilation Report

**Kentucky Public Employees Health Plan**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Earned Premiums	\$ 578,263	\$ 1,091,702	\$ 1,191,248	\$ 1,310,553	\$ 1,466,303	\$ 1,583,371
Administrative Expense	28,998	57,782	68,883	72,836	77,104	81,048
Incurred Claims as Originally Estimated	467,315	1,042,931	1,164,712	1,292,059	1,391,340	1,475,301
Claims Paid (Cumulative) as of:						
End of Fiscal Year	398,456	970,764	1,089,989	1,264,866	1,318,824	1,391,375
One Year Later	473,766	1,035,700	1,173,449	1,290,727	1,399,923	
Two Years Later	473,046	1,043,837	1,173,366	1,289,633		
Three Years Later	475,709	1,043,442	1,169,819			
Four Years Later	475,656	1,043,442				
Five Years Later	475,656					
Re-estimation of Incurred Claims:						
End of Fiscal Year	467,315	1,042,931	1,164,712	1,292,059	1,391,340	1,475,301
One Year Later	473,872	1,035,976	1,173,890	1,289,389	1,398,877	
Two Years Later	473,046	1,043,923	1,173,323	1,289,628		
Three Years Later	475,715	1,043,442	1,169,814			
Four Years Later	475,656	1,043,442				
Five Years Later	475,656					
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	8,341	511	5,101	(2,431)	7,537	

SOURCE: Audited Financial Statements

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## **OTHER SUPPLEMENTARY INFORMATION**

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**COMBINING AND INDIVIDUAL FUND STATEMENTS AND  
SCHEDULES - NON-MAJOR FUNDS**

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## NON-MAJOR GOVERNMENTAL FUNDS

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### **Debt Service Fund**

**Turnpike Authority of Kentucky** - accounts for and reports financial resources which are restricted, committed, or assigned for the payment of principal, interest, and administrative fees due on debt issued to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

**The Kentucky School Facilities Construction Commission** - accounts for and reports financial resources which are restricted, committed, or assigned for the payment of the Commonwealth's portion of principal, interest, and administrative fees due on debt issued by local school districts for school construction.

### **Special Revenue Funds**

The **Other Special Revenue Fund** - accounts for and reports specific taxes, fees, and charges that are restricted or committed to expenditures for a particular function or activity, but not usually appropriated by the General Assembly.

The **Turnpike Authority of Kentucky** – accounts for and reports specific resources which are restricted, committed, or assigned. The Authority was created to issue debt, which is used to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

**The Kentucky School Facilities Construction Commission** - accounts for and reports specific resources which are restricted, committed, or assigned. This fund was established to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that ensures an equitable distribution of funds based upon unmet needs.

The **Special Benefits Fund** - accounts for other fiduciary monies that will be expended for designated operations.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Debt Service Funds</b>		
	<b>Turnpike Authority of Kentucky</b>	<b>Kentucky School Facilities Construction Commission</b>	<b>Other Special Revenue</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 76,354	\$	\$ 24,137
Investments, net of amortization	10,426		157,220
Invested security collateral			43,116
Receivables, net			36,305
Notes receivable			644
Interfund receivables	63,843		2,776
Interfund loan receivable			6,314
Inventories			48
Total Assets	<u>\$ 150,623</u>	<u>\$</u>	<u>\$ 270,560</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 1,803	\$	\$ 1,663
Interfund payables	63,843		7,494
Obligations under securities lending			43,116
Deferred revenue			19,192
Total Liabilities	<u>65,646</u>	<u>\$</u>	<u>71,465</u>
<b>Fund Balances:</b>			
Nonspendable			
Inventories			48
Restricted for:			
General government			26,613
Legislative and judicial			
Commerce			1,993
Education and humanities			21,567
Human resources			89,263
Natural resources and environmental protection			12,408
Public protection and regulation			
Transportation	84,977		1,317
Committed to:			
General government			31,658
Legislative and judicial			48
Education and humanities			189
Human resources			659
Natural resources and environmental protection			
Assigned to:			
General government			13,332
Unassigned			
Total Fund Balances	<u>84,977</u>	<u>\$</u>	<u>199,095</u>
Total Liabilities and Fund Balances	<u>\$ 150,623</u>	<u>\$</u>	<u>\$ 270,560</u>

<b>Special Revenue Funds</b>			
<b>Turnpike Authority of Kentucky</b>	<b>Kentucky School Facilities Construction Commission</b>	<b>Special Benefits</b>	<b>Total Non-Major Governmental Funds</b>
\$ 25,099	\$ 18,706	\$ 147,695	\$ 291,991
162,678	2,236	44,025	376,585
1,958		45,334	88,450
63,843		60,814	99,077
		20,514	644
			150,976
			6,314
			48
<b>\$ 253,578</b>	<b>\$ 20,942</b>	<b>\$ 318,382</b>	<b>\$ 1,014,085</b>
\$ 193	\$ 11	\$ 9,320	\$ 12,990
63,843	1,276	5,274	141,730
		45,334	88,450
		55,846	75,038
<b>64,036</b>	<b>1,287</b>	<b>115,774</b>	<b>318,208</b>
			48
		69,415	96,028
		1,008	1,008
	19,655	3,221	1,993
		5,100	44,443
			94,363
		23,845	36,253
189,542		4,603	4,603
			275,836
		93,377	125,035
			48
		1,517	189
		6,026	2,176
			6,026
			13,332
189,542	19,655	(5,504)	(5,504)
		202,608	695,877
<b>\$ 253,578</b>	<b>\$ 20,942</b>	<b>\$ 318,382</b>	<b>\$ 1,014,085</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Debt Service Funds		
	Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	Other Special Revenue
<b>Revenues</b>			
Taxes	\$	\$	\$ 72,383
Licenses, fees, and permits			640
Intergovernmental			502
Charges for services			80,816
Fines and forfeits			22,953
Interest and other investment income	283		1,161
Increase (decrease) in fair value of investments			(440)
Securities lending income			172
Other revenues	1,890		45,397
Total Revenues	<u>2,173</u>	<u></u>	<u>223,584</u>
<b>Expenditures</b>			
Current:			
General government		89,313	126,394
Commerce			267
Education and humanities			70,104
Human resources			2,330
Justice			
Natural resources and environmental protection			4
Public protection and regulation			
Transportation			
Debt service:			
Principal retirement	82,775	62,959	
Interest and fiscal charges	67,499	31,229	
Other expenditures	175	413	
Securities lending expense			102
Total Expenditures	<u>150,449</u>	<u>183,914</u>	<u>199,201</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(148,276)</u>	<u>(183,914)</u>	<u>24,383</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	101,274	93,004	317,652
Transfers out			(390,946)
Capitalized leases			
Issuance of bonds:			
New issues		89,313	
Refunding issues		27,450	
Premiums			
Discounts		(2,022)	
Payments to refunded bond escrow agent		(23,831)	
Total Other Financing Sources (Uses)	<u>101,274</u>	<u>183,914</u>	<u>(73,294)</u>
Net Change in Fund Balances	(47,002)		(48,911)
Fund Balances at July 1, as Restated	131,979		247,998
Increase (Decrease) in Inventory			8
Fund Balances at June 30	<u>\$ 84,977</u>	<u>\$</u>	<u>\$ 199,095</u>

<b>Special Revenue Funds</b>			
<b>Turnpike Authority of Kentucky</b>	<b>Kentucky School Facilities Construction Commission</b>	<b>Special Benefits</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$	\$
		30,779	103,162
		2,869	3,509
		143	645
		102,358	183,174
		5,567	28,520
1,242	48	8,433	11,167
	(3)	186	(257)
		181	353
16,663	8,986	147,423	220,359
<u>17,905</u>	<u>9,031</u>	<u>297,939</u>	<u>550,632</u>
127,531		63,205	406,443
		984	1,251
	11,372	12,103	93,579
		23,749	26,079
		1,770	1,770
		3,602	3,606
		66,378	66,378
		62,475	62,475
			145,734
			98,728
			588
		107	209
<u>127,531</u>	<u>11,372</u>	<u>234,373</u>	<u>906,840</u>
<u>(109,626)</u>	<u>(2,341)</u>	<u>63,566</u>	<u>(356,208)</u>
97,069	28,733	28,600	666,332
(101,274)	(22,427)	(69,820)	(584,467)
		11	11
56,000			145,313
59,175			86,625
7,057			7,057
(70,320)			(2,022)
<u>47,707</u>	<u>6,306</u>	<u>(41,209)</u>	<u>224,698</u>
(61,919)	3,965	22,357	(131,510)
251,461	15,690	180,251	827,379
<u>\$ 189,542</u>	<u>\$ 19,655</u>	<u>\$ 202,608</u>	<u>\$ 695,877</u>

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## **SCHEDULE OF FUND ACTIVITIES**

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**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES BY SOURCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011  
(Expressed In Thousands)**

Revenues by Source	June 30, 2011
Taxes:	
Sales and gross receipts	\$ 3,714,582
Income:	
Individual	3,457,909
Corporations	314,533
Property	595,880
Coal severance	288,690
Licenses and privileges	10,514
Inheritance and estate	42,432
Miscellaneous	2,454
Total Taxes	<u>8,426,994</u>
Licenses, fees, and permits	33,617
Intergovernmental	14,398
Charges for services	10,596
Fines and forfeits	44,723
Interest and other investment income	1,369
Increase (decrease) in fair value of investments	2,908
Securities lending income	345
Other revenues	25,471
Total Revenues by Source	<u>\$ 8,560,421</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed In Thousands)

	June 30, 2011
<b>General Government:</b>	
Personal services	\$ 246,139
Utilities, rentals, and other services	41,431
Commodities and supplies	23,212
Grants and subsidies	1,262,789
Capital outlay	462
Travel	1,804
Judgments and contingent liabilities	17,651
Other	2,331
Total General Government	<u>1,595,819</u>
<b>Legislative and Judicial:</b>	
Personal services	207,767
Utilities, rentals, and other services	116,693
Commodities and supplies	22,155
Grants and subsidies	6,394
Capital outlay	691
Travel	3,462
Judgments and contingent liabilities	13
Total Legislative and Judicial	<u>357,175</u>
<b>Commerce:</b>	
Personal services	12,144
Utilities, rentals, and other services	1,379
Commodities and supplies	623
Grants and subsidies	14,755
Capital Outlay	112
Travel	115
Total Commerce	<u>29,128</u>
<b>Education and Humanities:</b>	
Personal services	88,633
Utilities, rentals, and other services	25,272
Commodities and supplies	5,216
Grants and subsidies	4,531,939
Capital outlay	160
Travel	1,681
Judgments and contingent liabilities	49
Total Education and Humanities	<u>4,652,950</u>
<b>Human Resources:</b>	
Personal services	199,172
Utilities, rentals, and other services	40,487
Commodities and supplies	5,199
Grants and subsidies	1,410,063
Capital Outlay	2,065
Travel	5,160
Total Human Resources	<u>1,662,146</u>
<b>Justice:</b>	
Personal services	349,529
Utilities, rentals, and other services	41,813
Commodities and supplies	25,108
Grants and subsidies	197,736
Capital outlay	1,108
Travel	2,227
Judgments and contingent liabilities	1,227
Total Justice	<u>618,748</u>

	<b>June 30, 2011</b>
<b>Natural Resources and Environmental Protection:</b>	
Personal services	\$ 59,220
Utilities, rentals, and other services	5,823
Commodities and supplies	2,177
Grants and subsidies	1,807
Capital outlay	259
Travel	240
Total Natural Resources and Environmental Protection	<u>69,526</u>
<b>Public Protection and Regulation:</b>	
Personal services	15,223
Utilities, rentals, and other services	1,418
Commodities and supplies	287
Grants and subsidies	200
Capital outlay	59
Travel	280
Total Public Protection and Regulation	<u>17,467</u>
<b>Transportation:</b>	
Personal services	322
Commodities and supplies	68
Grants and subsidies	7,057
Travel	1
Total Transportation	<u>7,448</u>
Securities Lending Expense	204
Total Expenditures	<u><u>\$ 9,010,611</u></u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE**  
**TRANSPORTATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed In Thousands)

	<b>June 30, 2011</b>
<b>Revenues:</b>	
Taxes	\$ 1,196,053
Licenses, fees and permits	132,478
Charges for services	9,487
Fines and forfeits	29
Interest and other investment income	2,517
Increase (decrease) in fair value of investments	(411)
Securities lending income	479
Other revenues	3,201
Total Revenues	<u>1,343,833</u>
<b>Expenditures:</b>	
Transportation:	
General administration and support	57,077
Motor vehicle regulation	19,201
Justice - state police	80,024
Highways	947,108
Aviation	3,656
Securities lending expense	283
Other	350
Total Expenditures	<u>\$ 1,107,699</u>

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## INTERNAL SERVICE FUNDS

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**Internal Service Funds** account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies. Kentucky uses the following Internal Service Funds:

**Fleet Management Fund** - accounts for expenses incurred and reimbursements received for the management and maintenance of the Commonwealth's motor vehicle fleet.

**Computer Services Fund** - accounts for expenses incurred and reimbursements received for computer and related data processing services.

**Prison Industries Fund** - accounts for expenses incurred and reimbursements received for industrial operations within the correctional system.

**Central Printing Fund** - accounts for expenses incurred and reimbursements received by the Division of Printing.

**Property Management Fund** - accounts for expenses incurred and reimbursements received for space rental and maintenance operations.

**Risk Management Fund** accounts for the self-insurance operations administered by the State which include the following programs:

**Fire and Tornado Insurance Program** - accounts for monies received by the Department of Insurance from State agencies and expended for insuring State property against loss from fires, tornadoes, etc.

**State Workers' Compensation Program** - accounts for monies received by the Personnel Cabinet from State agencies and expended for claims of job related injuries to State employees.

