

Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2016



***Kentucky***   
**UNBRIDLED SPIRIT™**

Commonwealth of Kentucky Comprehensive Annual Financial  
Report for the Fiscal Year Ended June 30, 2016

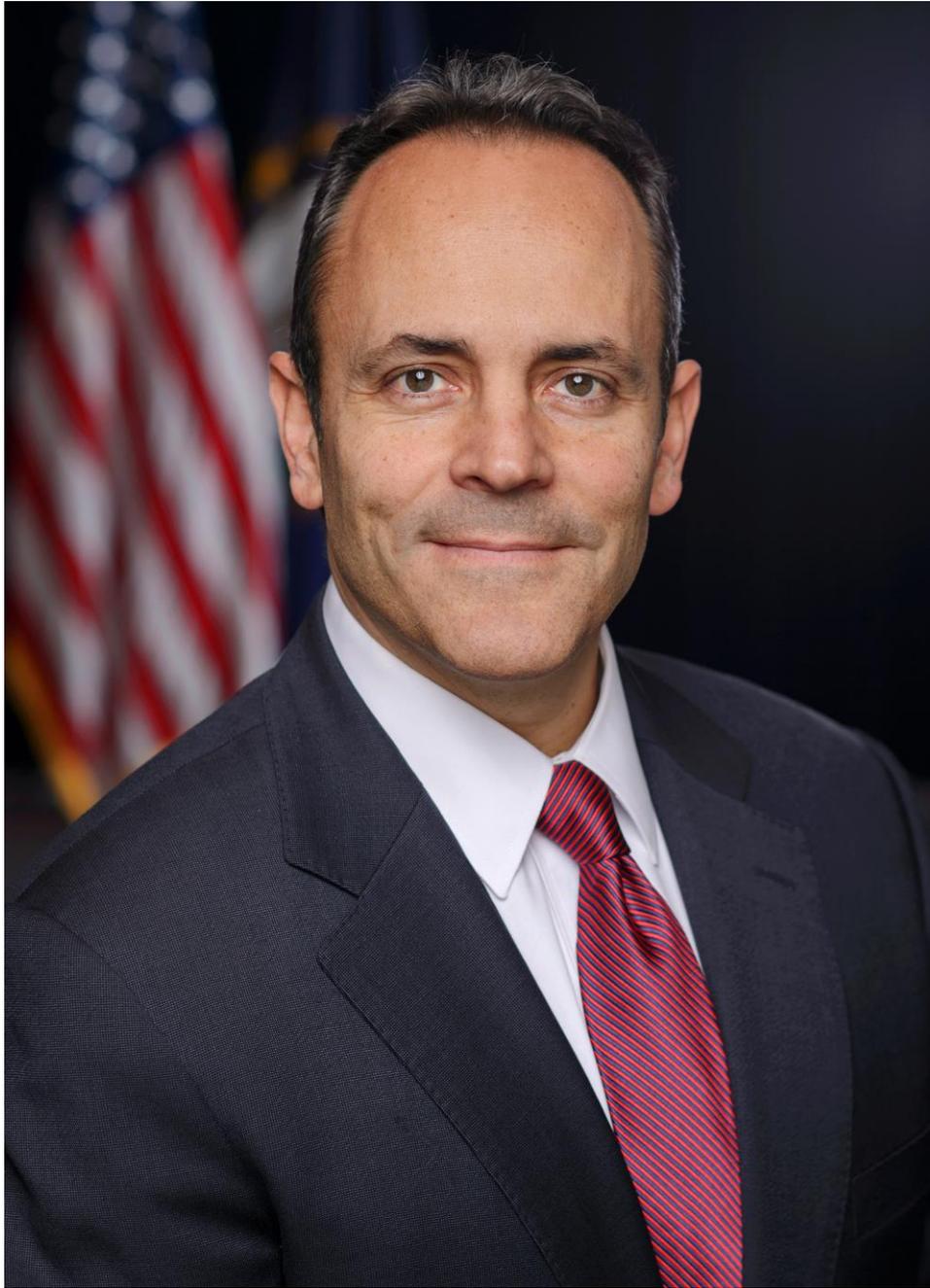
Matthew G. Bevin, Governor



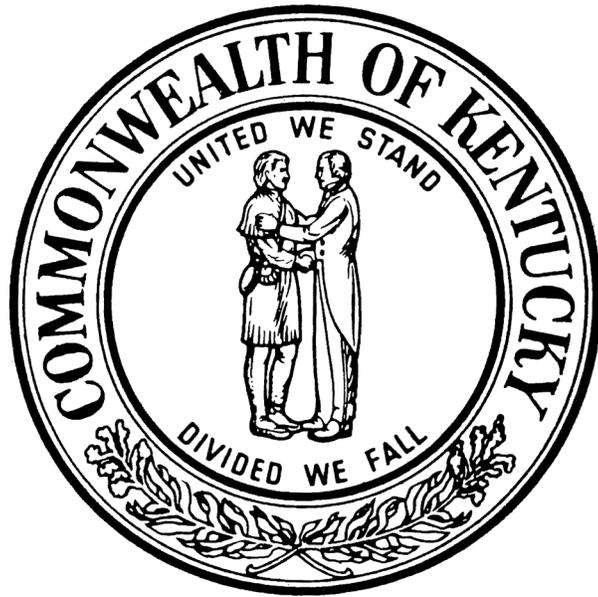
Prepared by:  
Finance and Administration Cabinet  
William M. Landrum III, Secretary

Office of the Controller  
Edgar C. Ross, Controller

Statewide Accounting Services  
Donald Sweasy, Executive Director



Matthew G. Bevin  
Governor



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# INTRODUCTORY SECTION

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 Finance and Administration Cabinet  
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**Matthew G. Bevin**  
 Governor

**William M. Landrum III**  
 Secretary

December 14, 2016

The Honorable Matthew G. Bevin, Governor  
 Members of the Kentucky General Assembly  
 Citizens of Kentucky

**INTRODUCTION**

Section 48.800 (3) of the Kentucky Revised Statutes (KRS) 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, 2016. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Office 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 audit 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, 2016, are fairly presented in conformity with Generally Accepted Accounting Principles (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 and GASB 61. 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, Turnpike Authority of Kentucky, Board of Agriculture, 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, Kentucky Gas Pipeline Authority, and KentuckyWired Infrastructure Company, Inc.



The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, Kentucky Lottery 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 Public Transportation Infrastructure Authority, 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. Encumbrances in all other funds lapse at the end of the fiscal year.

## **ECONOMIC CONDITION AND OUTLOOK**

### ***NATIONAL ECONOMY***

As we enter the second quarter of the 2017 fiscal year, the level of uncertainty facing the US economy is elevated due to the elections and the entry of a new administration, the anticipated actions of the Federal Reserve, and the anticipation of reductions in OPEC output. While the election cycle has ended, economic issues remain as policymakers continue to focus on the issues at hand.