**Transportation Cabinet's Self-Insured Workers' Compensation Trust Program** - provides workers' compensation insurance for the employees of the Transportation Cabinet.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Fleet Management</u>	<u>Computer Services</u>	<u>Prison Industries</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 14,440	\$ 17,349	\$ 926
Receivables, net	98	389	449
Interfunds receivable	193	1,606	334
Inventories	14	331	2,392
Prepaid expenses	914	354	
Total Current Assets	<u>15,659</u>	<u>20,029</u>	<u>4,101</u>
Noncurrent assets:			
Investments, net	3,636	21,118	219
Land			723
Improvements other than buildings			
Buildings		9,498	5,886
Machinery and equipment	72,166	39,247	4,157
Easements and other intangibles		1,675	
Less: Accumulated depreciation	(59,147)	(37,008)	(4,900)
Construction in progress			
Total Capital Assets	<u>13,019</u>	<u>13,412</u>	<u>5,866</u>
Total Noncurrent Assets, Net	<u>16,655</u>	<u>34,530</u>	<u>6,085</u>
Total Assets	<u>32,314</u>	<u>54,559</u>	<u>10,186</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	691	3,230	878
Interfund payables	4	3,659	6
Interfund loans payable			
Claims liability			
Claims adjustment liability			
Capital lease obligations	272	1,089	7
Compensated absences	29	517	72
Deferred revenue		932	
Total Current Liabilities	<u>996</u>	<u>9,427</u>	<u>963</u>
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations		866	
Compensated absences	126	2,482	414
Total Noncurrent Liabilities	<u>126</u>	<u>3,348</u>	<u>414</u>
Total Liabilities	<u>1,122</u>	<u>12,775</u>	<u>1,377</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	12,747	11,457	5,859
Unrestricted	18,445	30,327	2,950
Total Net Assets	<u>\$ 31,192</u>	<u>\$ 41,784</u>	<u>\$ 8,809</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2011
\$ 47	\$ 12,314	\$ 19,095	\$ 64,171
7	2		945
36	240	16	2,425
28		5,143	2,765
<u>118</u>	<u>12,556</u>	<u>24,254</u>	<u>76,717</u>
15	18,189	4,165	47,342
	17,562		18,285
	3,133		3,133
	251,428		266,812
1,749	1,603		118,922
(708)	(151,066)		1,675
	82,425		(252,829)
<u>1,041</u>	<u>205,085</u>		<u>82,425</u>
<u>1,056</u>	<u>223,274</u>	<u>4,165</u>	<u>238,423</u>
<u>1,174</u>	<u>235,830</u>	<u>28,419</u>	<u>285,765</u>
			<u>362,482</u>
81	2,025	189	7,094
458		1	4,128
	2864		2,864
		18,758	18,758
		864	864
287	374		2,029
16	219	70	923
	144	38	1,114
<u>842</u>	<u>5,626</u>	<u>19,920</u>	<u>37,774</u>
		153,514	153,514
		5,028	5,028
553	5,644		7,063
50	853	75	4,000
<u>603</u>	<u>6,497</u>	<u>158,617</u>	<u>169,605</u>
<u>1,445</u>	<u>12,123</u>	<u>178,537</u>	<u>207,379</u>
201	199,067		229,331
(472)	24,640	(150,118)	(74,228)
<u>\$ (271)</u>	<u>\$ 223,707</u>	<u>\$ (150,118)</u>	<u>\$ 155,103</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 29,057	\$ 66,979	\$ 10,829
Other revenues	75	3,124	5
Total Operating Revenues	<u>29,132</u>	<u>70,103</u>	<u>10,834</u>
<b>Operating Expenses:</b>			
Personal services	1,527	44,382	3,909
Utilities, rentals, and other services	1,824	5,685	994
Commodities and supplies	14,092	19,425	5,498
Grants and subsidies			312
Depreciation and amortization	5,579	4,522	409
Travel		40	24
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Total Operating Expenses	<u>23,022</u>	<u>74,054</u>	<u>11,146</u>
Operating Income (Loss)	<u>6,110</u>	<u>(3,951)</u>	<u>(312)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of fixed assets	467	(802)	(302)
Interest and other investment income	264	225	16
Increase (decrease) in fair value of investments			
Interest expense	(88)	(114)	(1)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	<u>643</u>	<u>(691)</u>	<u>(287)</u>
Income (Loss) before Transfers	6,753	(4,642)	(599)
Capital contributions	113		
Transfers in		25,634	
Transfers out	<u>(3,506)</u>	<u>(5,029)</u>	
Change in Net Assets	3,360	15,963	(599)
Net Assets at July 1, as restated	27,832	25,821	9,408
Net Assets at June 30	<u>\$ 31,192</u>	<u>\$ 41,784</u>	<u>\$ 8,809</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2011
\$ 1,610	\$ 35,600	\$ 41,466	\$ 185,541
1,610	1	41,466	3,205
882	15,980	2,599	69,279
427	13,465	5,286	27,681
399	7,786	44	47,244
199	4,974	11	312
	5	962	15,683
		50,723	80
1,907	42,210	(48)	962
(297)	(6,609)	(48)	50,723
		59,577	(48)
		(18,111)	211,916
(5)	(8)		(23,170)
	315	33	(650)
	(299)	279	853
(50)		60	(20)
(55)	8	372	(253)
			60
			(10)
(352)	(6,601)	(17,739)	(23,180)
	16,967		113
	(1,884)	(969)	42,601
(352)	8,482	(18,708)	(11,388)
81	215,225	(131,410)	8,146
\$ (271)	\$ 223,707	\$ (150,118)	\$ 146,957
			\$ 155,103

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$	\$	\$
Cash received from customers - state	28,874	64,990	3,746
Cash payments to suppliers for goods and services	(16,376)	1,387	6,986
Cash payments for employee salaries and benefits	(1,540)	(21,975)	(6,093)
Cash payments for claims expense		(44,513)	(3,998)
Cash payments from other sources	75	3,124	5
Cash payments to other sources			(312)
Net Cash Provided (Used) by Operating Activities	<u>11,033</u>	<u>3,013</u>	<u>334</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds		25,634	
Transfers to other funds	(3,506)	(5,029)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(3,506)</u>	<u>20,605</u>	
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(4,116)	(5,251)	(270)
Principal paid on revenue bond maturities and equipment contracts	(3,191)	(1,020)	(15)
Interest paid on revenue bonds and equipment contracts	(88)	(115)	(1)
Proceeds from the sale of capital assets	439		
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(6,956)</u>	<u>(6,386)</u>	<u>(286)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities		(8,721)	
Proceeds from the sale of investment securities	3,345		207
Interest and dividends on investments	264	225	16
Net Cash Provided (Used) in Investing Activities	<u>3,609</u>	<u>(8,496)</u>	<u>223</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,180	8,736	271
Cash and Cash Equivalents at July 1	10,260	8,613	655
Cash and Cash Equivalents at June 30	<u>\$ 14,440</u>	<u>\$ 17,349</u>	<u>\$ 926</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ 6,110	\$ (3,951)	\$ (312)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	5,579	4,522	409
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(82)	(293)	(41)
Interfund receivables	(100)	(727)	(56)
Inventories	1	(22)	(37)
Prepaid expenses	(902)	169	
Increase (decrease) in liabilities:			
Accounts payable	436	1,262	429
Interfund payables	4	1,726	6
Claims liability			
Claims adjustment liability			
Compensated absences	(13)	(92)	(64)
Deferred revenue		419	
Net Cash Provided by Operating Activities	<u>\$ 11,033</u>	<u>\$ 3,013</u>	<u>\$ 334</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$	\$	\$
Contributions of capital assets	113		
Capital assets acquired through leases		464	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 113</u>	<u>\$ 464</u>	<u>\$</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2011
\$	\$	\$	\$
	228		68,964
1,584	35,282	41,247	115,360
(272)	(17,926)	(5,401)	(68,043)
(901)	(16,057)	(2,613)	(69,622)
		(30,736)	(30,736)
		60	3,264
	1	(1,279)	(1,590)
<u>411</u>	<u>1,528</u>	<u>1,278</u>	<u>17,597</u>
	16,967		42,601
	(1,884)	(969)	(11,388)
	<u>15,083</u>	<u>(969)</u>	<u>31,213</u>
(226)	(2,371)		(12,234)
(247)	(385)		(4,858)
(50)	(299)		(553)
			439
<u>(523)</u>	<u>(3,055)</u>		<u>(17,206)</u>
	(8,138)		(16,859)
57		5,117	8,726
(4)	315	32	848
<u>53</u>	<u>(7,823)</u>	<u>5,149</u>	<u>(7,285)</u>
(59)	5,733	5,458	24,319
106	6,581	13,637	39,852
<u>\$ 47</u>	<u>\$ 12,314</u>	<u>\$ 19,095</u>	<u>\$ 64,171</u>
\$	\$	\$	\$
(297)	(6,609)	(18,111)	(23,170)
199	4,974		15,683
		60	60
(7)	(1)	17	(407)
(19)	(91)	(261)	(1,254)
52		(171)	(6)
			(904)
45	462	63	2,697
458	2,862		5,056
		19,694	19,694
		(48)	(48)
(20)	(72)	(3)	(264)
	3	38	460
<u>\$ 411</u>	<u>\$ 1,528</u>	<u>\$ 1,278</u>	<u>\$ 17,597</u>
\$	\$	\$	\$
	(299)	279	(20)
			113
780			1,244
<u>\$ 780</u>	<u>\$ (299)</u>	<u>\$ 279</u>	<u>\$ 1,337</u>

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## **CAPITAL ASSETS**

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**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE**  
**JUNE 30, 2011**  
(Expressed In Thousands)

	<b>June 30, 2011</b>
<b>Governmental Funds Capital Assets</b>	
Land	\$ 149,948
Improvements other than buildings	13,356
Buildings	1,022,521
Machinery and equipment	480,080
Other intangibles	41,832
Easements	125,277
Construction in progress	1,810,124
Infrastructure	18,669,497
Total Governmental Funds Capital Assets	<b>\$ 22,312,635</b>

<b>Investments in Governmental Funds Capital Assets by Source</b>	
General Fund	\$ 102,666
Special Revenue Funds	2,340,412
Donations	133,185
Other	70,139
Capital Projects Fund:	
State appropriations	46,747
Revenue bonds	472,647
Federal grants	171,298
Other	80,567
Infrastructure (A)	18,669,497
Capital assets acquired prior to July 1, 1984 (A)	151,720
Capital assets acquired after July 1, 1984 (A)	73,757
Total Governmental Funds Capital Assets by Source	<b>\$ 22,312,635</b>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

(A) Capital assets with an undetermined funding source.

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Land</u>	<u>Improvements Other Than Buildings</u>	<u>Buildings</u>
General Government	\$ 28,780	\$ 3,721	\$ 204,517
Legislative & Judicial	42		
Commerce	67,310	3,002	24,605
Education & Humanities	1,317	664	42,903
Human Resources	1,766	696	78,385
Justice	4,597	5,273	486,827
Natural Resources and Environmental Protection	29,233		1,128
Public Protection and Regulation			
Transportation	16,903		184,156
Total Governmental Funds Capital Assets by Function	<u>\$ 149,948</u>	<u>\$ 13,356</u>	<u>\$ 1,022,521</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

<u>Machinery and Equipment</u>	<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2011</u>
\$ 37,469	\$ 36,605	\$ 53,963	\$ 70,325	\$	\$ 435,380
11,295					11,337
27,851			1,033		123,801
40,735		11,824	2,085		99,528
20,536			45,744		147,127
90,088	5,227		7,123		599,135
34,842		10,483	338		76,024
4,184					4,184
213,080		49,007	1,683,476	18,669,497	20,816,119
<u>\$ 480,080</u>	<u>\$ 41,832</u>	<u>\$ 125,277</u>	<u>\$ 1,810,124</u>	<u>\$ 18,669,497</u>	<u>\$ 22,312,635</u>

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>
General Government	\$ 384,584	\$ 73,830	\$ 23,034	\$ 435,380
Legislative & Judicial	10,982	621	266	11,337
Commerce	118,458	6,611	1,268	123,801
Education & Humanities	98,509	5,868	4,849	99,528
Human Resources	108,672	40,722	2,267	147,127
Justice	590,071	107,630	98,566	599,135
Natural Resources and Environmental Protection	74,702	2,342	1,020	76,024
Public Protection and Regulation	4,115	547	478	4,184
Transportation	20,432,838	1,223,761	840,480	20,816,119
Total Governmental Funds Capital Assets by Function	<u>\$ 21,822,931</u>	<u>\$ 1,461,932</u>	<u>\$ 972,228</u>	<u>\$ 22,312,635</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

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# PENSION (AND OTHER POST EMPLOYMENT BENEFIT) TRUST FUNDS

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**Pension (and other post employment benefit) trust funds** account for monies received for and expenses incurred by the various public employee retirement systems administered by the Commonwealth. Kentucky uses the following Pension Trust Funds:

**Kentucky Employees Retirement System (KERS)** accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the System.

**County Employees Retirement System (CERS)** accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

**State Police Retirement System (SPRS)** accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time officers of the Kentucky State Police.

**Kentucky Teachers' Retirement System (KTRS)** accounts for pension and other post employment benefits administered by the System, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

**Judicial Retirement Plan** accounts for pension and other post employment benefits administered by the Plan, which covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

**Legislators' Retirement Plan** accounts for pension and other post employment benefits administered by the Plan, which covers all members of the General Assembly.

**Kentucky Public Employees Deferred Compensation Authority** accounts for the monies withheld from participating employees payroll to be placed in an Internal Revenue Code Section 401 or 457 deferred compensation plan. The amounts are deposited with third party administrators which oversee the investment activities of such monies.