The Bureau of Economic Analysis (BEA) released their third estimate of real GDP growth for the second calendar quarter, and the annualized rate of growth was revised upward to 1.4 percent from the previous estimate of 1.1 percent growth. Weighing down the estimate was inventory investment, which subtracted 1.2 percentage points from the estimated growth rate. Real final sales to domestic purchasers increased at a 2.4 percent annual rate, double the rate observed in the first quarter. Combined with these trends, two factors will help increase the growth in real GDP in the next few quarters.

The first of these growth factors will be a reversal of the role of inventories in the growth of real GDP. As the rate of inventory drawdowns increases through the fourth calendar quarter and then plateaus in the first half of calendar 2017, inventories will provide support for higher measured real GDP growth that more closely tracks growth in final sales. The second growth factor is an anticipated increase in business fixed investment, as the slow recovery in commodity prices continues. The price increases in the recovery stage will drive up expectations for future commodity prices, which should in turn foment an increase in capital spending in mining and petroleum production equipment and structures.

After reaching a nine-year high earlier this fiscal quarter, new home sales have declined and existing home sales have also seen reduced momentum. However, the 2016 calendar year completed sales are still on pace to be the highest observed since 2006. The story of the housing market is one of still fairly robust demand with a persistent lack of supply, as the lack of significant inventory expansion has led to record or near record high home prices in many areas. The overall demand for housing had been showing strength in spite of a limited supply of homes for sale, but the tight inventories are now hindering the overall housing market. Looking forward, homebuilders are expected to continue facing a challenge in hiring skilled labor, despite recent upward pressure in construction wages. The ratio of construction job openings to hires has been reported at the second highest level in the 15-year history of the data series.

The previous discussion highlights the continued uncertainty in what actions the Federal Reserve will take going forward. If the Federal Reserve's decision was based solely on household spending and employment trends, the Fed would have already raised rates without fear of creating a downturn. However, the Federal Reserve tracks several data series which show that the overall improvement in the economy has lacked the breadth of growth across many economic categories. Chief among these sectors has been business fixed investment, which has fallen in four of the previous five quarters. The weakness has been concentrated in oil and gas drilling, but with energy prices beginning to recover, rig counts are beginning to increase from their recent lows.

At the September meeting of the Federal Reserve committee, the target rate for the federal funds rate was held constant at 0.25-0.50 percent, with the committee stating that there was a desire to wait for "further evidence of the continued progress toward its objectives" before raising the target rate again. Market commentators have often criticized the Federal Reserve for making statements that lack clear conviction, but the language of their statements and the number of dissenting votes would seem to indicate that the ground work has been laid for an increase in the federal funds rate of 25 basis points to occur in December. As the labor market continues to improve and inflation moves toward the Federal Reserve's two percent target, interest rates will be expected to rise further. The overall expectation is for the federal funds rate to increase to 2.0 percent by the end of calendar 2018.

### *Kentucky Economy*

Employment gains in the Commonwealth should slightly lag the national average, with growth in the non-farm sector of 1.0 percent for the remainder of the fiscal year. However, growth in employment in the goods producing sector is expected to slightly decline, with growth forecasted to be -0.3 percent in the remaining three quarters of fiscal year 2017. The strongest sector of employment growth in the goods producing sectors is expected to be in construction with 4.1 percent growth. Employment in government—including federal, state, and local—is expected to continue to remain weak as government at all levels adjust to continued budgetary constraints. Overall, the sector is expected to increase by 0.7 percent for the remainder of fiscal year 2017.

Kentucky personal income growth is expected to be 4.4 percent over the forecast horizon, slightly lagging the national the average of 4.5 percent. The continued increased growth in personal income and wages and salaries will continue to influence the rate of revenue collection for the General Fund. Specifically, the sales and use tax accounts for approximately one-third of the Commonwealth's revenues. The forecast is for continued growth in the collection of sales and use taxes, with 3.1 percent growth expected for the remainder of the fiscal year. The combination of increasing income growth and continued increases in employment is also helping to fuel increased corporate income tax collections, which are forecasted to increase by 5.5 percent over the levels collected in the previous fiscal year.

Of particular interest to the Kentucky economy has been the robust increase in US light-vehicle sales over the last six years. After reaching a nadir in 2009, the market for new cars and trucks had reached an all-time record level in 2015. For calendar year 2016, sales have continued to remain strong, but there is growing concern that the market could be reaching a plateau. While recent months have shown surprisingly strong sales growth, the growth has come at the expense of vehicle profit margins, as manufacturers have begun having to offer more incentives to spur sales. Additionally, the average length of a new car loan has reached a record level, at 68 months; and, the average credit quality of borrowers has declined while the amount borrowed and the amount of the monthly payment have reached record highs. Overall, these trends are expected to continue as manufacturers attempt to move their 2016 model-year vehicles to make way for 2017 models. For the Kentucky economy, the trends in light-vehicle sales will be closely watched.

***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 2016 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$1,137,083	4.4 %	\$1,468

No general obligation bonds were authorized or outstanding at June 30, 2016.

A detailed analysis of the Commonwealth’s debt issuance during the fiscal year ended 2016 is presented in Note 15.

***Major Initiatives***

Fiscal year 2016 was the second fiscal year of the Commonwealth's 2014-16 biennial budget period. The Commonwealth of Kentucky is one of three states that enact a biennial budget in an even-numbered year; meaning that the fiscal year 2015 and 2016 budgets were enacted in the 2014 Regular Session of the Kentucky General Assembly. General Fund revenue growth was 3.7 percent in fiscal year 2016, which was \$49 million above the budgeted estimate and contributed to a \$52.7 million year-end General Fund surplus. Road Fund revenues decreased by 2.9 percent which resulted in a \$36.6 million revenue surplus. In fiscal year 2016, General Fund spending increased by 1.8% percent, and Road Fund spending decreased by 5.8% percent.

The General Fund 1.8 percent spending growth was focused in the three areas: elementary and secondary education (35 percent of the spending growth), the Medicaid program (29 percent of the spending growth), and criminal justice (29 percent of the spending growth). Outside those areas, most other areas of spending declined for the eighth consecutive fiscal year. Some areas of the government have incurred up to 41.5 percent in General Fund budget reductions since fiscal year 2008.

Fiscal year 2016 marked the second year of a 30-year financing plan for the unfunded liability of the Kentucky Employees Retirement System. The actuarially defined contribution was fully funded. Fiscal year 2016 was the final phase-in year that sufficiently pre-funds the Teachers' Retirement System medical costs, involving additional financial participation from active school district employees, the 173 Kentucky school districts, existing retirees under age 65, and the Commonwealth.

Fiscal year 2016 was the fourth year of a major policy initiative to implement managed care in the Medicaid program while controlling overall Medicaid costs. The dramatic increases in Medicaid costs required significant fiscal year 2016 spending reductions in other areas of government. To further address the cost issues, the Commonwealth initiated a process to obtain federal approval of modifications of selected federally mandated components of Medicaid. The modifications are focused on the recently expanded Medicaid population, that is, those with income between 100% and 138% of the federal poverty level. The Commonwealth also initiated negotiations that will result in savings in the financial arrangements with managed care service providers.

During the fiscal year, the financial crisis in the Commonwealth's pension systems attracted increased awareness. The next two fiscal years' budgets have fully funded the actuarially defined contribution for the Kentucky Employees' Retirement Systems and provided additional funding beyond it to bring down the unfunded liabilities. Those budgets also provided nearly half a billion more each year to near fully fund the actuarial defined contribution. Also, the Commonwealth began the process to hire consultants for a Pension Performance and Best Practices Analysis.

Other policy initiatives initiated during the last six months of fiscal year 2016 included reduced government spending in many areas of government, and in the 2016 Session of the General Assembly there was new approval of a \$100 million workforce development bond for projects, increased education assistance funding, beginning the "Cut the Red Tape" regulatory reform initiative, establishing the Kentucky Council on Criminal Justice Reform, passing legislation that clarifies the rules for the Commonwealth to enter into financial arrangements with private businesses (Public Private Partnerships), and performance funding requirements for Postsecondary education institutions.

The Commonwealth's capital program for the 2014-16 biennial period included \$747.8 million in General Fund bond funded projects. That amount is about the average for the previous seven biennial budgets. Capital expenditures during fiscal year 2016 were about \$825 million from all fund sources. That figure excludes capital expenditures on roads and bridges which are separate from the capital budget. In the prior two fiscal years, capital spending was around \$580 million each year. About 40 percent of the new 2014-16 funding was focused on the Commonwealth's nine public postsecondary education institutions. Water and sewer infrastructure projects and local school construction reflected about 35 percent of the new funding, including \$196.9 million for urgent needs schools that do not have the local bonding capacity to complete badly needed renovations or replacements. The Education and Workforce Development Cabinet received authority to finance \$100 million worth of projects to support capital investments in education and training facilities across the state, some of which may be able to leverage private funds to complete the projects.

## **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, 2015. This is the 29th 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, the Kentucky Transportation Cabinet's Division of Graphic Design and Printing, 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,

A handwritten signature in cursive script that reads "William M. Landrum". The signature is written in black ink and includes a horizontal line at the end.

William M. Landrum III, Secretary  
Finance and Administration Cabinet



**MATTHEW G. BEVIN**  
Governor

**Commonwealth of Kentucky**  
**FINANCE AND ADMINISTRATION CABINET**  
**OFFICE OF THE CONTROLLER**  
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**WILLIAM M. LANDRUM III**  
Secretary

**EDGAR C. ROSS**  
Controller

December 14, 2016

The Honorable William M. Landrum, III  
Secretary, Finance and Administration Cabinet  
383 New Capitol Annex  
Frankfort, Kentucky 40601

Dear Secretary Landrum:

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, 2016, 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



Government Finance Officers Association

**Certificate of  
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Reporting**

Presented to

**Commonwealth of Kentucky**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

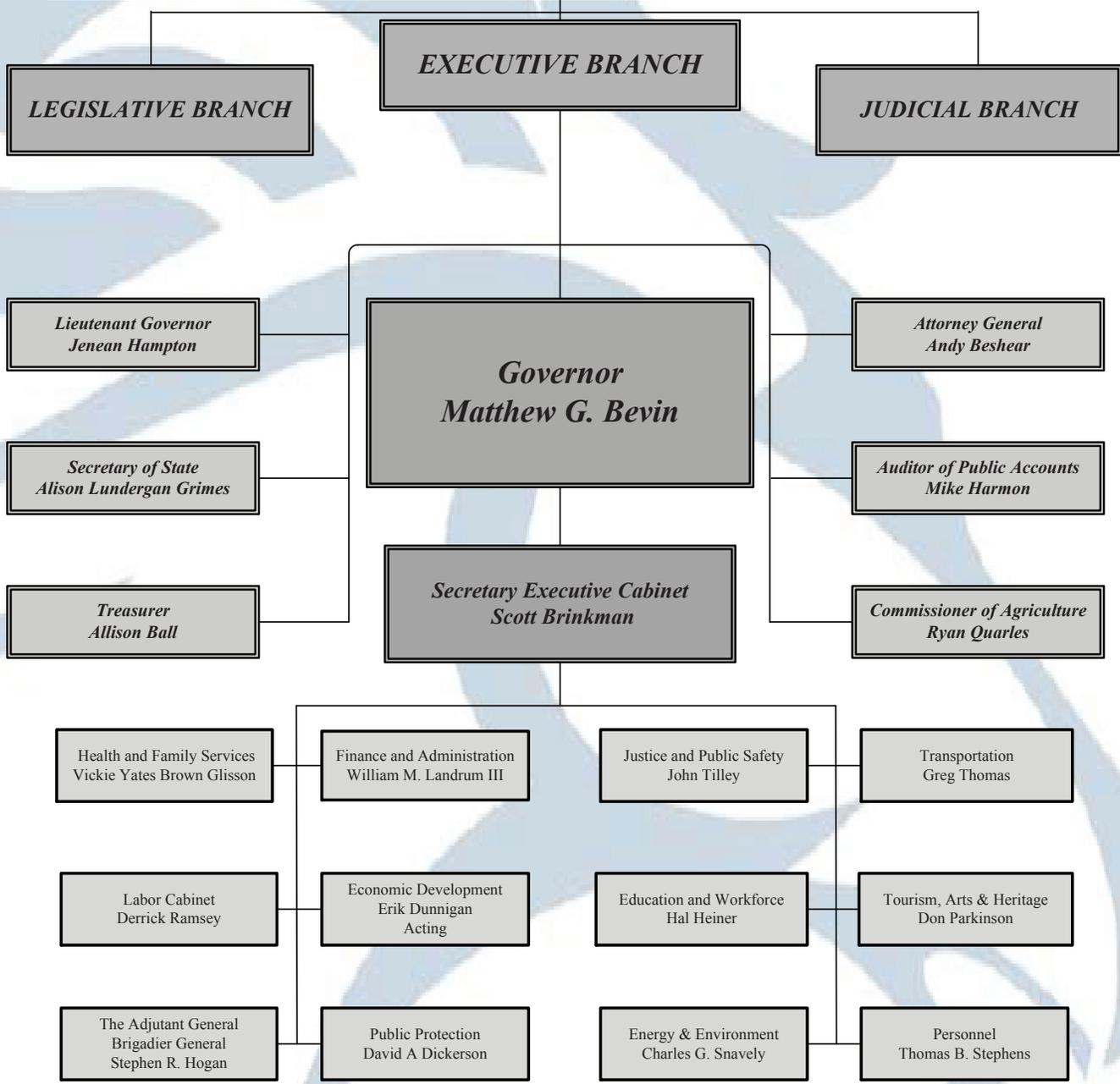
**June 30, 2015**

Executive Director/CEO

# COMMONWEALTH OF KENTUCKY

## ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



\*Principal Officials at June 30, 2016

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## **FINANCIAL SECTION**

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

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet

**Independent Auditor's Report**

***Report on the Financial Statements***

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, 2016, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express 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 solely on 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 Program