**COMMONWEALTH OF KENTUCKY**  
**COMBINED STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Pension Funds</u>	<u>Insurance Funds</u>	<u>Totals June 30, 2011</u>
<b>Assets</b>			
Cash and Short-Term Investments:			
Cash	\$ 7,608	\$ 2,741	\$ 10,349
Medicare drug deposit		101	101
Short-term investments	1,954,426	903,408	2,857,834
Total Cash and Short-Term Investments	<u>1,962,034</u>	<u>906,250</u>	<u>2,868,284</u>
Receivables:			
Investments - accounts receivable	188,339	11,139	199,478
Interest receivable	817	245	1,062
Accounts receivable	208,133	76,094	284,227
Total Receivables	<u>397,289</u>	<u>87,478</u>	<u>484,767</u>
Investments at Fair Value:			
Corporate and government bonds	5,561,112	855,282	6,416,394
Common stocks	16,765,852	1,710,544	18,476,396
Mortgages	1,432,129	128,957	1,561,086
Mutual funds	2,400,369		2,400,369
Real estate	512,699	2,523	515,222
Total Investments at Fair Value	<u>26,672,161</u>	<u>2,697,306</u>	<u>29,369,467</u>
Invested security collateral	1,880,403	438,877	2,319,280
Capital assets, net	13,531		13,531
Prepaid expenses	40	147	187
Total Assets	<u>30,925,458</u>	<u>4,130,058</u>	<u>35,055,516</u>
<b>Liabilities</b>			
Investments - accounts payable	85,788	15,569	101,357
Accounts payable	6,604	127,593	134,197
Obligations under securities lending	1,880,403	438,877	2,319,280
Total Liabilities	<u>1,972,795</u>	<u>582,039</u>	<u>2,554,834</u>
<b>Net assets held in trust for pension and other post employment benefits</b>	<u>\$ 28,952,663</u>	<u>\$ 3,548,019</u>	<u>\$ 32,500,682</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Pension Funds</u>	<u>Insurance Funds</u>	<u>Totals June 30, 2011</u>
<b>Additions</b>			
Contributions:			
Employer	\$ 1,596,137	\$ 647,333	\$ 2,243,470
Member	778,400	84,611	863,011
Total Contributions	<u>2,374,537</u>	<u>731,944</u>	<u>3,106,481</u>
Other Contributions:			
Recovery Income	518	15,128	15,646
Medicare D Receipts		22,409	22,409
Participant fees	7,514		7,514
Total Other Contributions	<u>8,032</u>	<u>37,537</u>	<u>45,569</u>
Investment Income:			
Net increase (decrease) in fair value of investments	4,346,589	524,399	4,870,988
Interest	520,463	64,973	585,436
Dividends	155,234	831	156,065
Real estate operating income, net	30,611		30,611
Securities lending income, net	10,230	1,891	12,121
Total Investment Income	<u>5,063,127</u>	<u>592,094</u>	<u>5,655,221</u>
Less: Investment expense	83,262	9,088	92,350
Less: Securities lending expense	4,172	565	4,737
Net Investment Income	<u>4,975,693</u>	<u>582,441</u>	<u>5,558,134</u>
Total Additions	<u>7,358,262</u>	<u>1,351,922</u>	<u>8,710,184</u>
<b>Deductions</b>			
Benefit payments	3,133,006	4,120	3,137,126
Refunds	44,878	10	44,888
Administrative expenses	39,649	11,718	51,367
Capital project expense	2,286		2,286
Self funding insurance cost		130,260	130,260
Healthcare premium subsidies		242,818	242,818
Other deductions, net		229,058	229,058
Total Deductions	<u>3,219,819</u>	<u>617,984</u>	<u>3,837,803</u>
<b>Change in Net Assets</b>	<b>4,138,443</b>	<b>733,938</b>	<b>4,872,381</b>
<b>Net Assets Held in Trust</b>			
Net Assets at July 1	24,814,220	2,814,081	27,628,301
Adjustment to net assets			
Net Assets at June 30	<u>\$ 28,952,663</u>	<u>\$ 3,548,019</u>	<u>\$ 32,500,682</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Assets</b>				
Cash and Short-Term Investments:				
Cash	\$ 957	\$ 240	\$ 787	\$ 464
Short-term investments	319,900	68,087	658,095	234,803
Total Cash and Short-Term Investments	<u>320,857</u>	<u>68,327</u>	<u>658,882</u>	<u>235,267</u>
Receivables:				
Investments - accounts receivable	12,091	1,602	18,932	5,711
Interest receivable				
Accounts receivable	34,554	3,955	78,252	20,088
Total Receivables	<u>46,645</u>	<u>5,557</u>	<u>97,184</u>	<u>25,799</u>
Investments at Fair Value:				
Corporate and government bonds	712,185	101,599	1,105,243	391,346
Common stocks	2,223,029	304,194	3,336,538	998,612
Mortgages	230,767	27,790	369,658	104,177
Mutual funds				
Real estate	8,767	3,394	12,958	6,198
Total Investments at Fair Value	<u>3,174,748</u>	<u>436,977</u>	<u>4,824,397</u>	<u>1,500,333</u>
Invested security collateral	521,479	75,427	822,399	259,983
Capital assets, net	3,286	282	5,614	488
Prepaid expenses				
Total Assets	<u>4,067,015</u>	<u>586,570</u>	<u>6,408,476</u>	<u>2,021,870</u>
<b>Liabilities</b>				
Investments - accounts payable				
Accounts payable	1,294	58	2,626	29
Obligations under securities lending	521,479	75,427	822,399	259,983
Total Liabilities	<u>522,773</u>	<u>75,485</u>	<u>825,025</u>	<u>260,012</u>
<b>Net assets held in trust for employee retirement benefits</b>	<u>\$ 3,544,242</u>	<u>\$ 511,085</u>	<u>\$ 5,583,451</u>	<u>\$ 1,761,858</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Kentucky Public Employees' Deferred Compensation Authority</b>	<b>Totals June 30, 2011</b>
\$ 292	\$ 2,079	\$ 252	\$ 172	\$ 2,365	\$ 7,608
28,452	589,161	2,120	1,274	52,534	1,954,426
<u>28,744</u>	<u>591,240</u>	<u>2,372</u>	<u>1,446</u>	<u>54,899</u>	<u>1,962,034</u>
974	148,968	57	4		188,339
1,959	31,685	675	142	37,640	208,133
<u>2,933</u>	<u>180,653</u>	<u>732</u>	<u>146</u>	<u>37,640</u>	<u>397,289</u>
69,296	3,117,121	54,414	9,908		5,561,112
158,903	9,588,077	128,085	28,414		16,765,852
19,061	680,676				1,432,129
	576,528			1,823,841	2,400,369
935	480,447				512,699
<u>248,195</u>	<u>14,442,849</u>	<u>182,499</u>	<u>38,322</u>	<u>1,823,841</u>	<u>26,672,161</u>
41,307	159,808				1,880,403
58	3,803				13,531
	40				40
<u>321,237</u>	<u>15,378,393</u>	<u>185,603</u>	<u>39,914</u>	<u>1,916,380</u>	<u>30,925,458</u>
	85,788				85,788
3	1,221			1,373	6,604
41,307	159,808				1,880,403
<u>41,310</u>	<u>246,817</u>			<u>1,373</u>	<u>1,972,795</u>
<u>\$ 279,927</u>	<u>\$ 15,131,576</u>	<u>\$ 185,603</u>	<u>\$ 39,914</u>	<u>\$ 1,915,007</u>	<u>\$ 28,952,663</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>		<b>County Employees Retirement System</b>	
	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Non-Hazardous</u>	<u>Hazardous</u>
<b>Additions</b>				
Contributions:				
Employer	\$ 185,558	\$ 18,085	\$ 247,968	\$ 84,595
Member	112,320	13,200	148,077	55,075
Total Contributions	<u>297,878</u>	<u>31,285</u>	<u>396,045</u>	<u>139,670</u>
Other Contributions:				
Recovery Income				
Participant fees				
Total Other Contributions				
Investment Income:				
Net increase (decrease) in fair value of investments	521,475	73,813	772,005	252,410
Interest	97,186	11,844	128,434	49,178
Dividends				
Real estate operating income, net				
Securities lending income, net	2,344	342	3,731	1,180
Total Investment Income	<u>621,005</u>	<u>85,999</u>	<u>904,170</u>	<u>302,768</u>
Less: Investment expense	20,172	2,356	15,014	15,560
Less: Securities lending expense	1,041	151	1,643	520
Net Investment Income	<u>599,792</u>	<u>83,492</u>	<u>887,513</u>	<u>286,688</u>
Total Additions	<u>897,670</u>	<u>114,777</u>	<u>1,283,558</u>	<u>426,358</u>
<b>Deductions</b>				
Benefit payments	837,663	44,447	493,139	167,436
Refunds	10,931	2,062	11,817	2,654
Administrative expenses	8,558	721	14,324	1,191
Capital project expense	776	68	1,317	113
Total Deductions	<u>857,928</u>	<u>47,298</u>	<u>520,597</u>	<u>171,394</u>
<b>Change in Net Assets</b>	39,742	67,479	762,961	254,964
<b>Net Assets Held in Trust</b>				
Net Assets at July 1	3,504,500	443,606	4,820,490	1,506,894
Net Assets at June 30	<u>\$ 3,544,242</u>	<u>\$ 511,085</u>	<u>\$ 5,583,451</u>	<u>\$ 1,761,858</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Kentucky Public Employees' Deferred Compensation Authority</b>	<b>Totals June 30, 2011</b>
\$ 11,920	\$ 1,037,996	\$ 4,222	\$ 663	\$ 5,130	\$ 1,596,137
5,256	302,263	1,611	251	140,347	778,400
<u>17,176</u>	<u>1,340,259</u>	<u>5,833</u>	<u>914</u>	<u>145,477</u>	<u>2,374,537</u>
		409	109		518
		<u>409</u>	<u>109</u>	<u>7,514</u>	<u>7,514</u>
				<u>7,514</u>	<u>8,032</u>
38,845	2,398,623	25,417	5,771	258,230	4,346,589
9,907	200,019	2,583	509	20,803	520,463
	152,177	2,475	582		155,234
	30,611				30,611
186	2,447				10,230
<u>48,938</u>	<u>2,783,877</u>	<u>30,475</u>	<u>6,862</u>	<u>279,033</u>	<u>5,063,127</u>
4,116	22,161	187		3,696	83,262
83	734				4,172
<u>44,739</u>	<u>2,760,982</u>	<u>30,288</u>	<u>6,862</u>	<u>275,337</u>	<u>4,975,693</u>
<u>61,915</u>	<u>4,101,241</u>	<u>36,530</u>	<u>7,885</u>	<u>428,328</u>	<u>7,358,262</u>
46,743	1,402,621	21,591	3,046	116,320	3,133,006
58	17,325	21	10		44,878
124	7,324	209	104	7,094	39,649
12					2,286
<u>46,937</u>	<u>1,427,270</u>	<u>21,821</u>	<u>3,160</u>	<u>123,414</u>	<u>3,219,819</u>
14,978	2,673,971	14,709	4,725	304,914	4,138,443
264,949	12,457,605	170,894	35,189	1,610,093	24,814,220
<u>\$ 279,927</u>	<u>\$ 15,131,576</u>	<u>\$ 185,603</u>	<u>\$ 39,914</u>	<u>\$ 1,915,007</u>	<u>\$ 28,952,663</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Assets</b>				
Cash and Short-Term Investments:				
Cash	\$ 943	\$ 98	\$ 922	\$ 29
Medicare drug deposit	20	11	42	23
Short-term investments	90,548	78,770	361,230	199,213
Total Cash and Short-Term Investments	<u>91,511</u>	<u>78,879</u>	<u>362,194</u>	<u>199,265</u>
Receivables:				
Investments - accounts receivable	1,283	961	4,200	2,234
Interest receivable				
Accounts receivable	9,508	922	43,242	17,463
Total Receivables	<u>10,791</u>	<u>1,883</u>	<u>47,442</u>	<u>19,697</u>
Investments at Fair Value:				
Corporate and government bonds	90,134	64,270	297,135	149,868
Common stocks	222,446	162,891	686,126	374,486
Mortgages	14,994	12,480	54,779	29,248
Real estate	476	272	1,080	579
Total Investments at Fair Value	<u>328,050</u>	<u>239,913</u>	<u>1,039,120</u>	<u>554,181</u>
Invested security collateral	60,889	46,353	203,681	109,577
Prepaid expenses				
Total Assets	<u>491,241</u>	<u>367,028</u>	<u>1,652,437</u>	<u>882,720</u>
<b>Liabilities</b>				
Investments - accounts payable				
Accounts payable	1,693	2	1,758	4
Obligations under securities lending	60,889	46,353	203,681	109,577
Total Liabilities	<u>62,582</u>	<u>46,355</u>	<u>205,439</u>	<u>109,581</u>
<b>Net assets held in trust for other post employment benefits</b>	<u>\$ 428,659</u>	<u>\$ 320,673</u>	<u>\$ 1,446,998</u>	<u>\$ 773,139</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Totals June 30, 2011</b>
\$ 24	\$ 562	\$ 59	\$ 104	\$ 2,741
5				101
29,132	143,242	499	774	903,408
29,161	143,804	558	878	906,250
388	2,057	13	3	11,139
591	4,368	159	86	245
979	6,425	172	89	76,094
				87,478
26,094	208,968	12,799	6,014	855,282
66,049	151,170	30,126	17,250	1,710,544
4,946	12,510			128,957
116				2,523
97,205	372,648	42,925	23,264	2,697,306
18,377				438,877
	147			147
145,722	523,024	43,655	24,231	4,130,058
	15,569			15,569
26	124,110			127,593
18,377				438,877
18,403	139,679			582,039
<b>\$ 127,319</b>	<b>\$ 383,345</b>	<b>\$ 43,655</b>	<b>\$ 24,231</b>	<b>\$ 3,548,019</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Additions</b>				
Contributions:				
Employer	\$ 125,847	\$ 19,085	\$ 202,699	\$ 98,520
Member				
Total Contributions	125,847	19,085	202,699	98,520
Other Contributions:				
Recovery Income	13,235	329	994	199
Medicare D Receipts	10,025	365	10,449	972
Total Other Contributions	23,260	694	11,443	1,171
Investment Income:				
Net increase (decrease) in fair value of investments	69,615	40,316	255,384	129,003
Interest	9,092	5,729	21,577	12,501
Dividends				
Securities lending income, net	261	199	879	473
Total Investment Income	78,968	46,244	277,840	141,977
Less: Investment expense	1,665	980	2,834	2,594
Less: Securities lending expense	78	59	263	141
Net Investment Income	77,225	45,205	274,743	139,242
Total Additions	226,332	64,984	488,885	238,933
<b>Deductions</b>				
Benefit payments				
Refunds				
Administrative expenses	4,667	223	4,763	581
Self funding insurance cost	60,019	2,604	60,085	5,651
Healthcare Premiums Subsidies	101,785	12,724	71,859	46,180
Other deductions, net				
Total Deductions	166,471	15,551	136,707	52,412
<b>Change in Net Assets</b>	59,861	49,433	352,178	186,521
<b>Net Assets Held in Trust</b>				
Net Assets at July 1	368,798	271,240	1,094,820	586,618
Net Assets at June 30	\$ 428,659	\$ 320,673	\$ 1,446,998	\$ 773,139

<u>State Police Retirement System</u>	<u>Kentucky Teachers' Retirement System</u>	<u>Judicial Retirement Plan</u>	<u>Legislators' Retirement Plan</u>	<u>Totals June 30, 2011</u>
\$ 10,051	\$ 189,910	\$ 884	\$ 337	\$ 647,333
	84,147	337	127	84,611
<u>10,051</u>	<u>274,057</u>	<u>1,221</u>	<u>464</u>	<u>731,944</u>
18	213	85	55	15,128
318	280			22,409
<u>336</u>	<u>493</u>	<u>85</u>	<u>55</u>	<u>37,537</u>
22,724	(891)	5,321	2,927	524,399
2,909	12,363	541	261	64,973
	18	518	295	831
79				1,891
<u>25,712</u>	<u>11,490</u>	<u>6,380</u>	<u>3,483</u>	<u>592,094</u>
915	61	39		9,088
24				565
<u>24,773</u>	<u>11,429</u>	<u>6,341</u>	<u>3,483</u>	<u>582,441</u>
<u>35,160</u>	<u>285,979</u>	<u>7,647</u>	<u>4,002</u>	<u>1,351,922</u>
	4,120			4,120
		4	6	10
180	1,207	44	53	11,718
1,901				130,260
10,270				242,818
	226,435	1,999	624	229,058
<u>12,351</u>	<u>231,762</u>	<u>2,047</u>	<u>683</u>	<u>617,984</u>
22,809	54,217	5,600	3,319	733,938
104,510	329,128	38,055	20,912	2,814,081
<u>\$ 127,319</u>	<u>\$ 383,345</u>	<u>\$ 43,655</u>	<u>\$ 24,231</u>	<u>\$ 3,548,019</u>

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## AGENCY FUNDS

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**Agency Funds** account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following Agency Funds:

**Commonwealth Choice Program** - accounts for flexible benefits spending accounts.

**County Fees Trust Fund** - accounts for monies held by the Commonwealth for those counties with a population greater than 70,000.

**Special Deposit Trust Fund** - accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Commonwealth Choice Program</u>	<u>County Fees Trust Fund</u>	<u>Special Deposit Trust Fund</u>	<u>Totals June 30, 2011</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 1,915	\$ 195	\$ 241,582	\$ 243,692
Investments, net of amortization			56,207	56,207
Invested security collateral			331,314	331,314
Receivables, net		13,369	35,874	49,243
Total Assets	<u>\$ 1,915</u>	<u>\$ 13,564</u>	<u>\$ 664,977</u>	<u>\$ 680,456</u>
<b>Liabilities</b>				
Accounts payable	\$ 1,915		\$ 237,250	\$ 237,250
Amounts held in custody for others		13,564	96,413	111,892
Obligations under securities lending			331,314	331,314
Total Liabilities	<u>\$ 1,915</u>	<u>\$ 13,564</u>	<u>\$ 664,977</u>	<u>\$ 680,456</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	<u>Balances</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2011</u>
<b><u>COMMONWEALTH CHOICE PROGRAM</u></b>				
<b><u>Assets</u></b>				
Cash & cash equivalents	\$ 2,179	\$ 9,540	\$ 9,804	\$ 1,915
Total Assets	<u>\$ 2,179</u>	<u>\$ 9,540</u>	<u>\$ 9,804</u>	<u>\$ 1,915</u>
<b><u>Liabilities</u></b>				
Amounts held in custody for others	\$ 2,179	\$ 9,540	\$ 9,804	\$ 1,915
Total Liabilities	<u>\$ 2,179</u>	<u>\$ 9,540</u>	<u>\$ 9,804</u>	<u>\$ 1,915</u>
<b><u>COUNTY FEES TRUST FUND</u></b>				
<b><u>Assets</u></b>				
Cash & cash equivalents	\$ 201	\$	\$ 6	\$ 195
Accounts receivable	11,094	122,287	120,012	13,369
Total Assets	<u>\$ 11,295</u>	<u>\$ 122,287</u>	<u>\$ 120,018</u>	<u>\$ 13,564</u>
<b><u>Liabilities</u></b>				
Amounts held in custody for others	\$ 11,295	\$ 122,287	\$ 120,018	\$ 13,564
Total Liabilities	<u>\$ 11,295</u>	<u>\$ 122,287</u>	<u>\$ 120,018</u>	<u>\$ 13,564</u>
<b><u>SPECIAL DEPOSIT TRUST FUND</u></b>				
<b><u>Assets</u></b>				
Cash & cash equivalents	\$ 227,419	\$ 627,164	\$ 613,001	\$ 241,582
Investments	96,492	828	41,113	56,207
Invested security collateral	299,764	31,550		331,314
Accounts receivable	22,263	13,611		35,874
Total Assets	<u>\$ 645,938</u>	<u>\$ 673,153</u>	<u>\$ 654,114</u>	<u>\$ 664,977</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 261,692	\$ 404	\$ 24,846	\$ 237,250
Amounts held in custody for others	84,482	11,931		96,413
Obligations under securities lending	299,764	31,550		331,314
Total Liabilities	<u>\$ 645,938</u>	<u>\$ 43,885</u>	<u>\$ 24,846</u>	<u>\$ 664,977</u>
<b><u>ALL AGENCY FUNDS</u></b>				
<b><u>Assets</u></b>				
Cash & cash equivalents	\$ 229,799	\$ 636,704	\$ 622,811	\$ 243,692
Investments	96,492	828	41,113	56,207
Invested security collateral	299,764	31,550		331,314
Accounts receivable	33,357	135,898	120,012	49,243
Total Assets	<u>\$ 659,412</u>	<u>\$ 804,980</u>	<u>\$ 783,936</u>	<u>\$ 680,456</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 261,692	\$ 404	\$ 24,846	\$ 237,250
Amounts held in custody for others	97,956	143,758	129,822	111,892
Obligations under securities lending	299,764	31,550		331,314
Total Liabilities	<u>\$ 659,412</u>	<u>\$ 175,712</u>	<u>\$ 154,668</u>	<u>\$ 680,456</u>

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## **NON-MAJOR COMPONENT UNITS - COMBINING**