**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

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D



To the People of Kentucky  
 The Honorable Matthew G. Bevin, Governor  
 William M. Landrum III, Secretary  
 Finance and Administration Cabinet  
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**Certain Fiduciary Funds including:**

- Kentucky Retirement System
- Kentucky Public Employees' Deferred Compensation Authority
- Kentucky Teachers' Retirement System

**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 Higher Education Student Loan Corporation
- Kentucky State Fair Board
- Kentucky Horse Park Foundation, Incorporated
- Kentucky Housing Corporation
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky Lottery 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
- 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	1.67 %	.08 %
Primary Government - Business-Type Activities	30.83 %	.84 %
Component Units	92.12 %	99.03 %
<b>Fund Financial Statements:</b>		
Governmental Funds - Non-Major Funds	49.81 %	2.30 %
Proprietary Funds - Business-Type Activities - Enterprise Funds	30.81 %	4.95 %
Proprietary Funds - Governmental Activities - Internal Service Funds	3.78 %	10.11 %
Fiduciary Funds - Pension and Insurance Trust Funds	98.85 %	98.65 %
Component Units	92.12 %	99.03 %

The financial reporting framework used by the Turnpike Authority of Kentucky is different than the financial reporting framework used for the group financial statements. As the auditor of the group financial statements, we have applied audit procedures on the conversion adjustments to the financial statements of the Turnpike Authority of Kentucky, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for the Turnpike Authority of Kentucky, prior to these conversion adjustments, is based solely on the report of the other auditors.

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

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The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
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entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the reports of the 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, 2016, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

An audit report of the financial statements for Kentucky State University has not been released as of the date of this report, and therefore, amounts presented are unaudited. Kentucky State University's financial activities have been included in the basic financial statements as discretely presented component units and represent .717 percent of assets and .710 percent of revenues, of the Commonwealth's aggregate discretely presented component units.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 25, budgetary comparison schedules and corresponding notes on pages 146 through 161, and information about infrastructure assets reported using the modified approach on pages 162 through 165, claims development information for entity risk pools on pages 166 and 167, Schedule of Contributions on page 168 through 176, Schedule of Changes in Net Pension Liability and Related Ratios on page 178 and 179, and the Schedule of Commonwealth's Proportionate Share of the Net Pension Liability on page 180, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming 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 184 through 237 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, the combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the People of Kentucky  
The Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet

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*Other Information*

The Introductory and Statistical sections presented in this report on pages 2 through 10 and pages 240 through 261 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

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* in considering the Commonwealth's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Harmon  
Auditor of Public Accounts

December 14, 2016

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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, 2016. 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 liabilities of the Commonwealth's governmental activities exceeded its assets at fiscal year ending June 30, 2016, by \$15.1 billion, a decrease in net position of \$922.2 million related to current year activity. Assets of the Commonwealth's business-type activities exceeded liabilities by \$472.5 million, an increase in net position of \$360.3 million related to current year activity. Total net position decreased by \$561.9 million to (\$14.6) billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2016, by \$8.5 billion, an increase of \$374.3 million related to current year activity.

This negative net position of the governmental activities occurred when the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 68 and No. 71 (GASB 68 and 71), *Accounting and Financial Reporting for Pensions* the provisions of which require the Commonwealth, as a participating employer in the Kentucky Employees Retirement System, the State Police Retirement System, the Teachers Retirement System, the Judicial Retirement Plan and the Legislators' Retirement Plan (the Plans), to reflect in the Statement of Net Position its proportionate share of the net pension liability of the Plans. The adoption of this pronouncement resulted in a decrease of \$24.6 billion in the Commonwealth's beginning net position on the 2015 Financial Statements. The pension systems will continue to be under funded over the next several years until the Commonwealth's current and future plans to better fund these systems gradually reduce this liability.

There were fluctuations in Governmental Activities, these fluctuations will be discussed by fund under the section titled **Financial Analysis of the Commonwealth's Individual Funds**.

#### **Fund Highlights:**

As of the close of FY 16, the Commonwealth's governmental funds reported combined ending fund balances of \$2.3 billion, a net decrease of \$301.6 million in comparison with the prior year. Approximately 78.49 percent or \$1.8 billion of the ending fund balance is restricted. There is unrestricted (committed, assigned, or unassigned) fund balance of \$402.6 million available for spending either at the government's discretion or upon legislative approval.

Enterprise funds reported net position of \$472.5 million, of which \$663.4 million was restricted or invested in capital assets and the balance of (\$190.9) million was unrestricted.

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

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$4.3 million to \$7.6 billion during the current fiscal year.

There were fluctuations in Primary Governmental Activities, these fluctuations will be discussed by fund under the section titled **Financial Analysis of the Commonwealth's Individual Funds**.

## 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; claims development information; and pension related schedules*) 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 Position* 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 beginning on Page 53.

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>Table 1. Major Features of the Commonwealth of Kentucky’s Government-Wide and Fund Financial Statements</b>				
	<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 Position  Statement of Activities	Balance Sheet  Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fund Net Position  Statement of Revenues, Expenses, and Changes in Fund Net Position Statement of Cash Flows	Statements of Fiduciary Net Position  Statement of Changes in Fiduciary Net Position
<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 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 Position

Net position may serve as a useful indicator of a government's financial position. The Commonwealth's combined net position (governmental and business-type activities) totaled (\$14.6) billion at the end of FY 16, as compared to (\$14) billion at the end of the previous year.

The largest portion of the Commonwealth's net position, \$22.2 billion, is net investment 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 position, totaling \$1.2 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 position. The unrestricted net position, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is (\$38) 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 position 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 position.