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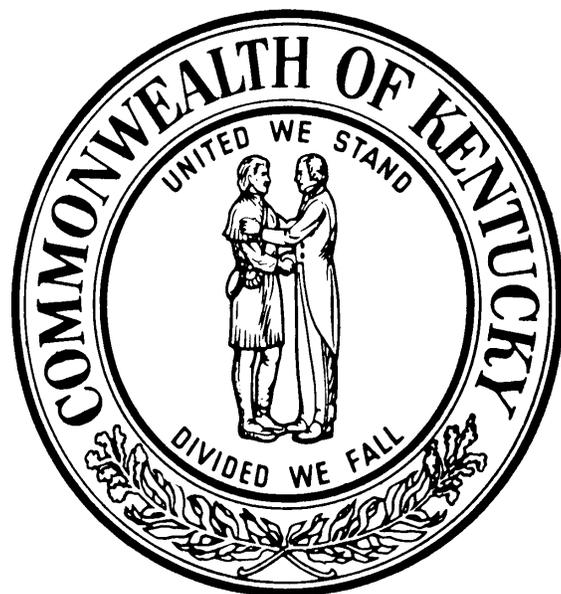
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**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF NET ASSETS  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2011  
(Expressed in Thousands)**

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2011
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 272,047	\$ 323,474	\$ 595,521
Restricted cash	10,785	20,599	31,384
Investments, net of amortization	211,926	11,098	223,024
Accounts receivable, net	39,934	86,289	126,223
Interest receivable	1,885	6,381	8,266
Inventories	1,269	7,210	8,479
Prepaid expenses	1,038	8,986	10,024
Other current assets	60,650	8,243	68,893
Total Current Assets	<u>599,534</u>	<u>472,280</u>	<u>1,071,814</u>
Noncurrent assets:			
Restricted cash	9,616	84,703	94,319
Long-term investments	43,925	224,643	268,568
Restricted long-term investments	15,890	161,074	176,964
Long-term receivables, net	733,263	33,844	767,107
Deferred charges	2,600		2,600
Land	26,924	63,484	90,408
Improvements other than buildings	422	104,551	104,973
Buildings	433,060	1,829,654	2,262,714
Machinery and equipment	77,957	344,257	422,214
Other capital assets	21,805	91,156	112,961
Less: Accumulated depreciation and amortization	(259,731)	(1,034,793)	(1,294,524)
Construction in progress	37,760	167,582	205,342
Total Capital Assets	<u>338,197</u>	<u>1,565,891</u>	<u>1,904,088</u>
Other assets	10,186	7,016	17,202
Total Noncurrent Assets	<u>1,153,677</u>	<u>2,077,171</u>	<u>3,230,848</u>
Total Assets	<u>1,753,211</u>	<u>2,549,451</u>	<u>4,302,662</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	14,025	52,630	66,655
Current portion of long-term debt:			
Notes payable	6,865	3,120	9,985
Bonds payable	25,385	22,682	48,067
Capital lease obligations	1,769	6,672	8,441
Compensated absences	1,468	23,693	25,161
Claims liability		665	665
Deferred revenues	8,978	34,738	43,716
Payable from restricted assets		7,356	7,356
Other current liabilities	9,600	18,539	28,139
Total Current Liabilities	<u>68,090</u>	<u>170,095</u>	<u>238,185</u>
Noncurrent liabilities:			
Notes payable	2,956	28,095	31,051
Bonds payable	351,415	377,498	728,913
Capital lease obligations	24,634	48,385	73,019
Compensated absences	1,024	304	1,328
Other long-term liabilities	3,333	84,584	87,917
Total Noncurrent Liabilities	<u>383,362</u>	<u>538,866</u>	<u>922,228</u>
Total Liabilities	<u>451,452</u>	<u>708,961</u>	<u>1,160,413</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	286,434	1,053,060	1,339,494
Restricted for:			
Debt service		12,335	12,335
Capital projects	14,602	72,586	87,188
Other purposes	920,715	385,121	1,305,836
Unrestricted	80,008	317,388	397,396
Total Net Assets	<u>\$ 1,301,759</u>	<u>\$ 1,840,490</u>	<u>\$ 3,142,249</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2011  
(Expressed in Thousands)**

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2011
<b>Expenses:</b>			
Operating and other expenses	\$ 461,151	\$ 1,260,724	\$ 1,721,875
Total expenses	<u>461,151</u>	<u>1,260,724</u>	<u>1,721,875</u>
<b>Program Revenues:</b>			
Charges for services	73,358	565,532	638,890
Operating grants and contributions	239,754	147,141	386,895
Capital grants and contributions	48,478	14,210	62,688
Total Program Revenues	<u>361,590</u>	<u>726,883</u>	<u>1,088,473</u>
<b>Net Program (Expense) Revenue</b>	<u>(99,561)</u>	<u>(533,841)</u>	<u>(633,402)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	102,566	453,329	555,895
Unrestricted investment earnings	9,292	34,974	44,266
Gain on sale of capital assets	1	784	785
Miscellaneous general	36,560	248,263	284,823
Total General Revenues	<u>148,419</u>	<u>737,350</u>	<u>885,769</u>
Change in Net Assets	<u>48,858</u>	<u>203,509</u>	<u>252,367</u>
Net Assets at July 1, as Restated	1,252,901	1,636,981	2,889,882
Net Assets at June 30	<u>\$ 1,301,759</u>	<u>\$ 1,840,490</u>	<u>\$ 3,142,249</u>



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## NON-MAJOR COMPONENT UNITS - AUTHORITIES

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**Kentucky River Authority** – is responsible for the maintenance of the Commonwealth’s locks and dams on the Kentucky River.

**Kentucky Higher Education Assistance Authority** - was established by KRS 164.742 to improve higher education opportunities by insuring eligible student loans and providing grants and scholarship awards to eligible students.

**Bluegrass State Skills Corporation** - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

**Kentucky State Fair Board** - accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

**Kentucky Center for the Arts Corporation** - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

**Kentucky Educational Television Authority** - established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

**Kentucky Economic Development Finance Authority** - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

**Kentucky Artisan Center** - established to celebrate Kentucky’s artisan heritage and encourage Kentuckians and those traveling in Kentucky to enjoy artisan products and activities.

**Kentucky Infrastructure Authority** - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

**Kentucky Agricultural Finance Corporation** - created by the 1984 General Assembly to “improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures.” This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

**Kentucky Grain Insurance Corporation** - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

**Kentucky Local Correctional Facilities Construction Authority** - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

**Kentucky Horse Park Foundation, Inc.** – is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park.

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF NET ASSETS  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
JUNE 30, 2011**

(Expressed in Thousands)

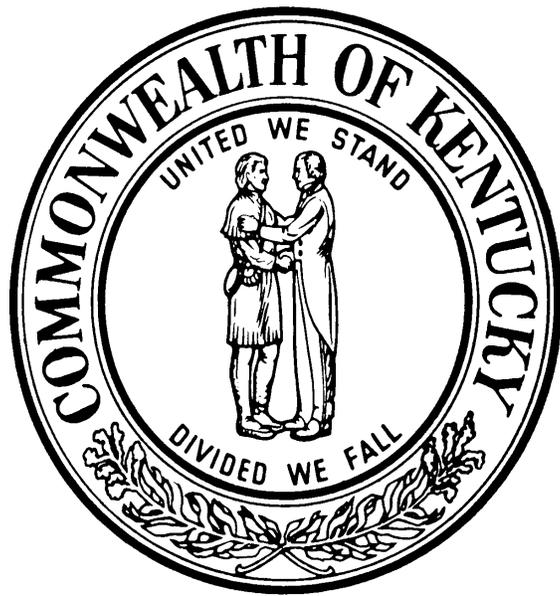
	Kentucky River Authority	Kentucky Higher Education Assistance Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 658	\$ 30,181	\$	\$ 5,282	\$ 1,370
Restricted cash	10,410				
Investments, net of amortization		1,313			3,028
Accounts receivable, net	606	4,249	10	3,729	246
Interest receivable	135	72			9
Inventories					26
Prepaid expenses				700	319
Other current assets		450	1,753		
Total Current Assets	<u>11,809</u>	<u>36,265</u>	<u>1,763</u>	<u>9,711</u>	<u>4,998</u>
Noncurrent assets:					
Restricted cash		1,510		7,090	
Long-term investments		11,200		877	15,822
Restricted long-term investments					
Long-term receivables, net		13,894			36
Deferred charges		78			
Land	532			25,020	129
Improvements other than buildings					
Buildings	408	11,986		367,122	31,571
Machinery and equipment	451	6,186		5,642	25,970
Other capital assets	15,000				4,334
Less: Accumulated depreciation and amortization	(5,275)	(8,795)		(156,285)	(46,432)
Construction in progress	30,993			5,905	
Total Capital Assets	<u>42,109</u>	<u>9,377</u>		<u>247,404</u>	<u>15,572</u>
Other assets		9,379		807	
Total Noncurrent Assets	<u>42,109</u>	<u>45,438</u>		<u>256,178</u>	<u>31,430</u>
Total Assets	<u>53,918</u>	<u>81,703</u>	<u>1,763</u>	<u>265,889</u>	<u>36,428</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	1,327	681	1,724	3,577	747
Current portion of long-term debt:					
Notes payable				6,435	
Bonds payable				2,570	
Capital lease obligations	514	480		775	
Compensated absences	37	561	29		174
Deferred revenues				7,302	441
Other current liabilities		(547)		391	
Total Current Liabilities	<u>1,878</u>	<u>1,175</u>	<u>1,753</u>	<u>21,050</u>	<u>1,362</u>
Noncurrent liabilities:					
Notes payable					
Bonds payable				43,661	
Capital lease obligations	12,420	4,785		7,429	
Compensated absences	51		27		
Other long-term liabilities					
Total Noncurrent Liabilities	<u>12,471</u>	<u>4,785</u>	<u>27</u>	<u>51,090</u>	
Total Liabilities	<u>14,349</u>	<u>5,960</u>	<u>1,780</u>	<u>72,140</u>	<u>1,362</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	27,874	4,205		199,744	31,430
Restricted for:					
Capital projects	10,410			1,998	
Other purposes		71,538	(17)		2,993
Unrestricted	1,285			(7,993)	643
Total Net Assets	<u>\$ 39,569</u>	<u>\$ 75,743</u>	<u>\$ (17)</u>	<u>\$ 193,749</u>	<u>\$ 35,066</u>

Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 3,791	\$ 19,207	\$ 40	\$ 195,551	\$ 5,949	\$ 4,399
7,540	375		197,268		
817	13	15		29,199	
39	70		1,526		
935		308			
		12			
199	15,384		42,549		
<u>13,321</u>	<u>35,049</u>	<u>375</u>	<u>436,894</u>	<u>35,148</u>	<u>4,399</u>
1,016					
	250	113	13,480	526	389
6,459			6,096		
242	24,444		693,772		
54			2,360		
76		1,167			
14,108		6,706			
38,636		1,001			
2,471					
(40,674)		(1,172)			
862					
<u>15,479</u>	<u></u>	<u>7,702</u>	<u></u>	<u></u>	<u></u>
<u>23,250</u>	<u>24,694</u>	<u>7,815</u>	<u>715,708</u>	<u>526</u>	<u>389</u>
<u>36,571</u>	<u>59,743</u>	<u>8,190</u>	<u>1,152,602</u>	<u>35,674</u>	<u>4,788</u>
712	54	65	4,985	6	
			20,535		
572	81	14			
1,235			9,381		
	375		34,901	6	
<u>2,519</u>	<u>510</u>	<u>79</u>	<u></u>	<u></u>	<u></u>
			300,285		
715	75	131		25	
3,333					
4,048	75	131	300,285	25	
6,567	585	210	335,186	31	
15,479		7,702			
2,194			817,416		
5,951	16,876			35,643	4,788
6,380	42,282	278			
<u>\$ 30,004</u>	<u>\$ 59,158</u>	<u>\$ 7,980</u>	<u>\$ 817,416</u>	<u>\$ 35,643</u>	<u>\$ 4,788</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2011**

(Expressed in Thousands)

	<b>Kentucky Local Correctional Facilities Construction Authority</b>	<b>The Kentucky Horse Park Foundation, Inc.</b>	<b>Totals June 30, 2011</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 5,055	\$ 564	\$ 272,047
Restricted cash			10,785
Investments, net of amortization		2,777	211,926
Accounts receivable, net	310	740	39,934
Interest receivable	34		1,885
Inventories			1,269
Prepaid expenses		7	1,038
Other current assets	314	1	60,650
<b>Total Current Assets</b>	<b>5,713</b>	<b>4,089</b>	<b>599,534</b>
Noncurrent assets:			
Restricted cash			9,616
Long-term investments		1,268	43,925
Restricted long-term investments	2,335	1,000	15,890
Long-term receivables, net	875		733,263
Deferred charges	108		2,600
Land			26,924
Improvements other than buildings		422	422
Buildings		1,159	433,060
Machinery and equipment		71	77,957
Other capital assets			21,805
Less: Accumulated depreciation and amortization		(1,098)	(259,731)
Construction in progress			37,760
<b>Total Capital Assets</b>		<b>554</b>	<b>338,197</b>
Other assets			10,186
<b>Total Noncurrent Assets</b>	<b>3,318</b>	<b>2,822</b>	<b>1,153,677</b>
<b>Total Assets</b>	<b>9,031</b>	<b>6,911</b>	<b>1,753,211</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	84	63	14,025
Current portion of long-term debt:			
Notes payable		430	6,865
Bonds payable	2,280		25,385
Capital lease obligations			1,769
Compensated absences			1,468
Deferred revenues			8,978
Other current liabilities			9,600
<b>Total Current Liabilities</b>	<b>2,364</b>	<b>493</b>	<b>68,090</b>
Noncurrent liabilities:			
Notes payable		2,956	2,956
Bonds payable	7,469		351,415
Capital lease obligations			24,634
Compensated absences			1,024
Other long-term liabilities			3,333
<b>Total Noncurrent Liabilities</b>	<b>7,469</b>	<b>2,956</b>	<b>383,362</b>
<b>Total Liabilities</b>	<b>9,833</b>	<b>3,449</b>	<b>451,452</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt			286,434
Restricted for:			
Capital projects			14,602
Other purposes		5,958	920,715
Unrestricted	(802)	(2,496)	80,008
<b>Total Net Assets</b>	<b>\$ (802)</b>	<b>\$ 3,462</b>	<b>\$ 1,301,759</b>



**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

(Expressed in Thousands)

	Kentucky River Authority	Kentucky Higher Education Assistance Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation
<b>Expenses:</b>					
Operating and other expenses	\$ 2,562	\$ 219,613	\$ 6,108	\$ 53,648	\$ 13,787
Total expenses	<u>2,562</u>	<u>219,613</u>	<u>6,108</u>	<u>53,648</u>	<u>13,787</u>
<b>Program Revenues:</b>					
Charges for services	2,632			42,196	5,194
Operating grants and contributions		228,185			1,475
Capital grants and contributions					18
Total Program Revenues	<u>2,632</u>	<u>228,185</u>	<u></u>	<u>42,196</u>	<u>6,687</u>
<b>Net Program (Expense) Revenue</b>	<u>70</u>	<u>8,572</u>	<u>(6,108)</u>	<u>(11,452)</u>	<u>(7,100)</u>
<b>General Revenues:</b>					
Unrestricted grants and contributions				(2,103)	426
Unrestricted investment earnings	(66)				3,156
Gain on sale of capital assets					1
Miscellaneous general	258		6,114	2,390	3,465
Total General Revenues	<u>192</u>	<u></u>	<u>6,114</u>	<u>287</u>	<u>7,048</u>
Change in Net Assets	<u>262</u>	<u>8,572</u>	<u>6</u>	<u>(11,165)</u>	<u>(52)</u>
Net Assets at July 1, as Restated	39,307	67,171	(23)	204,914	35,118
Net Assets at June 30	<u>\$ 39,569</u>	<u>\$ 75,743</u>	<u>\$ (17)</u>	<u>\$ 193,749</u>	<u>\$ 35,066</u>

Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 26,252	\$ 6,668	\$ 2,596	\$ 121,582	\$ 243	\$ 2
26,252	6,668	2,596	121,582	243	2
1,614	828	1,707	14,274		
8,434		648		204	
			48,460		
10,048	828	2,355	62,734	204	
(16,204)	(5,840)	(241)	(58,848)	(39)	(2)
			104,243		
1,471	2		3,347	705	12
14,852	9,480			1	
16,323	9,482		107,590	706	12
119	3,642	(241)	48,742	667	10
29,885	55,516	8,221	768,674	34,976	4,778
\$ 30,004	\$ 59,158	\$ 7,980	\$ 817,416	\$ 35,643	\$ 4,788