Table 2 below presents the Commonwealth's condensed statement of net position as of June 30, 2016 and June 30, 2015, derived from the government-wide Statement of Net Position.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 5,648,975	\$ 5,424,568	\$ 1,953,429	\$ 1,487,121	\$ 7,602,404	\$ 6,911,689
Capital Assets	24,172,064	23,537,288	305,311	315,834	24,477,375	23,853,122
Other Assets	383	333			383	333
Total Assets	29,821,422	28,962,189	2,258,740	1,802,955	32,080,162	30,765,144
Deferred outflows of resources	2,927,000	954,689	33,289	13,621	2,960,289	968,310
Non Current Liabilities	42,905,383	39,567,582	1,286,855	1,363,999	44,192,238	40,931,581
Other Liabilities	3,666,272	2,757,808	531,769	337,023	4,198,041	3,094,831
Total Liabilities	46,571,655	42,325,390	1,818,624	1,701,022	48,390,279	44,026,412
Deferred inflows of resources	1,240,506	1,732,999	898	3,311	1,241,404	1,736,310
Net investment in capital assets	21,955,878	21,288,572	293,958	303,571	22,249,836	21,592,143
Restricted	847,543	984,229	369,431	212,629	1,216,974	1,196,858
Unrestricted	(37,867,160)	(36,414,312)	(190,882)	(403,957)	(38,058,042)	(36,818,269)
Total Net Position	\$ (15,063,739)	\$ (14,141,511)	\$ 472,507	\$ 112,243	\$ (14,591,232)	\$ (14,029,268)

## Changes in Net Position

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 position changed during FY 16. The Commonwealth received program revenues of \$15 billion and general revenues (including transfers) of \$12.1 billion for total revenues of \$27.1 billion during FY 16. Expenses for the Commonwealth during FY 16 were \$27.6 billion, which resulted in a total increase of the Commonwealth's net position in the amount of \$553.6 million, net of contributions, transfers and special items.

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

	2016 Governmental Activities	2015 Governmental Activities	2016 Business-Type Activities	2015 Business-Type Activities	2016 Total	2015 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,620,640	\$ 1,366,738	\$ 2,533,236	\$ 2,639,949	\$ 4,153,876	\$ 4,006,687
Operating Grants and Contributions	9,956,639	9,270,753	954		9,957,593	9,270,753
Capital Grants and Contributions	872,127	865,320		149	872,127	865,469
General Revenues:						
Income Taxes	4,801,048	4,604,837			4,801,048	4,604,837
Sales Taxes	5,787,853	5,714,300			5,787,853	5,714,300
Property Taxes	584,823	570,998			584,823	570,998
Other Taxes	441,538	492,126			441,538	492,126
Investment Earnings	1,650	4,264	29,381	14,971	31,031	19,235
Other	421,157	430,747	5,176	5,693	426,333	436,440
Total Revenues	<u>24,487,475</u>	<u>23,320,083</u>	<u>2,568,747</u>	<u>2,660,762</u>	<u>27,056,222</u>	<u>25,980,845</u>
Expenses:						
Governmental Activities:						
General Government	4,544,453	2,557,827			4,544,453	2,557,827
Legislative and Judicial	446,233	433,354			446,233	433,354
Commerce	122,430	110,041			122,430	110,041
Education and Humanities	4,970,560	5,822,980			4,970,560	5,822,980
Human Resources	12,088,721	11,098,078			12,088,721	11,098,078
Justice	1,006,195	952,071			1,006,195	952,071
Natural Resources and Environmental Protection	190,919	190,532			190,919	190,532
Public Protection and Regulation	97,921	107,258			97,921	107,258
Transportation	1,602,621	1,819,570			1,602,621	1,819,570
Interest Expense	372,787	341,922			372,787	341,922
Business-type Activities:						
State Parks			113,679	110,220	113,679	110,220
Kentucky Horse Park			21,049	19,278	21,049	19,278
Kentucky Public Employees Health Plan			1,498,925	1,420,292	1,498,925	1,420,292
Insurance Administration			189,476	116,723	189,476	116,723
Unemployment Compensation			343,857	340,223	343,857	340,223
Total Expenses	<u>25,442,840</u>	<u>23,433,633</u>	<u>2,166,986</u>	<u>2,006,736</u>	<u>27,609,826</u>	<u>25,440,369</u>
Increase (Decrease) in Net Position Before Transfers	(955,365)	(113,550)	401,761	654,026	(553,604)	540,476
Transfers	41,497	108,470	(41,497)	(108,470)		
Change in Net Position	<u>(913,868)</u>	<u>(5,080)</u>	<u>360,264</u>	<u>545,556</u>	<u>(553,604)</u>	<u>540,476</u>
Net Position, July 1, as restated	(14,149,871)	(14,136,431)	112,243	(433,313)	(14,037,628)	(14,569,744)
Net Position, June 30	<u>\$ (15,063,739)</u>	<u>\$ (14,141,511)</u>	<u>\$ 472,507</u>	<u>\$ 112,243</u>	<u>\$ (14,591,232)</u>	<u>\$ (14,029,268)</u>

## Governmental Activities:

During the fiscal year, the change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was (\$922.2) million or 6.52 percent. Approximately 47.5 percent of the governmental activities' total revenue came from taxes, while 44.2 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: Governmental Activities (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program (Expenses)	
			Revenue	
General Government	\$ 4,544,453	\$ 1,011,977	\$	(3,532,476)
Legislative and Judicial	446,233	31,721		(414,512)
Commerce	122,430	96,303		(26,127)
Education and Humanities	4,970,560	1,056,695		(3,913,865)
Human Resources	12,088,721	8,904,486		(3,184,235)
Justice	1,006,195	68,938		(937,257)
Natural Resources and Environmental Protection	190,919	108,097		(82,822)
Public Protection and Regulation	97,921	97,720		(201)
Transportation	1,602,621	1,073,469		(529,152)
Interest Expense	372,787			(372,787)
<b>Totals</b>	<b>\$ 25,442,840</b>	<b>\$ 12,449,406</b>	<b>\$</b>	<b>(12,993,434)</b>

## Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities increased the Commonwealth's net position by \$360,264 million. Program revenues generated by the operations of the State Parks and the Kentucky Horse Park 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 Public Employees Health Plan, Insurance Administration and Unemployment Compensation were sufficient to cover program expenses.

Table 5: Business Type Activities (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program (Expenses)	
			Revenue	
State Parks	\$ 113,679	\$ 51,424	\$	(62,255)
Kentucky Horse Park	21,049	12,930		(8,119)
Kentucky Public Employees Health Plan	1,498,925	1,739,913		240,988
Insurance Administration	189,476	130,825		(58,651)
Unemployment Compensation	343,857	599,098		255,241
<b>Totals</b>	<b>\$ 2,166,986</b>	<b>\$ 2,534,190</b>	<b>\$</b>	<b>367,204</b>

## Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2016, include the following:

- The liabilities of the State's governmental activities now exceed assets (net position) at the close of the fiscal year. Liabilities exceeded assets by (\$15.1) billion and the State's business-type activities now have assets that exceed liabilities (net position) by \$472.5 million.
- The State's total net position decreased during the year by \$561.9 million. Net position of governmental activities decreased by (\$922.2) million, while net position of business-type activities increased by \$360.3 million
- The net position of the governmental activities continues to be a negative because of the implementation of GASB 68 and 71 and the subsequent restatement of the fiscal year 2015 financial statements.

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

At June 30, 2016, the Commonwealth's governmental funds reported combined ending fund balances of \$2.3 billion, a net increase of \$301.6 million in comparison with the prior year. \$96.9 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The \$1.8 billion is restricted for certain purposes and is not available to fund current operations. The \$402.6 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it 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, 2016, was \$355 million. The balance reported reflects an increase of \$250.6 million from the previously reported amount, which represents an increase of 240%. The major factor for the increase in fund balance is an increase in revenues of \$346 million or 3.4%.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$5.5 million represents the nonspendable amount. The unrestricted had a balance of \$349.6 million, therefore is available for spending at the government's discretion or upon legislative approval.

### Major Special Revenue Funds

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced an increase in intergovernmental revenues of \$684.2 million. Expenditures increased by very small amounts across a majority of all functions, except for CHFS which experienced an increase in expenditures of \$587.8 million. The federal receipts and expenditures for CHFS was approximately \$9 billion resulting in a 5.8% increase in expenditures for total federal expenditures which is well within a normal change for an agency of this size. The Transportation Fund experienced a slight decrease in revenues due to decrease tax receipts and an increase in expenditures, resulting in a decrease in fund balance of \$114.3 million.

**Proprietary Funds** - The Commonwealth's proprietary funds reported net position of \$366.8 million, which included \$472.5 million in the enterprise funds and (\$105.7) million in the internal service funds. This is a total increase in net position of \$355.5 million from the previous year. This change in net position involved two funds, the Kentucky Public Employees Health Plan which had an increase in net position of \$179 million for the 2016 fiscal year and the Unemployment Compensation Fund which had an increase of \$218.6 million for the 2016 fiscal year. This change is not unusual when considering that in the 2015 fiscal year there was an increase in net position of \$568.2 which in 2015 moved the net position of these two funds from a negative net position to a positive net position. There were insignificant variances between the 2016 fiscal year and the 2015 fiscal year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, as the national and state economy began to improve, the official revenue forecast for the General Fund was increased. The General Fund revenues, for the year, were more than the final budgetary estimates by approximately \$51 million. Actual expenditures for the year were approximately \$361.9 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, 2016, amounts to \$25.9 billion, with accumulated depreciation of \$1.4 billion, leaving a net book value of \$24.5 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 2.6 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$883.3 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$104.2 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 63,586 lane miles of roads and approximately 9,016 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 eight years.
- Actual expenditures necessary to maintain and preserve infrastructure assets at target condition levels were approximately 132.6 million more than the reported estimate of \$1.1 billion for fiscal year 2016.

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 \$340.2 million to \$6.5 billion, a 5.5% increase during the current fiscal year. The major factors in this increase is the issuance of new debt to advance refund debt outstanding to reduce future interest cost and the issuance of new debt to fund new projects authorized during fiscal year 2016. No general obligation bonds were authorized or outstanding at June 30, 2016. 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 BUDGET AND RATES

While FY 16 was a very favorable year for the Kentucky economy, and many forward-looking indicators are positive, there is increasing uncertainty about the state's outlook reflective of conditions nationally. Multiple entities have revised their GDP forecasts downward throughout the fourth quarter, partially due to discouraging news from abroad. Kentucky is not immune to external shocks, and the Kentucky Cabinet for Economic Development has recently expressed concerns about export growth due to the headwinds from a stronger dollar and weaker trading partners. Kentucky currently ranks in the top ten among US states for growth of international exports; exports grew 1.2 percent in the third quarter despite declining US export growth overall. The United Kingdom has traditionally been the Commonwealth's second-largest destination for exports, so the recent weakening of the pound due to Brexit could have negative implications for Kentucky's manufacturing sector. This event happened after the forecast for this report was generated, and its implications have not yet been incorporated.

Slower international economic growth, however, is helping keep downward pressure on the prices for gasoline, construction supplies, and interest rates. One of the brightest spots in the outlook is the housing and construction sector. The most recent Burgundy Book produced by the Louisville office of the St. Louis Federal Reserve noted that office construction has been remarkably higher than last year and that there was evidence of increases in speculative multi-family building. The latest Census data indicate that new permits to build single-family housing units in Kentucky are up almost 12 percent from the same quarter last year, indicating an increased expectation of building in the coming months. Accordingly, the GOEA MAK model projects that construction employment growth will be 3.3 percent over the first three quarters of FY 17, stronger than employment growth overall.

A majority of businesses surveyed by the Federal Reserve report that they expect to raise wages for at least some positions at a higher rate than in previous years. Indeed, the latest data indicate that Kentuckians' wages and salaries will grow at a rate above five percent in the first two quarters of FY 17, and that Kentuckians' personal incomes will grow at or just above the US average. Should it hold, this rate of growth would be the envy of several states. The latest leading index for the 50 states as published by the Philadelphia Federal Reserve indicates that Kentucky's economy will be among the highest in growth over the next two quarters.

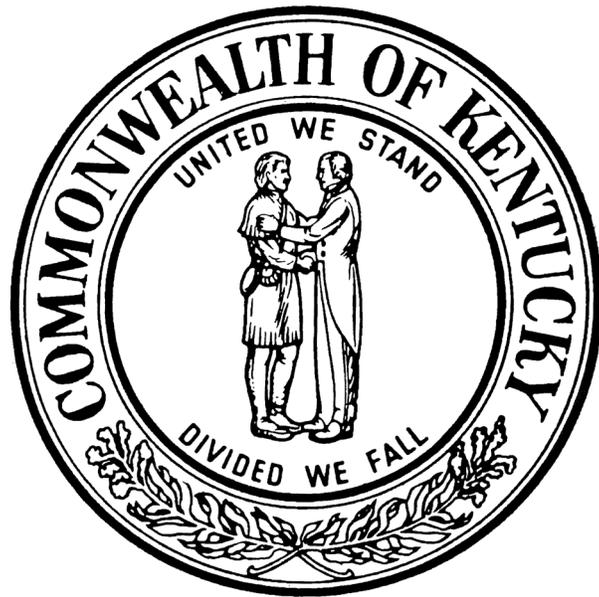
One enduring reason for Kentucky's growth in recent years is its automobile and transportation parts manufacturing sectors benefiting from record national demand for automobiles and transportation equipment. A recent study by Toyota found that its payroll alone now accounts for 1.6 percent of total employee compensation in Kentucky. The latest data from the Bureau of Labor Statistics show that employment growth in durable goods transportation equipment is up 7.1 percent year-over-year. Motor vehicle manufacturing employment is up 9.3 percent. With the announced expansions and additions of major automobile manufacturers in the Commonwealth last year additional jobs in these sectors are expected into FY 17. While the latest data for the quarter from the US Census suggest the growth of US new orders for transportation equipment, motor vehicles, and parts are decelerating, new orders are still up significantly from the same period in FY 15 and suggest further growth in employment in these areas. The deceleration in the growth of new orders, however, warrants some concern and revisions will be monitored closely, especially in light of the fact that many auto parts are exported to the UK and the Eurozone.