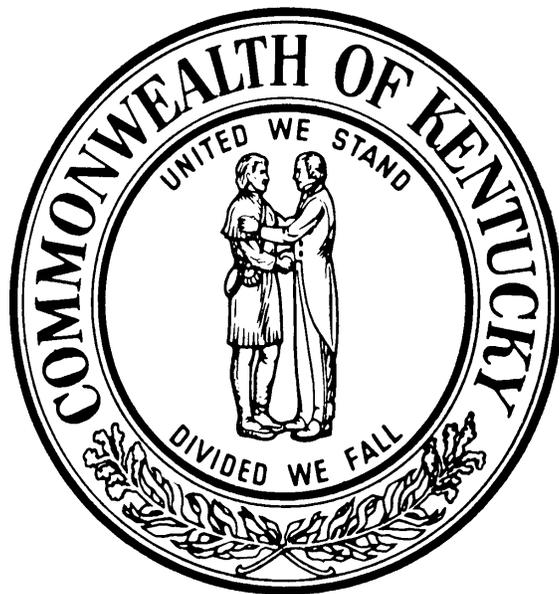
**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

(Expressed in Thousands)

	<b>Kentucky Local Correctional Facilities Construction Authority</b>	<b>The Kentucky Horse Park Foundation, Inc.</b>	<b>Totals June 30, 2011</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 555	\$ 7,535	\$ 461,151
Total expenses	555	7,535	461,151
<b>Program Revenues:</b>			
Charges for services	3,725	1,188	73,358
Operating grants and contributions	76	732	239,754
Capital grants and contributions			48,478
Total Program Revenues	3,801	1,920	361,590
<b>Net Program (Expense) Revenue</b>	3,246	(5,615)	(99,561)
<b>General Revenues:</b>			
Unrestricted grants and contributions			102,566
Unrestricted investment earnings		665	9,292
Gain on sale of capital assets			1
Miscellaneous general			36,560
Total General Revenues		665	148,419
Change in Net Assets	3,246	(4,950)	48,858
Net Assets at July 1, as Restated	(4,048)	8,412	1,252,901
Net Assets at June 30	\$ (802)	\$ 3,462	\$ 1,301,759

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
NON-MAJOR COMPONENT UNITS-AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2011  
(Expressed in Thousands)**

	<b>Kentucky Agricultural Finance Corporation</b>	<b>Kentucky Grain Insurance Corporation</b>	<b>Totals June 30, 2011</b>
<b>Cash Flows from Operating Activities</b>			
Cash payments to suppliers for goods and services	\$ (18)	\$ (2)	\$ (20)
Cash payments for employee salaries and benefits	(160)		(160)
Cash payments from other sources	181		181
Cash payments to other sources	(54)		(54)
Net Cash Provided (Used) by Operating Activities	<u>(51)</u>	<u>(2)</u>	<u>(53)</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from the sale of investment securities	1,996	1,456	3,452
Interest and dividends on investments		16	16
Net Cash Provided (Used) in Investing Activities	<u>1,996</u>	<u>1,472</u>	<u>3,468</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,945	1,470	3,415
Cash and Cash Equivalents at July 1	4,004	2,929	6,933
Cash and Cash Equivalents at June 30	<u>\$ 5,949</u>	<u>\$ 4,399</u>	<u>\$ 10,348</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 667	\$ (2)	\$ 665
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(730)		(730)
Increase (decrease) in liabilities:			
Accounts payable	1		1
Compensated absences	11		11
Net Cash Provided (Used) by Operating Activities	<u>\$ (51)</u>	<u>\$ (2)</u>	<u>\$ (53)</u>



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## **NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**

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### **Universities, Colleges, and Related Entities**

The Universities, Colleges, and Related Entities Funds account for all transactions relating to the State supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The non-major component units-universities are:

**Eastern Kentucky University**  
**Western Kentucky University**  
**Morehead State University**  
**Murray State University**  
**Northern Kentucky University**  
**Kentucky State University**

**Kentucky Council on Postsecondary Education** – established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky's postsecondary education system.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**JUNE 30, 2011**

(Expressed in Thousands)

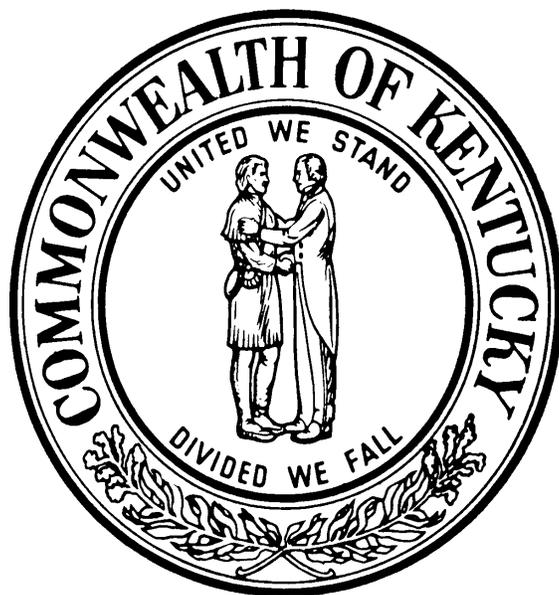
	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 44,402	\$ 104,091	\$ 27,995
Restricted cash			2,585
Investments, net of amortization	1,835	2,678	
Accounts receivable, net	21,747	8,996	11,490
Interest receivable	369	4,907	8
Inventories	305	2,884	1,550
Prepaid expenses	1,933	2,612	
Other current assets		598	645
Total Current Assets	<u>70,591</u>	<u>126,766</u>	<u>44,273</u>
Noncurrent assets:			
Restricted cash	25,532	12,630	
Long-term investments	66,615	118,434	35,643
Restricted long-term investments			
Long-term receivables, net	5,519	18,729	3,682
Land	8,032	12,548	19,687
Improvements other than buildings	22,495	39,907	
Buildings	270,739	533,696	247,703
Machinery and equipment	31,532	105,533	23,787
Other capital assets	42,074		30,770
Less: Accumulated depreciation and amortization	(192,674)	(238,265)	(134,408)
Construction in progress	126,928	24,986	462
Total Capital Assets	<u>309,126</u>	<u>478,405</u>	<u>188,001</u>
Other assets		4,373	1,910
Total Noncurrent Assets, Net	<u>406,792</u>	<u>632,571</u>	<u>229,236</u>
Total Assets	<u>477,383</u>	<u>759,337</u>	<u>273,509</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	13,667	9,808	4,609
Current portion of long-term debt:			
Notes payable		1,438	
Bonds payable	1,990	7,818	3,605
Capital lease obligations	4,242	33	524
Compensated absences	5,556	2,877	2,637
Claims liability			
Deferred revenues	7,961	9,840	5,043
Payable from restricted assets		518	280
Other current liabilities	433	8,800	1,068
Total Current Liabilities	<u>33,849</u>	<u>41,132</u>	<u>17,766</u>
Noncurrent liabilities:			
Notes payable		11,989	
Bonds payable	30,505	175,399	46,195
Capital lease obligations	37,417	605	2,362
Compensated absences			
Other long-term liabilities	19,785	43,422	4,688
Total Noncurrent Liabilities	<u>87,707</u>	<u>231,415</u>	<u>53,245</u>
Total Liabilities	<u>121,556</u>	<u>272,547</u>	<u>71,011</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	230,949	253,694	134,593
Restricted for:			
Debt service	764	2,257	
Capital projects	24,935	27,550	
Other purposes	52,391	104,569	48,831
Unrestricted	46,788	98,720	19,074
Total Net Assets	<u>\$ 355,827</u>	<u>\$ 486,790</u>	<u>\$ 202,498</u>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>Kentucky Council on Postsecondary Education</b>	<b>Totals June 30, 2011</b>
\$ 60,350	\$ 57,817	\$ 27,534	\$ 1,285	\$ 323,474
	16,410		1,604	20,599
		6,585		11,098
7,849	20,021	8,409	7,777	86,289
1,017	80			6,381
2,106	282	83		7,210
1,350	1,837	281	973	8,986
2,735		35	4,230	8,243
<u>75,407</u>	<u>96,447</u>	<u>42,927</u>	<u>15,869</u>	<u>472,280</u>
29,150	17,391			84,703
	1,775		2,176	224,643
75,763	74,262	10,581	468	161,074
3,334	1,837	743		33,844
12,217	9,249	1,751		63,484
11,627	26,624	3,898		104,551
250,122	381,877	145,517		1,829,654
59,590	95,783	27,274	758	344,257
2,502	4,622	11,188		91,156
(172,352)	(185,404)	(111,240)	(450)	(1,034,793)
7,662	2,457	5,087		167,582
<u>171,368</u>	<u>335,208</u>	<u>83,475</u>	<u>308</u>	<u>1,565,891</u>
595	138			7,016
<u>280,210</u>	<u>430,611</u>	<u>94,799</u>	<u>2,952</u>	<u>2,077,171</u>
<u>355,617</u>	<u>527,058</u>	<u>137,726</u>	<u>18,821</u>	<u>2,549,451</u>
4,843	10,201	2,233	7,269	52,630
941	741			3,120
2,316	6,549	404		22,682
187	1,326	360		6,672
6,732	3,233	2,131	527	23,693
629		36		665
3,342	6,574	1,978		34,738
	6,558			7,356
2,879	105	161	5,093	18,539
<u>21,869</u>	<u>35,287</u>	<u>7,303</u>	<u>12,889</u>	<u>170,095</u>
13,616	2,490			28,095
38,870	82,418	4,111		377,498
926	2,510	4,565		48,385
			304	304
4,106	11,591	992		84,584
<u>57,518</u>	<u>99,009</u>	<u>9,668</u>	<u>304</u>	<u>538,866</u>
<u>79,387</u>	<u>134,296</u>	<u>16,971</u>	<u>13,193</u>	<u>708,961</u>
119,357	240,223	73,936	308	1,053,060
5,866	3,448			12,335
17,419	2,682			72,586
73,870	82,186	21,209	2,065	385,121
59,718	64,223	25,610	3,255	317,388
<u>\$ 276,230</u>	<u>\$ 392,762</u>	<u>\$ 120,755</u>	<u>\$ 5,628</u>	<u>\$ 1,840,490</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Expenses:</b>			
Operating and other expenses	\$ 267,318	\$ 319,985	\$ 147,795
Total Expenses	<u>267,318</u>	<u>319,985</u>	<u>147,795</u>
<b>Program Revenues:</b>			
Charges for services	102,263	166,724	57,622
Operating grants and contributions	56,157	11,390	25,678
Capital grants and contributions	3,635		
Total Program Revenues	<u>162,055</u>	<u>178,114</u>	<u>83,300</u>
<b>Net Program (Expense) Revenue</b>	<u>(105,263)</u>	<u>(141,871)</u>	<u>(64,495)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	110,196	73,149	22,067
Unrestricted investment earnings	8,911	12,027	278
Gain on sale of capital assets			
Miscellaneous general	58,425	94,357	58,597
Total General Revenues	<u>177,532</u>	<u>179,533</u>	<u>80,942</u>
Change in Net Assets	<u>72,269</u>	<u>37,662</u>	<u>16,447</u>
Net Assets at July 1, as Restated	283,558	449,128	186,051
Net Assets at June 30	<u>\$ 355,827</u>	<u>\$ 486,790</u>	<u>\$ 202,498</u>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>Kentucky Council on Postsecondary Education</b>	<b>Totals June 30, 2011</b>
<b>\$</b> 167,099	<b>\$</b> 219,412	<b>\$</b> 72,637	<b>\$</b> 66,478	<b>\$</b> 1,260,724
167,099	219,412	72,637	66,478	1,260,724
90,588	121,151	25,015	2,169	565,532
7,970	12,233	20,018	13,695	147,141
	10,271		304	14,210
98,558	143,655	45,033	16,168	726,883
(68,541)	(75,757)	(27,604)	(50,310)	(533,841)
80,913	108,966	8,033	50,005	453,329
11,263	708	1,789	(2)	34,974
	784			784
(1,483)	11,822	26,526	19	248,263
90,693	122,280	36,348	50,022	737,350
22,152	46,523	8,744	(288)	203,509
254,078	346,239	112,011	5,916	1,636,981
<b>\$</b> 276,230	<b>\$</b> 392,762	<b>\$</b> 120,755	<b>\$</b> 5,628	<b>\$</b> 1,840,490



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## STATISTICAL SECTION

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This part of the Commonwealth of Kentucky's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

### **Financial Trends**

The schedules presented, in this section, contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective included only data from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted.

### **Revenue Capacity**

The schedules presented, in this section, contain information to help the reader assess the Commonwealth's most significant revenue source, which is personal income tax.

### **Debt Capacity**

The schedules presented, in this section, contain information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt, and the Commonwealth's ability to issue additional debt in the future.

### **Demographic Information**

The schedules presented, in this section, offer demographic and economic indicators to help the reader understand the environment within the Commonwealth, and the financial impact of those activities.

### **Operating Information**

The schedules presented, in this section, offer operating data to help the reader understand how the information in the Commonwealth's financial report relates to the services it provided and the activities performed, by the governmental agencies.

**COMMONWEALTH OF KENTUCKY  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE LAST TEN FISCAL YEARS  
(Expressed in Thousands)**

	2011	2010
<b>General Fund</b>		
Nonspendable:		
Inventories	\$ 6,099	\$ 5,079
Assigned	57,456	71,975
Unassigned	249,482	9,150
Total General Fund	<u>\$ 313,037</u>	<u>\$ 86,204</u>
<b>All Other Governmental Funds</b>		
Nonspendable:		
Inventories	\$ 49,078	\$ 54,290
Cash with Fiscal Agents	67,469	80,576
Restricted	2,165,308	1,833,356
Committed	148,636	161,548
Assigned	27,034	15,641
Unassigned	(120,235)	(65,628)
Total All Other Governmental Funds	<u>\$ 2,337,290</u>	<u>\$ 2,079,783</u>
 Total Fund Balances - Governmental Funds	 <u>\$ 2,650,327</u>	 <u>\$ 2,165,987</u>

**Note:** In FY 2010, the fund balance categories were reclassified as a result of implementing GASB 54.

	2009	2008
<b>General Fund:</b>		
Reserved	\$ 80,135	\$ 290,108
Unreserved	(49,698)	(1,937)
Total General Fund	<u>\$ 30,437</u>	<u>\$ 288,171</u>
<b>All Other Governmental Funds:</b>		
Reserved	\$ 882,654	\$ 919,085
Unreserved, reported in:		
Debt Service Fund	309,234	369,603
Special Revenue Funds	719,767	786,125
Capital Projects Funds	45,585	72,094
Total All Other Governmental Funds	<u>\$ 1,957,240</u>	<u>\$ 2,146,907</u>

**Note:** Information is presented on the modified accrual basis of accounting.  
In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

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2007	2006	2005	2004	2003	2002
\$ 295,917	\$ 183,555	\$ 76,505	\$ 85,834	\$ 114,415	\$ 123,502
517,277	713,339	593,472	303,623	183,922	(36,033)
<u>\$ 813,194</u>	<u>\$ 896,894</u>	<u>\$ 669,977</u>	<u>\$ 389,457</u>	<u>\$ 298,337</u>	<u>\$ 87,469</u>
\$ 704,496	\$ 597,827	\$ 664,265	\$ 941,891	\$ 575,983	\$ 1,064,829
381,313	377,202	292,406	293,654	354,836	316,560
1,031,387	1,394,633	1,112,499	603,323	969,767	1,219,937
(66,785)	(129,103)	(120,098)	(201,248)	(36,012)	(265,510)
<u>\$ 2,050,411</u>	<u>\$ 2,240,559</u>	<u>\$ 1,949,072</u>	<u>\$ 1,637,620</u>	<u>\$ 1,864,574</u>	<u>\$ 2,335,816</u>

**COMMONWEALTH OF KENTUCKY**  
**CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2011	2010	2009	2008
<b>Revenues</b>				
Taxes	\$ 10,113,502	\$ 9,366,175	\$ 9,560,283	\$ 9,871,590
Licenses, fees, and permits	330,263	330,387	323,012	309,413
Intergovernmental	8,016,458	8,381,546	7,055,624	6,169,116
Charges for services	911,202	803,961	774,553	758,805
Fines and forfeits	82,856	86,980	90,812	97,898
Interest and other investment income	29,092	45,214	67,076	149,833
Increase (decrease) in fair value of investments	795	(150)	(4)	6,529
Securities lending income	1,966	1,711	11,060	31,576
Other revenues	822,936	492,508	461,824	474,555
<b>Total Revenues</b>	<b>20,309,070</b>	<b>19,508,332</b>	<b>18,344,240</b>	<b>17,869,315</b>
<b>Expenditures</b>				
Current:				
General government	2,302,228	2,592,283	2,472,452	2,702,730
Legislative and judicial	392,791	378,475	359,666	338,839
Commerce	86,506	92,437	94,989	100,535
Education and humanities	6,125,603	5,104,048	4,860,442	4,800,460
Human resources	8,088,667	8,124,836	7,919,632	7,301,114
Justice	789,602	782,443	737,997	767,270
Natural resources and environmental protection	200,899	193,111	188,039	192,957
Public protection and regulation	163,438	115,857	120,406	97,482
Transportation	1,959,030	2,014,490	1,977,924	2,090,584
Debt Service:				
Principal retirement	308,484	386,212	299,940	341,733
Interest and fiscal charges	351,539	306,139	252,466	210,331
Other expenditures	8,002	27,335	25,036	21,025
Securities lending expense	1,163	933	6,080	26,774
Capital outlay:				
Buildings	466,335	609,309	442,315	582,550
<b>Total Expenditures</b>	<b>21,244,287</b>	<b>20,727,908</b>	<b>19,757,384</b>	<b>19,574,384</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(935,217)	(1,219,576)	(1,413,144)	(1,705,069)
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,852,945	1,955,274	2,157,662	2,357,766
Transfers from component units				
Transfers out	(1,675,200)	(1,776,171)	(1,880,360)	(2,258,283)
Transfers to component units				
Capitalized leases	6,864	10,182	4,456	3,280
Insurance proceeds		9,876		
Issuance of bonds:				
New issues	472,123	873,326	655,350	372,135
Refunding issues	240,590	347,835	508,520	100,000
Premiums	34,035	37,442	35,905	46,322
Discounts	(2,022)	(2,619)	(4,193)	
Proceeds from notes	737,370	89,710		750,085
Other financing sources				
Payments to refunded bond escrow agent	(233,642)	(186,602)	(508,320)	(100,000)
<b>Total Other Financing Sources (Uses)</b>	<b>1,433,063</b>	<b>1,358,253</b>	<b>969,020</b>	<b>1,271,305</b>
<b>Net Change in Fund Balances</b>	<b>\$ 497,846</b>	<b>\$ 138,677</b>	<b>\$ (444,124)</b>	<b>\$ (433,764)</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>3.19%</b>	<b>3.34%</b>	<b>2.89%</b>	<b>2.94%</b>

**Note:** Information is presented on the modified accrual basis of accounting.  
In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

	2007	2006	2005	2004	2003	2002
\$	9,668,573	\$ 9,465,785	\$ 8,745,358	\$ 7,933,198	\$ 7,777,612	\$ 7,474,709
	303,849	294,575	287,045	265,699	252,123	308,209
	5,810,270	5,662,112	5,351,830	5,150,705	5,093,078	4,821,756
	752,532	781,105	728,998	616,638	548,226	506,924
	80,741	90,118	86,771	95,745	73,691	54,169
	163,833	111,894	84,006	75,980	133,532	188,385
	11,241	(5,799)	9,408	(40,558)	15,614	13,548
	36,673	39,918	16,831	15,549		
	517,266	597,088	611,966	625,008	506,272	406,869
	<u>17,344,978</u>	<u>17,036,796</u>	<u>15,922,213</u>	<u>14,737,964</u>	<u>14,400,148</u>	<u>13,774,569</u>
	2,591,176	2,444,023	2,131,008	1,933,909	1,889,243	2,036,798
	303,799	302,303	277,792	265,847	246,838	239,515
	96,572	81,037	66,609	65,518	62,486	58,741
	4,554,565	4,395,948	4,091,135	3,823,798	3,752,918	3,584,412
	6,764,174	6,602,797	6,188,350	5,984,514	5,650,039	5,563,087
	727,178	710,142	633,662	563,890	575,237	564,427
	195,980	171,407	161,899	149,401	135,349	143,924
	98,517	67,329	73,868	112,587	139,299	120,764
	1,825,318	1,661,585	1,520,371	1,724,342	1,695,652	1,724,061
	285,809	246,404	247,290	286,166	260,977	227,648
	200,297	174,972	190,225	181,424	195,126	124,625
	15,960	26,649	26,574	78,052	4,153	(14,727)
	35,318	38,144	15,619	13,123		
	583,302	446,855	279,953	293,761	244,419	483,145
	<u>18,277,965</u>	<u>17,369,595</u>	<u>15,904,355</u>	<u>15,476,332</u>	<u>14,851,736</u>	<u>14,856,420</u>
	<u>(932,987)</u>	<u>(332,799)</u>	<u>17,858</u>	<u>(738,368)</u>	<u>(451,588)</u>	<u>(1,081,851)</u>
	2,216,889	2,124,893	1,791,143	1,781,871	1,926,260	1,698,673
	(2,041,824)	(1,969,206)	(1,645,143)	(1,563,679)	(1,676,970)	(1,523,710)
	7,364	6,079	18,905	5,359	7,592	6,414
	159,140	445,350	213,750	508,991		653,696
	105,085		257,685	601,879		322,659
	16,610	21,416	53,484	103,316		44,824
						(4,798)
	520,354	(58)	232,760	171,260		19,135
	(330,193)		(258,550)	(944,495)	(1,567)	(321,565)
	<u>653,425</u>	<u>628,474</u>	<u>664,034</u>	<u>664,502</u>	<u>255,315</u>	<u>895,328</u>
\$	<u>(279,562)</u>	<u>\$ 295,675</u>	<u>\$ 681,892</u>	<u>\$ (73,866)</u>	<u>\$ (196,273)</u>	<u>\$ (186,523)</u>
	<u>2.57%</u>	<u>2.49%</u>	<u>2.82%</u>	<u>3.18%</u>	<u>3.24%</u>	<u>2.48%</u>

**COMMONWEALTH OF KENTUCKY**  
**NET ASSETS BY COMPONENT**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2011	2010	2009	2008
<b>Governmental Activities:</b>				
Invested in capital assets, net of related debt	\$ 19,153,511	\$ 18,418,874	\$ 19,547,435	\$ 19,911,942
Restricted	1,286,431	1,206,293	1,094,433	1,139,727
Unrestricted	<u>(8,071,118)</u>	<u>(6,803,987)</u>	<u>(5,861,735)</u>	<u>(4,816,142)</u>
Total Governmental Activities Net Assets	<u>12,368,824</u>	<u>12,821,180</u>	<u>14,780,133</u>	<u>16,235,527</u>
<b>Business-type Activities:</b>				
Invested in Capital Assets, net of related debt	350,505	341,172	330,078	290,365
Restricted	326	9,646	5,615	310,216
Unrestricted	<u>(1,199,294)</u>	<u>(1,151,091)</u>	<u>(859,772)</u>	<u>(553,995)</u>
Total Business-Type Activities Net Assets	<u>(848,463)</u>	<u>(800,273)</u>	<u>(524,079)</u>	<u>46,586</u>
<b>Primary Government:</b>				
Invested in capital assets, net of related debt	19,504,016	18,760,046	19,877,513	20,202,307
Restricted	1,286,757	1,215,939	1,100,048	1,449,943
Unrestricted	<u>(9,270,412)</u>	<u>(7,955,078)</u>	<u>(6,721,507)</u>	<u>(5,370,137)</u>
Total Primary Government Net Assets	<u>\$ 11,520,361</u>	<u>\$ 12,020,907</u>	<u>\$ 14,256,054</u>	<u>\$ 16,282,113</u>

**NOTE:** This schedule is presented on the accrual basis of accounting.

	2007	2006	2005	2004	2003	2002
\$	17,947,656	\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
	1,237,151	1,376,301	1,081,388	994,827	1,189,894	1,524,926
	(1,807,615)	(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
	<u>17,377,192</u>	<u>17,818,983</u>	<u>17,449,838</u>	<u>16,670,564</u>	<u>16,270,378</u>	<u>15,626,084</u>
	267,144	254,623	249,728	257,794	249,023	220,996
	359,605	392,318	375,488	382,173	464,354	451,761
	(634,297)	(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
	<u>(7,548)</u>	<u>34,159</u>	<u>(7,830)</u>	<u>(81,911)</u>	<u>(60,742)</u>	<u>(242,808)</u>
	18,214,800	17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
	1,596,756	1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
	(2,441,912)	(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
\$	<u>17,369,644</u>	<u>17,853,142</u>	<u>17,442,008</u>	<u>16,588,653</u>	<u>16,209,636</u>	<u>15,383,276</u>

**COMMONWEALTH OF KENTUCKY**  
**GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2011	2010	2009	2008
<b>Function/Program Revenues</b>				
<b>Primary Government:</b>				
Governmental Activities:				
Charges for Services:				
General government	\$ 438,993	\$ 384,050	\$ 366,634	\$ 494,587
Legislative and judicial	21,177	20,226	28,561	15,225
Commerce	36,774	40,657	47,770	41,821
Education and humanities	78,996	55,926	50,988	68,609
Human Resources	484,958	103,025	121,752	200,913
Justice	22,121	21,641	20,611	24,096
Natural resources and environmental protection	43,338	41,123	35,959	42,511
Public protection and regulation	83,816	73,066	71,078	66,495
Transportation	218,846	230,918	238,110	16,849
Operating Grants and Contributions	7,071,327	7,621,275	6,575,144	5,554,089
Capital Grants and Contributions	697,927	773,661	550,416	750,184
Total Governmental Activities	<u>9,198,273</u>	<u>9,365,568</u>	<u>8,107,023</u>	<u>7,275,379</u>
Business-Type Activities:				
Charges for Services:				
State Parks	49,437	50,802	52,439	57,605
Kentucky Lottery Corporation	772,349	772,497	810,544	778,211
Kentucky Horse Park	7,798	6,880	6,423	6,763
Insurance Administration	110,829	121,445	93,438	129,870
Kentucky Public Employees' Health Plan	1,752,908	1,548,458	1,392,971	1,270,899
Unemployment Compensation	471,876	1,556,290	412,430	381,410
Operating Grants and Contributions	953,112	3,849	363,028	53,838
Capital Grants and Contributions	2,326		4,633	1,735
Total Business-Type Activities	<u>4,120,635</u>	<u>4,060,221</u>	<u>3,135,906</u>	<u>2,680,331</u>
Total Primary Government	<u>\$ 13,318,908</u>	<u>\$ 13,425,789</u>	<u>\$ 11,242,929</u>	<u>\$ 9,955,710</u>
<b>Expenses</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 3,212,093	\$ 4,377,373	\$ 3,837,639	\$ 4,370,883
Legislative and judicial	400,786	376,743	360,872	335,635
Commerce	113,156	124,263	112,825	107,774
Education and humanities	6,036,864	5,148,482	4,887,919	4,852,742
Human Resources	7,652,130	7,725,161	7,611,725	6,904,568
Justice	887,611	876,065	822,301	845,153
Natural resources and environmental protection	198,067	192,518	197,086	197,265
Public protection and regulation	164,052	113,558	121,952	97,360
Transportation	1,340,012	1,175,210	1,331,764	1,170,102
Interest expense	377,725	332,639	265,984	254,488
Total Governmental Activities	<u>20,382,496</u>	<u>20,442,012</u>	<u>19,550,067</u>	<u>19,135,970</u>
Business-Type Activities:				
State Parks	92,777	101,861	98,795	104,672
Kentucky Lottery Corporation	566,117	568,183	619,902	599,490
Kentucky Horse Park	14,804	13,521	11,411	12,799
Insurance Administration	232,100	107,286	(18,953)	117,817
Kentucky Public Employees' Health Plan	1,624,444	1,497,656	1,434,951	1,288,981
Unemployment Compensation	1,521,994	1,958,414	1,317,067	493,397
Total Business-Type Activities	<u>4,052,236</u>	<u>4,246,921</u>	<u>3,463,173</u>	<u>2,617,156</u>
Total Primary Government	<u>\$ 24,434,732</u>	<u>\$ 24,688,933</u>	<u>\$ 23,013,240</u>	<u>\$ 21,753,126</u>
<b>Net (Expense)/Revenue</b>				
Governmental Activities	\$ (11,184,223)	\$ (11,076,444)	\$ (11,443,044)	\$ (11,860,591)
Business-Type Activities	68,399	(186,700)	(327,267)	63,175
Total Primary Government Net Expense	<u>\$ (11,115,824)</u>	<u>\$ (11,263,144)</u>	<u>\$ (11,770,311)</u>	<u>\$ (11,797,416)</u>

	2007	2006	2005	2004	2003	2002
\$	375,662	\$ 374,655	\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
	14,558	13,667	11,314	11,111	9,755	8,752
	42,267	34,390	35,002	34,689	32,247	27,918
	85,538	102,783	106,059	14,185	8,789	9,298
	197,556	106,238	181,921	138,487	418,444	419,916
	22,189	33,185	22,790	23,011	18,631	32,730
	39,412	33,205	31,094	39,311	19,961	21,547
	64,260	63,341	53,629	69,194	71,829	55,609
	215,869	202,569	227,700	207,151	235,700	247,265
	5,261,989	5,139,428	4,915,115	4,528,038	4,583,434	4,366,372
	658,132	597,282	520,194	524,936	547,363	646,847
	<u>6,977,432</u>	<u>6,700,743</u>	<u>6,460,708</u>	<u>5,902,120</u>	<u>6,222,945</u>	<u>6,085,597</u>
	56,208	52,751	50,655	50,925	49,368	47,640
	744,222	742,312	707,260	725,252	673,485	638,728
	6,632	6,010	5,791	5,896	5,840	5,379
	130,994	178,305	133,380	129,084	157,109	133,749
	1,158,078	595,435				
	357,396	377,265	371,099	332,047	354,432	226,762
	46,798	45,573	49,509	130,212	210,488	220,812
	476	112	33	586	1,046	
	<u>2,500,804</u>	<u>1,997,763</u>	<u>1,317,727</u>	<u>1,374,002</u>	<u>1,451,768</u>	<u>1,273,070</u>
\$	<u>9,478,236</u>	<u>\$ 8,698,506</u>	<u>\$ 7,778,435</u>	<u>\$ 7,276,122</u>	<u>\$ 7,674,713</u>	<u>\$ 7,358,667</u>
\$	3,708,700	\$ 2,714,165	\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
	313,010	305,466	282,389	268,001	247,503	243,571
	96,486	103,996	81,639	128,548	80,459	88,229
	4,608,914	4,421,812	4,092,896	3,824,742	3,752,426	3,639,130
	6,468,225	6,259,383	5,897,619	5,630,683	5,646,075	5,576,596
	803,120	794,698	702,796	564,202	616,236	611,350
	191,052	207,369	164,498	150,380	136,057	114,496
	116,770	68,108	68,956	111,928	139,518	50,798
	1,123,493	1,263,891	1,191,512	1,020,786	1,062,576	1,093,070
	266,388	250,622	201,564	200,315	227,926	335,499
	<u>17,696,158</u>	<u>16,389,510</u>	<u>14,917,980</u>	<u>14,221,628</u>	<u>13,857,843</u>	<u>13,670,028</u>
	111,973	90,283	92,193	92,287	88,423	97,706
	563,549	558,435	552,410	554,880	515,629	475,944
	10,624	9,690	9,387	11,732	8,562	6,715
	176,338	70,683	101,312	77,241	83,536	156,851
	1,152,794	507,282				
	450,629	396,052	429,007	556,870	490,348	612,112
	<u>2,465,907</u>	<u>1,632,425</u>	<u>1,184,309</u>	<u>1,293,010</u>	<u>1,186,498</u>	<u>1,349,328</u>
\$	<u>20,162,065</u>	<u>\$ 18,021,935</u>	<u>\$ 16,102,289</u>	<u>\$ 15,514,638</u>	<u>\$ 15,044,341</u>	<u>\$ 15,019,356</u>
\$	(10,718,726)	\$ (9,688,767)	\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
	34,897	365,338	133,418	80,992	265,270	(76,258)
\$	<u>(10,683,829)</u>	<u>\$ (9,323,429)</u>	<u>\$ (8,323,854)</u>	<u>\$ (8,238,516)</u>	<u>\$ (7,369,628)</u>	<u>\$ (7,660,689)</u>