One reason for the boom in automobile and automotive parts manufacturing is low gasoline prices. This encourages greater miles driven. The Federal Highway Administration's latest report in this quarter indicates cumulative travel on US roads is up 3.7 percent year-over-year. This bodes well for the state's travel and tourism industry and should continue, since energy prices and unemployment are widely forecast to remain low. But the low energy prices continue to be a drag on mining output and related employment, adversely affecting several counties. However, the Kentucky MAK model's forecast, based on Global Insight's national forecast, suggests that mining and natural resources employment may have hit its bottom and can expect some relief as energy prices pick up later in FY 17.

As a whole, the forecast is positive and suggests Kentuckians can be optimistic about employment prospects and income growth. However, this depends upon how the US economy weathers the coming months. This in turn will have a great bearing on whether the Kentucky Outlook holds up.

## **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 Capital 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 POSITION**  
**JUNE 30, 2016**

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 5)	\$ 1,099,278	\$ 485,091	\$ 1,584,369	\$ 1,553,276
Cash on deposit with the federal Government (Note 5)		183,134	183,134	
Cash with fiscal agents (Note 5)	16,136		16,136	
Restricted cash (Note 5)	3,258		3,258	
Restricted investments (Note 5)		233,132	233,132	
Investments, net of amortization (Note 5)	1,492,138	385,915	1,878,053	1,983,843
Invested security collateral (Note 5)	583,274	281,771	865,045	
Receivables, net (Note 4)	2,262,990	295,948	2,558,938	3,764,138
Notes receivable	5,055	122	5,177	
Capital lease receivable (Note 4)	167,775		167,775	
Internal balances (Note 7)	(68,965)	68,965		
Inventories	78,220	16,781	95,001	46,734
Prepaid expenses	7,292	2,570	9,862	30,695
Unamortized cost of issuance	2,524		2,524	
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)				833,732
Investments (Note 5)				1,848,639
Capital assets (Note 6):				
Land	237,239	24,040	261,279	315,842
Improvements other than buildings	30,464	148,137	178,601	547,991
Buildings	1,527,455	349,348	1,876,803	7,784,121
Machinery and equipment	665,370	22,430	687,800	2,083,475
Other capital assets				140,079
Easements and other intangibles	189,608	2,322	191,930	
Less: Accumulated depreciation and amortization	(1,124,677)	(256,241)	(1,380,918)	(4,854,283)
Construction in progress	2,352,565	15,275	2,367,840	1,629,293
Infrastructure	20,294,040		20,294,040	44,263
Total Capital Assets	24,172,064	305,311	24,477,375	7,690,781
Other assets	383		383	268,317
Total Assets	29,821,422	2,258,740	32,080,162	18,020,155
Deferred outflows of resources (Note 15)	2,927,000	33,289	2,960,289	302,414
<b>Liabilities</b>				
Accounts payable (Note 4)	1,759,729	36,976	1,796,705	614,570
Tax refunds payable	369,433		369,433	
Interfund loans payable (Note 7)				
Unearned revenue	2,655	765	3,420	212,311
Other liabilities				156,518
Liabilities from restricted assets				34,557
Obligations under securities lending	583,274	281,771	865,045	
Noncurrent liabilities:				
Due within one year (Note 15)	951,181	212,257	1,163,438	388,938
Due in more than one year (Note 15)	42,905,383	1,286,855	44,192,238	7,882,022
Total Liabilities	46,571,655	1,818,624	48,390,279	9,288,916
Deferred inflows of resources (Note 15)	1,240,506	898	1,241,404	507,366
<b>Net Position</b>				
Net investment in capital assets	21,955,878	293,958	22,249,836	4,683,694
Restricted for:				
Debt service	136,673		136,673	353,606
Capital projects	281,679		281,679	235,385
Highways	429,191		429,191	
Unemployment benefits		369,431	369,431	
Other purposes (Note 1)				3,470,278
Unrestricted	(37,867,160)	(190,882)	(38,058,042)	(216,676)
Total Net Position	\$ (15,063,739)	\$ 472,507	\$ (14,591,232)	\$ 8,526,287

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(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	\$ 4,544,453	\$ 818,313	\$ 177,695	\$ 15,969
Legislative and judicial	446,233	27,802	3,919	
Commerce	122,430	51,991	42,115	2,197
Education and humanities	4,970,560	59,712	995,281	1,702
Human resources	12,088,721	208,967	8,628,603	66,916
Justice	1,006,195	30,880	38,058	
Natural resources and environmental protection	190,919	41,941	66,156	
Public protection and regulation	97,921	92,908	4,812	
Transportation	1,602,621	288,126		785,343
Interest expense	372,787			
Total Governmental Activities	<u>25,442,840</u>	<u>1,620,640</u>	<u>9,956,639</u>	<u>872,127</u>
Business-Type Activities:				
State Parks	113,679	51,424		
Kentucky Horse Park	21,049	12,930		
Kentucky Public Employees Health Plan	1,498,925	1,739,913		
Insurance Administration	189,476	130,825		
Unemployment Compensation	343,857	598,144	954	
Total Business-Type Activities	<u>2,166,986</u>	<u>2,533,236</u>	<u>954</u>	
Total Primary Government	<u>\$ 27,609,826</u>	<u>\$ 4,153,876</u>	<u>\$ 9,957,593</u>	<u>\$ 872,127</u>
<b>Component Units:</b>				
Authorities:				
Kentucky Housing Corporation	\$ 288,473	\$ 88,700	\$ 221,969	\$
Kentucky Higher Education Student Loan Corporation	29,845	28,833		
Kentucky Lottery Corporation	984,979	983,842		
Kentucky Public Transportation Infrastructure Authority	60,510			8,075
Universities, Colleges, & Related Entities:				
University of Kentucky	2,888,039	2,214,231	389,557	165,896
University of Louisville	1,229,672	912,048	103,416	
Kentucky Community and Technical College System	602,479	104,663	96,759	
Other component units	1,844,251	783,125	152,135	32,706
Total Component Units	<u>\$ 7,928,248</u>	<u>\$ 5,115,442</u>	<u>\$ 963,836</u>	<u>\$ 206,677</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 Position				
Net Position at July 1, As Restated (Note 2)				
Net Position at June 30				