Continued

**COMMONWEALTH OF KENTUCKY**  
**GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2011	2010	2009	2008
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental Activities:				
Taxes:				
Sales and gross receipt	\$ 5,152,345	\$ 4,880,831	\$ 4,777,321	\$ 4,828,223
Individual income	3,451,268	3,125,824	3,359,471	3,512,908
Corporate income	317,578	235,654	278,103	397,842
Property	509,961	504,189	534,441	497,326
License and privilege	29,690	29,198	37,442	33,049
Severance	366,633	325,077	362,965	310,294
Inheritance and estate	45,144	38,058	43,237	51,423
Miscellaneous taxes	168,847	152,016	146,977	163,842
Unrestricted grants and contributions	14,071	9,365	10,263	11,923
Unrestricted investment earnings	7,146	9,531	(9,977)	31,335
Gain on sale of capital assets	9,727	22,682	12,730	10,123
Miscellaneous general	444,309	388,144	319,408	596,079
Transfers	206,078	172,007	264,032	126,716
Total General Revenues and Transfers	<u>10,722,797</u>	<u>9,892,576</u>	<u>10,136,413</u>	<u>10,571,083</u>
Change in Net Assets	(461,426)	(1,183,868)	(1,306,631)	(1,289,508)
Net Assets at July 1, as Restated	12,830,250	14,005,048	16,086,764	17,525,035
Net Assets at June 30	<u>\$ 12,368,824</u>	<u>\$ 12,821,180</u>	<u>\$ 14,780,133</u>	<u>\$ 16,235,527</u>
Business-Type Activities:				
Unrestricted grants and contributions	\$ 208	\$	\$	\$
Unrestricted investment earnings	56,203	47,657	(28,261)	16,531
Gain on sale of capital assets	597	1,844	38	59
Miscellaneous general	21,902	35,792	48,894	18,746
Transfers	(206,078)	(172,007)	(264,032)	(126,716)
Total General Revenues and Transfers	<u>(127,168)</u>	<u>(86,714)</u>	<u>(243,361)</u>	<u>(91,380)</u>
Change in Net Assets	(58,769)	(273,414)	(570,628)	(28,205)
Net Assets at July 1, as Restated	(789,694)	(526,859)	46,549	74,791
Net Assets at June 30	<u>\$ (848,463)</u>	<u>\$ (800,273)</u>	<u>\$ (524,079)</u>	<u>\$ 46,586</u>
<b>Change in Net Assets</b>				
Governmental Activities	\$ (461,426)	\$ (1,183,868)	\$ (1,306,631)	\$ (1,289,508)
Business-Type Activities	<u>(58,769)</u>	<u>(273,414)</u>	<u>(570,628)</u>	<u>(28,205)</u>
Total Primary Government Changes in Net Assets	<u>\$ (520,195)</u>	<u>\$ (1,457,282)</u>	<u>\$ (1,877,259)</u>	<u>\$ (1,317,713)</u>

**NOTE:** This schedule is presented on the accrual basis of accounting.

	2007	2006	2005	2004	2003	2002
\$	4,623,126	\$ 4,433,893	\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
	2,975,875	2,863,269	3,060,274	2,790,732	2,764,133	2,564,182
	961,204	1,013,768	476,524	311,284	290,403	607,213
	503,853	492,532	479,815	462,062	439,129	450,134
	42,738	73,679	142,962	142,048	162,929	92,953
	279,924	290,203	237,512	194,369	176,300	158,354
	49,574	40,498	66,766	66,287	93,553	94,609
	164,715	161,663	180,045	152,921	149,089	147,126
	731	723	1,836	69,037	68,721	2
	57,070	58,428	31,858	24,368	10,184	49,259
	3,288	4,637			(73,096)	(3,768)
	421,772	499,657	456,736	468,056	392,330	344,484
	169,150	187,101	141,338	201,712	231,828	184,084
	<u>10,253,020</u>	<u>10,120,051</u>	<u>9,307,118</u>	<u>8,663,080</u>	<u>8,359,038</u>	<u>8,031,714</u>
	(465,706)	431,284	849,846	343,572	724,140	447,283
	<u>17,842,898</u>	<u>17,387,699</u>	<u>16,599,992</u>	<u>16,326,992</u>	<u>15,546,140</u>	<u>15,178,801</u>
\$	<u>17,377,192</u>	<u>17,818,983</u>	<u>17,449,838</u>	<u>16,670,564</u>	<u>16,270,280</u>	<u>15,626,084</u>
\$	83,846	\$ 26,793	\$ 36,782	\$ 20	\$ (5,015)	\$ (370)
	72	30	61	21,259	19,251	7,178
	8,628	25,900	47,820	75	437	
	(169,150)	(187,101)	(141,338)	66,689	(1,987)	
	<u>(76,604)</u>	<u>(134,378)</u>	<u>(56,675)</u>	<u>(201,712)</u>	<u>(231,828)</u>	<u>(184,084)</u>
	(41,707)	230,960	76,743	(113,669)	(219,142)	(177,276)
	<u>34,159</u>	<u>(196,801)</u>	<u>(84,573)</u>	<u>(32,677)</u>	<u>46,128</u>	<u>(253,534)</u>
\$	<u>(7,548)</u>	<u>34,159</u>	<u>(7,830)</u>	<u>(49,234)</u>	<u>(106,870)</u>	<u>10,726</u>
				\$ (81,911)	\$ (60,742)	\$ (242,808)
\$	(465,706)	\$ 431,284	\$ 849,846	\$ 343,572	\$ 724,140	\$ 447,283
	<u>(41,707)</u>	<u>230,960</u>	<u>76,743</u>	<u>(32,677)</u>	<u>46,128</u>	<u>(253,534)</u>
\$	<u>(507,413)</u>	<u>662,244</u>	<u>926,589</u>	<u>310,895</u>	<u>770,268</u>	<u>193,749</u>

**COMMONWEALTH OF KENTUCKY  
PERSONAL INCOME TAX INFORMATION  
CALENDAR YEARS 2000 and 2009**

**Personal Income Tax Filers and Liability by Income Level ( C )**

KY Federal AGI ( from KY form 740) Income Level	Calendar Year 2009			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
<b>Resident Taxpayer</b>				
less than \$25,001	754,143	44.32%	\$ 233,713,589	7.80%
\$25,001-\$50,000	415,522	24.42%	526,143,480	17.56%
\$50,001-\$100,000	375,610	22.07%	969,971,503	32.37%
\$100,001-\$200,000	127,348	7.48%	674,155,005	22.50%
\$200,001-\$500,000	23,934	1.41%	323,814,008	10.81%
Greater than \$500,000	5,051	0.30%	268,268,710	8.95%
<b>Total Resident</b>	<b>1,701,608</b>	<b>100.00%</b>	<b>2,996,066,295</b>	<b>100.00%</b>
<b>Non-Resident Taxpayer</b>				
less than \$25,001	44,764	36.21%	4,927,729	3.39%
\$25,001-\$50,000	22,186	17.95%	11,583,028	7.97%
\$50,001-\$100,000	24,298	19.66%	21,230,229	14.61%
\$100,001-\$200,000	15,112	12.23%	21,910,695	15.08%
\$200,001-\$500,000	9,051	7.32%	20,055,588	13.81%
Greater than \$500,000	8,200	6.63%	65,562,562	45.13%
<b>Total Non-Resident</b>	<b>123,611</b>	<b>100.00%</b>	<b>145,269,831</b>	<b>100.00%</b>
<b>Totals</b>	<b>1,825,219</b>		<b>\$ 3,141,336,126</b>	

**Personal Income Tax Rates**

**Tax Years 2000 - 2009**

Tax Rate	2%	3%	4%	5%	6.0%
Income Bracket	\$0-3,000	\$3,001-4,000	\$4,001-5,000	\$5,001-8,000	\$8,001 and UP
	<b>2009</b>		<b>2000</b>		
Personal Income Tax Revenue	\$ 3,141,336,126	(A)	\$ 2,618,135,253		
Personal Income	99,850,000	(B)	68,851,883		
Average Effective Rate	3.2%		2.6%		

**Source of Tax Information:**

(A) Kentucky Department of Revenue

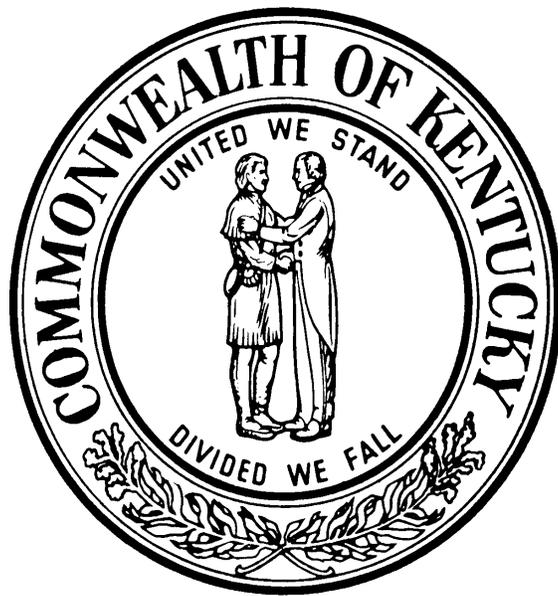
NOTE: Calendar year 2009 is the most current year for which data is available and calendar year 2000 was the first year for which comparable data was available.

(B) See Schedule of Personal Income

(C) This information is presented on a cash basis.

**Calendar Year 2000**

<b>Number of Filers</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
805,957	50.05%	\$ 218,426,319	8.68%
408,903	25.39%	551,103,310	21.91%
306,597	19.04%	843,345,292	33.53%
68,021	4.22%	394,353,831	15.68%
16,749	1.04%	243,645,359	9.69%
4,228	0.26%	264,123,850	10.50%
<b>1,610,455</b>	<b>100.00%</b>	<b>2,514,997,961</b>	<b>100.00%</b>
49,232	43.32%	5,390,760	5.23%
23,750	20.90%	12,641,801	12.26%
19,663	17.30%	20,389,476	19.77%
9,465	8.33%	17,063,873	16.54%
5,583	4.91%	12,843,514	12.45%
5,953	5.24%	34,807,868	33.75%
<b>113,646</b>	<b>100.00%</b>	<b>103,137,292</b>	<b>100.00%</b>
<b>1,724,101.00</b>		<b>\$ 2,618,135,253</b>	



**COMMONWEALTH OF KENTUCKY**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**FOR CALENDAR YEARS 2001-2010**  
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated	Assessed Value	Estimated	Assessed Value	Estimated	
		Actual Value		Actual Value		Actual Value	
2001	\$ 144,947,137	\$ 154,199,082	\$ 148,966,508	\$ 148,966,508	\$ 293,913,645	\$ 303,165,590	96.9%
2002	153,558,852	163,360,481	178,290,246	178,290,246	331,849,099	341,650,727	97.1%
2003	162,167,033	172,518,120	188,846,577	188,846,577	351,013,610	361,364,697	97.1%
2004	171,533,143	182,482,067	190,803,292	190,803,292	362,336,435	373,285,359	97.1%
2005	183,052,164	194,736,345	198,811,311	198,811,311	381,863,476	393,547,656	97.0%
2006	195,349,504	207,818,621	146,437,150	146,437,150	341,786,654	354,255,771	96.5%
2007	209,408,191	222,774,671	155,998,799	155,998,799	365,406,990	378,773,470	96.5%
2008	219,881,174	233,916,143	160,465,814	160,465,814	380,346,988	394,681,957	96.4%
2009	226,213,765	240,652,941	160,898,648	160,898,648	387,112,413	401,551,589	96.4%
2010	226,833,829	241,312,584	169,307,231	169,307,231	396,141,060	410,619,815	96.5%

SOURCE: Kentucky Department of Revenue

NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

**COMMONWEALTH OF KENTUCKY**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**FOR CALENDAR YEARS 2001-2010**  
(Expressed in Thousands, Except Percentages)

For the Year Ended June 30	Total Levied	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Weighted Average State Rate **
2001	\$ 416,490	\$ 386,890	92.9%	\$ 22,408	\$ 409,298	98.3%	67.14
2002	429,425	407,380	94.9%	22,045 *	429,425	100.0%	66.98
2003	450,348	414,399	92.0%	23,353	437,752	97.2%	68.35
2004	478,017	432,937	90.6%	18,813	451,750	94.5%	70.03
2005	505,847	451,949	89.3%	23,632	475,581	94.0%	71.12
2006	483,608	467,209	96.6%	16,299 *	483,508	100.0%	65.05
2007	513,301	483,127	94.1%	17,520	500,647	97.5%	66.45
2008	527,149	490,176	93.0%	22,946	513,122	97.3%	65.26
2009	530,822	491,218	92.5%	24,952	516,170	97.2%	64.26
2010	536,828	486,675	90.7%	28,141	514,816	95.9%	65.35

SOURCE: Kentucky Department of Revenue

NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two different assessment years.

\* Delinquent tax collections in excess of the current year levy have been allocated to prior years.

\*\* The weighted average state rate includes state and local rates and are expressed in cents per \$100 of assessed value.

**COMMONWEALTH OF KENTUCKY**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands, Except Ratio Data)

	2011	2010	2009	2008
<b>Governmental Activities Debt</b>				
Revenue Bonds (2)	\$ 6,241,628	\$ 5,959,846	\$ 4,429,520	\$ 3,617,080
Notes (2)	1,715,915	1,089,740	1,059,520	1,516,350
Capital Leases (2)	30,877	32,341	26,638	30,968
Total Government Activities Debt	<u>7,988,420</u>	<u>7,081,927</u>	<u>5,515,678</u>	<u>5,164,398</u>
<b>Business-Type Activities Debt</b>				
Notes (2)				
Capital Leases (2)	8,748	127	211	212
Total Business-Type Activities Debt	<u>8,748</u>	<u>127</u>	<u>211</u>	<u>212</u>
<b>Total Primary Government Debt</b>	<u>\$ 7,997,168</u>	<u>\$ 7,082,054</u>	<u>\$ 5,515,889</u>	<u>\$ 5,164,610</u>
<b>Total Debt Ratios</b>				
Ratio of Total Debt to Personal Income	<u>7.81%</u>	<u>7.09%</u>	<u>5.45%</u>	<u>5.21%</u>
Total Debt Per Capita (1)	<u>\$ 1,840.01</u>	<u>\$ 1,641.60</u>	<u>\$ 1,292.01</u>	<u>\$ 1,217.65</u>
<b>Net Bonded Debt</b>				
Gross Bonded Debt	\$ 6,241,628	\$ 5,959,846	\$ 4,429,520	\$ 3,617,080
Less: Debt Service Funds	137,921	197,802	353,391	405,028
Net Bonded Debt	<u>\$ 6,103,707</u>	<u>\$ 5,762,044</u>	<u>\$ 4,076,129</u>	<u>\$ 3,212,052</u>
<b>Net Bonded Debt Ratios</b>				
Ratio of Net Bonded Debt to Governmental Funds Revenues	<u>30.05%</u>	<u>29.54%</u>	<u>22.22%</u>	<u>17.97%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 1,404.36</u>	<u>\$ 1,335.63</u>	<u>\$ 954.77</u>	<u>\$ 757.30</u>

(1) Per Capita calculations are based on the population figures for the prior year. (See Demographics Schedule on page 212)

(2) See Note 15 for Debt Amounts

2007	2006	2005	2004	2003	2002
\$ 3,442,634	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046
910,310	554,790	373,990	186,970	31,475	81,535
39,079	28,450	32,518	17,252	8,565	24,712
<u>4,392,023</u>	<u>4,129,708</u>	<u>3,643,274</u>	<u>3,429,653</u>	<u>3,205,263</u>	<u>3,511,293</u>
			451		339
<u>197</u>	<u>307</u>	<u>275</u>	<u>245</u>	<u>77</u>	<u>183</u>
<u>197</u>	<u>307</u>	<u>275</u>	<u>696</u>	<u>77</u>	<u>522</u>
<u>\$ 4,392,220</u>	<u>\$ 4,130,015</u>	<u>\$ 3,643,549</u>	<u>\$ 3,430,349</u>	<u>\$ 3,205,340</u>	<u>\$ 3,511,815</u>
<u>4.64%</u>	<u>4.54%</u>	<u>4.26%</u>	<u>4.28%</u>	<u>4.42%</u>	<u>4.98%</u>
<u>\$ 1,044.26</u>	<u>\$ 989.60</u>	<u>\$ 878.83</u>	<u>\$ 833.05</u>	<u>\$ 783.15</u>	<u>\$ 863.10</u>
\$ 3,442,634	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046
415,386	403,002	314,554	317,665	354,836	329,267
<u>\$ 3,027,248</u>	<u>\$ 3,143,466</u>	<u>\$ 2,922,212</u>	<u>\$ 2,907,766</u>	<u>\$ 2,810,387</u>	<u>\$ 3,075,779</u>
<u>17.77%</u>	<u>18.45%</u>	<u>18.35%</u>	<u>18.26%</u>	<u>17.65%</u>	<u>19.32%</u>
<u>\$ 719.73</u>	<u>\$ 753.21</u>	<u>\$ 704.84</u>	<u>\$ 706.14</u>	<u>\$ 686.65</u>	<u>\$ 755.94</u>

**COMMONWEALTH OF KENTUCKY  
UNIVERSITY AND COLLEGE REVENUE BOND COVERAGE  
FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands, Except Ratio Data)

<b>Fiscal Year Ending June 30</b>	<b>Net Revenue Available For Debt Service</b>	<b>Debt Service Requirement</b>	<b>Coverage Ratio</b>
2002	269,609	66,828	4.03
2003	112,670	53,825	2.09
2004	337,945	54,034	6.25
2005	326,099	57,375	5.68
2006	499,346	57,141	8.74
2007	613,592	43,071	14.25
2008	235,398	47,782	4.93
2009	231,058	55,549	4.16
2010	308,774	61,448	5.02
2011	418,370	56,920	7.35

SOURCE: Commonwealth of Kentucky Comprehensive Annual  
Financial Reports; State universities' audited financial statements

**TOP 10 MANUFACTURERS/SUPPORTIVE SERVICE FIRMS**  
(Ranked by Number of Employees)  
CURRENT YEAR AND NINE YEARS AGO

<b>Company</b>	<b>2011</b>			<b>2002</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total Employment</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total Employment</b>
United Parcel Service, Inc.	13,085	1	0.68%			
Humana Inc.	9,909	2	0.51%			
Toyota Motor Corp.	9,482	3	0.49%	8,714	3	0.47%
Amazon.com	5,477	4	0.28%			
Ford Motor Co.	5,128	5	0.27%	10,900	1	0.58%
General Electric Co.	4,953	6	0.26%	9,725	2	0.52%
FMR LLC	3,900	7	0.20%			
Xerox Coporation	3,284	8	0.17%			
Berkshire Hathaway Inc.	3,092	9	0.16%			
Delta Air Lines, Inc.	2,700	10	0.14%			
Lexmark International Inc.				5,000	5	0.27%
Johnson Controls, Inc.				5,109	4	0.27%
Dana Corp.				4,592	6	0.25%
Emerson Electric Company				2,641	8	0.14%
Publishers Printing				2,583	9	0.14%
R.R. Donnelly and Sons Company				2,299	10	0.12%
Toyota Tsusho				3,821	7	0.21%
	<u>61,010</u>		<u>3.16%</u>	<u>55,384</u>		<u>2.97%</u>

SOURCE:  
Website Address: <http://www.thinkkentucky.com>  
<http://www.workforcekentucky.ky.gov>

**DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 2001-2010**

<b>For the Year Ended December 31</b>	<b>Estimated Population</b>	<b>Per Capita Income</b>	<b>Unemployment Rate</b>
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%
2003	4,117,827	26,252	6.2%
2004	4,145,922	27,709	5.3%
2005	4,173,405	28,513	6.1%
2006	4,206,074	29,352	5.7%
2007	4,241,474	31,111	5.5%
2008	4,269,245	31,826	6.4%
2009	4,314,113	32,306	10.5%
2010	4,346,266	32,376	10.5%

SOURCE: Website Addresses: <http://www.bea.gov>  
<http://www.bls.gov>

**COMMONWEALTH OF KENTUCKY**  
**SOURCES OF PERSONAL INCOME**  
**FOR CALENDAR YEARS 2001-2010**  
(Expressed in Thousands, Except Percent Data)

Source	2001		2002*		2003**		2004**		2005**	
	Amount	Percent								
Farm	\$ 973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%	\$ 580,000	0.7%	\$ 1,520,500	1.7%
Agriculture services, forestry, fisheries and others	521,571	0.7%	521,000	0.7%	383,250	0.5%	359,250	0.4%	369,750	0.4%
Mining	1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%	1,495,250	1.7%	1,879,750	2.1%
Manufacturing	13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%	16,142,000	18.9%	16,364,000	18.0%
Construction	4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%	4,819,750	5.6%	5,133,750	5.6%
Wholesale and retail trade	10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%	10,475,250	12.3%	10,857,250	11.9%
Finance, insurance and real estate	3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%	5,274,250	6.2%	5,487,250	6.0%
Transportation and public utilities	5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%	5,386,750	6.3%	5,452,500	6.0%
Services	16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%	24,756,000	29.0%	26,222,250	28.9%
Government and government enterprises	13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%	16,196,000	18.9%	17,594,750	19.4%
Earnings by Place of Work	<u>\$ 70,491,141</u>	<u>100.0%</u>	<u>\$ 72,498,000</u>	<u>100.0%</u>	<u>\$ 80,127,750</u>	<u>100.0%</u>	<u>\$ 85,484,500</u>	<u>100.0%</u>	<u>\$ 90,881,750</u>	<u>100.0%</u>

Source	2006**		2007**		2008**		2009**		2010**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 532,750	0.6%	\$ 1,040,750	1.0%	\$ 932,500	0.9%	\$ 1,364,000	1.4%	\$ 1,208,000	1.2%
Agriculture services, forestry, fisheries and others	422,500	0.4%	407,250	0.4%	421,500	0.4%	319,250	0.3%	316,000	0.3%
Mining	2,128,750	2.3%	2,227,000	2.2%	2,475,000	2.4%	2,121,000	2.1%	2,353,000	2.3%
Manufacturing	17,033,000	18.0%	17,069,000	17.2%	16,305,750	16.1%	13,446,500	13.5%	14,293,000	14.0%
Construction	5,225,750	5.5%	5,292,750	5.3%	5,356,750	5.3%	5,045,000	5.1%	4,726,000	4.6%
Wholesale and retail trade	11,430,750	12.1%	11,726,500	11.8%	11,870,500	11.7%	11,548,500	11.6%	11,456,000	11.2%
Finance, insurance and real estate	5,922,750	6.3%	6,345,250	6.4%	6,390,750	6.3%	5,979,500	6.0%	5,956,000	5.8%
Transportation and public utilities	5,653,750	6.0%	6,237,000	6.3%	6,008,000	5.9%	6,062,250	6.1%	6,130,000	6.0%
Services	27,810,500	29.3%	29,033,250	29.4%	30,718,250	30.5%	31,714,500	31.6%	32,939,000	32.1%
Government and government enterprises	18,420,500	19.5%	19,826,000	20.0%	20,809,250	20.5%	22,249,500	22.3%	23,014,000	22.5%
Earnings by Place of Work	<u>\$ 94,581,000</u>	<u>100.0%</u>	<u>\$ 99,204,750</u>	<u>100.0%</u>	<u>\$ 101,288,250</u>	<u>100.0%</u>	<u>\$ 99,850,000</u>	<u>100.0%</u>	<u>\$ 102,391,000</u>	<u>100.0%</u>

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov>)

NOTE: Percentages may not add to 100% due to rounding.

\* 2002 annual estimates computed with BEA table SQ5 by adding 4 quarters of 2002 and dividing by 4.

\*\* Annual estimates computed with BEA table SQ5N by adding 4 quarters of each year and dividing by 4.

Quarterly charts show each quarter as an annualized amount based on amounts to date.

Amounts are based on the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system used in previous years. This affects comparability of amounts. NAICS will be used in the future fiscal years.

**COMMONWEALTH OF KENTUCKY  
OPERATING INDICATORS BY FUNCTION  
FOR THE LAST SIX FISCAL YEARS**

	2011	2010	2009	2008	2007	2006
<b>Personnel</b>						
Number of Full Time Employees-						
Executive Branch	33,464	33,225	32,747	33,608	33,204	34,947
Health Insurance Expenditures -						
Percentage Increase/(decrease)	4.5%	18.7%	(1.3%)	6.1%	(1.8%)	29%
<b>Education</b>						
K-12 Enrollment	644,963	636,188	671,147	671,542	668,337	664,606
K-12 Attendance Rate	94.05%	94.18%	94.17%	94.18%	94.60%	94.31%
K-12 Graduation Rate	80.5%***	83.91%	84.52%	83.72%	83.26%	82.84%
Statewide Academic Index	*	*	*	82.20%	81.80%	78.30%
Average ACT Score	19.6	19.4	19.4**	20.9	20.7	20.6
GED Graduates	10,294	3,357	9,382	10,307	9,757	9,054
College Going Rate for 9th Graders	42%	42%	44%	38%	38%	37%
Postsecondary Education Enrollment	232,318	223,893	211,179	212,994	206,419	202,197
Bachelor's and Higher Degrees Awarded	29,911	28,798	27,983	27,246	27,042	26,544
<b>Justice and Public Safety</b>						
Incarcerated Population-Daily Average	20,785	20,798	21,470	22,219	20,772	19,943
Probation and Parole Population - Daily Average	41,534	39,364	38,933	39,206	33,642	33,643
<b>Health and Family Services</b>						
Medicaid Enrollment-Average	815,460	788,236	748,296	722,559	710,000	699,595
Food Stamp Recipients-Monthly Average	814,176	761,654	680,087	623,997	595,366	598,486
Temporary Assistance for Needy						
Families (TANF)-Monthly Average	50,583	58,049	48,368	48,743	68,260	69,696
Children with substantiated incidences	15,721	15,092	14,475	15,196	15,500	15,526
<b>Environmental and Public Protection</b>						
Air Pollution Source Inspections	3,390	5,910	3,085	4,310	4,000	4,600
Waste Management Inspections	6,155	7,060	5,910	6,443	7,500	7,200
Acres of Land Reforested	4,827	4,520	5,580	5,105	2,000	1,600
Mine Permits Issued	691	608	688	848	954	1,025
Mine Reclamation and Enforcement						
Inspections	25,392	25,686	24,890	26,062	22,898	22,001
Mine Safety-Completed Inspections	3,102	4,611	2,888	2,718	2,364	2,500
<b>Transportation</b>						
Percentage of Total Road System						
Needing Improvement	15.00%	17.70%	14%	15%	15%	14%
Statewide Road Maintainance						
Rating (Top Score = 80)	81.5	79.7	80.9	81.7	80.1	79.1
Daily Miles Traveled-Percentage						
Changed (as compared to 2005 Data)	0.20%	(0.1%)	0.0%	(0.5%)	0.1%	(0.3%)
State-Maintained Lane Miles-						
Annual Percent Change	0.30%	0.10%	1.6%	0.6%	0.2%	0.2%
Kentucky Road Construction Cost						
Index-Percent Increase (1987 Base Year)	36.29%	13.85%	22.69%	27.95%	32.0%	19.5%

\* The Statewide Academic Index is no longer generated.

\*\* First graduating class in which all students were required to take the ACT. A reduction was expected.

\*\*\*First year using Average Freshman Graduation Rate

**COMMONWEALTH OF KENTUCKY  
CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE LAST SIX FISCAL YEARS**

	2011	2010	2009	2008	2007	2006
<b><u>General Government</u></b>						
Number of Buildings	292	326	309	558	566	297
Number of Vehicles	394	365	356	411	487	258
Land (Acres)	14,968	14,614	14,293	13,352	14,108	13,294
<b><u>Commerce</u></b>						
Number of Resort Parks	17	17	17	17	17	17
Number of Recreation Parks	23	23	24	24	24	24
Number of Historic Sites	10	10	11	11	11	10
Area of State Parks (Acres)	42,397	42,035	42,597	42,428	42,428	45,137
<b><u>Education and Humanities</u></b>						
Number of Buildings	66	73	72	70	69	70
Number of Vehicles	105	101	113	123	134	209
Land (Acres)	388	388	388.4	372	388.4	388
<b><u>Human Resources</u></b>						
Number of Buildings	182	200	196	196	193	190
Number of Vehicles	45	46	40	150	165	215
Land (Acres)	1,206	1,206	1,206	1,007	1,206	1,206
<b><u>Justice</u></b>						
Number of Buildings	465	508	479	482	449	440
Number of Vehicles	2,102	1,863	1,861	1,696	1,668	3,911
Land (Acres)	8,865	8,867	8,903	6,166	5,314	9,044
<b><u>Natural Resources and Environmental Protection</u></b>						
Number of Buildings	21	26	26	26	27	25
Number of Vehicles	827	916	815	847	1,319	2,622
Land (Acres)	60,003	59,149	58,325	51,175	50,983	64,134
<b><u>Public Protection and Regulation</u></b>						
Number of Vehicles	118	121	90	76	86	44
<b><u>Transportation</u></b>						
Number of Lane Miles -State Maintained Highways	63,135	62,913	62,823	62,419	62,071	62,193
Number of State maintained Bridges	8,957	8,933	8,870	8,842	8,974	8,974
Land (Acres)	1,653	1,981	1,981	1,977	1,977	1,961

**COMMONWEALTH OF KENTUCKY  
OPERATING INFORMATION  
STATE GOVERNMENT EMPLOYEES BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS**

	2011	2010	2009	2008
<b><u>FULL-TIME EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	4,738	4,841	4,706	4,855
Legislative and judicial	3,502	3,597	3,759	3,730
Commerce	1,972	2,023	2,038	2,141
Education and humanities	2,696	2,712	2,760	2,967
Human resources	7,517	7,482	7,182	7,387
Justice	8,016	7,938	7,955	8,090
Natural resources and environmental protection	1,648	1,675	1,649	1,601
Public protection and regulation	1,113	1,127	1,102	1,208
Transportation	4,670	4,713	4,467	4,549
<b>Total full-time employees</b>	<b>35,872</b>	<b>36,108</b>	<b>35,618</b>	<b>36,528</b>
<b><u>PART-TIME and TEMPORARY EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	657	662	659	649
Legislative and judicial	476	483	539	574
Commerce	384	1,376	1,496	1,506
Education and humanities	198	306	219	228
Human resources	108	124	91	71
Justice	26	39	27	58
Natural resources and environmental protection	31	56	31	27
Public protection and regulation	30	31	14	15
Transportation	138	133	129	156
<b>Total part-time and temporary employees</b>	<b>2,048</b>	<b>3,210</b>	<b>3,205</b>	<b>3,284</b>
<b>Total Employees</b>	<b>37,920</b>	<b>39,318</b>	<b>38,823</b>	<b>39,812</b>

2007	2006	2005	2004	2003	2002
4,984	5,004	5,150	5,062	5,317	5,514
3,626	3,445	3,332	3,138	3,177	2,861
2,155	2,212	2,206	2,188	2,348	2,357
2,984	2,906	2,923	3,158	2,026	3,184
7,751	8,411	8,861	9,015	9,395	9,607
7,967	7,932	7,693	7,488	7,139	7,121
1,673	1,659	1,681	1,692	1,575	1,564
1,194	1,199	1,164	1,112	1,819	1,815
4,711	4,715	5,082	5,251	5,860	6,057
<u>37,045</u>	<u>37,483</u>	<u>38,092</u>	<u>38,104</u>	<u>38,656</u>	<u>40,080</u>
757	781	787	665	684	707
554	583	751	747	720	516
1,548	1,516	1,522	1,525	1,587	1,468
281	306	265	347	408	468
165	114	97	69	112	289
33	50	49	27	33	66
67	54	51	38	26	31
54	34	35	23	33	33
202	165	126	80	88	117
<u>3,661</u>	<u>3,603</u>	<u>3,683</u>	<u>3,521</u>	<u>3,691</u>	<u>3,695</u>
<u>40,706</u>	<u>41,086</u>	<u>41,775</u>	<u>41,625</u>	<u>42,347</u>	<u>43,775</u>

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