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



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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 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 that 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 ..... 184

**COMMONWEALTH OF KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents (Note 5)	\$ 633,869	\$ 30,753	\$ 20,074	\$ 82,093	\$ 27,861	\$ 32	\$ 250,435	\$ 1,045,117
Cash with fiscal agents (Note 5)						16,136		16,136
Restricted cash (Note 5)			3,258					3,258
Investments, net of amortization (Note 5)	6,926	281,941		502,566	248,931	838	434,537	1,475,739
Invested security collateral	182,150	90,833		176,292	80,198		53,802	583,275
Receivables, net (Note 4)	938,962	145,007	965,767	83,036	11,390		117,653	2,261,815
Notes receivable			260	2,669			1,938	4,867
Capital lease receivable (Note 4)						167,775		167,775
Interfund receivables (Note 7)	10,271	914	9,541	69,516	625		128,580	219,447
Interfund loans receivable (Note 7)		803		33,890			13,148	47,841
Inventories	5,465	67,158	205	3,002			22	75,852
Total Assets	<u>\$ 1,777,643</u>	<u>\$ 617,409</u>	<u>\$ 999,105</u>	<u>\$ 953,064</u>	<u>\$ 369,005</u>	<u>\$ 184,781</u>	<u>\$ 1,000,115</u>	<u>\$ 5,901,122</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable (Note 4)	\$ 584,430	\$ 90,701	\$ 942,723	\$ 87,183	\$ 6,142	\$	\$ 8,973	\$ 1,720,152
Tax refunds payable	369,433							369,433
Interfund payables (Note 7)	113,392	2,221	42,195	9,246	336		122,786	290,176
Interfund loans payable (Note 7)	4,503			6,884			32,525	43,912
Obligations under securities lending	182,150	90,833		176,292	80,198		53,802	583,275
Unearned revenue			456	348			1,693	2,497
Total Liabilities	<u>1,253,908</u>	<u>183,755</u>	<u>985,374</u>	<u>279,953</u>	<u>86,676</u>		<u>219,779</u>	<u>3,009,445</u>
Deferred inflows of resources								
Unavailable	<u>168,715</u>	<u>4,463</u>	<u>111,311</u>	<u>33,132</u>	<u>650</u>	<u>167,775</u>	<u>83,992</u>	<u>570,038</u>
<b>Fund Balances:</b>								
Nonspendable (Note 1)	5,465	67,158	465	5,671		16,136	1,960	96,855
Restricted for (Note 1)		362,033		593,725	281,679	870	583,878	1,822,185
Committed to (Note 1)				26,108			106,967	133,075
Assigned to (Note 1)	30,765			14,475			3,539	48,779
Unassigned (Note 1)	318,790		(98,045)					220,745
Total Fund Balances	<u>355,020</u>	<u>429,191</u>	<u>(97,580)</u>	<u>639,979</u>	<u>281,679</u>	<u>17,006</u>	<u>696,344</u>	<u>2,321,639</u>
Total Liabilities and Fund Balances	<u>\$ 1,777,643</u>	<u>\$ 617,409</u>	<u>\$ 999,105</u>	<u>\$ 953,064</u>	<u>\$ 369,005</u>	<u>\$ 184,781</u>	<u>\$ 1,000,115</u>	<u>\$ 5,901,122</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 POSITION  
JUNE 30, 2016  
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds		\$ 2,321,639
Amounts reported for governmental activities in the statement of net position 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	314,526	
Buildings, equipment, and other depreciable assets	1,842,237	
Infrastructure	20,294,040	
Accumulated depreciation	(837,156)	
Construction in progress	<u>2,274,200</u>	23,887,847
Certain revenues are earned but not available, and therefore, are deferred in the funds.		570,038
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		10,198
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 Position.		(105,695)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Capital lease obligations	(35,221)	
Compensated absences	(226,791)	
Pollution remediation obligations	(13,869)	
Judgements and contingencies	(318,118)	
Lexington-Fayette Urban County Government Public Facilities Corporation (LFUCGPFC) - Memorandum of Understanding (MOU) obligations	(125,480)	
Net pension obligations and related deferred outflows/inflows	<u>(32,354,942)</u>	(33,074,421)
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 Position. This is the net effect of these balances on the statement:		
Bonds payable	(6,563,747)	
Notes payable	(1,399,140)	
Unamortized premiums and discounts	(523,769)	
Less deferred amounts on refundings	(72,418)	
Accrued interest payable	<u>(114,271)</u>	<u>(8,673,345)</u>
Net Position of Governmental Activities		<u>\$ (15,063,739)</u>

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, 2016**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes	\$ 9,976,752	\$ 1,314,771	\$ 341	\$ 417,222	\$	\$	\$ 21,414	\$ 11,730,500
Licenses, fees, and permits	32,243	149,270		197,428			1,134	380,075
Intergovernmental	10,627		10,677,969	47,249	87,327		1,502	10,824,674
Charges for services	254,814	8,847	1,094	603,938	183	178,662	255,003	1,302,541
Fines and forfeits	34,541	31		8,260			18,828	61,660
Interest and other investment income	799	3,824	1,226	6,373	10,639	1,213	7,427	31,501
Increase (decrease) in fair value of investments	(354)	(929)		(958)	(2,824)	1	(1,076)	(6,140)
Securities lending income	1,194	595		1,156	525			3,470
Other revenues	46,258	3,524	78,238	327,904	514	1,379	126,965	584,782
<b>Total Revenues</b>	<b>10,356,874</b>	<b>1,479,933</b>	<b>10,758,868</b>	<b>1,608,572</b>	<b>96,364</b>	<b>181,255</b>	<b>431,197</b>	<b>24,913,063</b>
<b>Expenditures</b>								
Current:								
General government	1,506,165		120,214	181,967			454,695	2,263,041
Legislative and judicial	391,222		3,812	49,053				444,087
Commerce	36,004		25,892	48,290			304	110,490
Education and humanities	4,433,874		1,002,866	47,240			74,834	5,558,814
Human resources	2,378,145		8,726,195	965,778			25,495	12,095,613
Justice	741,252		35,531	96,612			1,472	874,867
Natural resources and environmental protection	65,720		63,028	48,034			5,514	182,296
Public protection and regulation	17,423		4,723	77,562			1,882	101,590
Transportation	6,285	1,415,861	720,849	208,836			214,844	2,566,675
Debt service:								
Principal retirement	7,359			8,896		442,113	158,175	616,543
Interest and fiscal charges						240,676	95,891	336,567
Other expenditures						6,578	8,105	14,683
Securities lending	756	377		732	333		223	2,421
Capital outlay:								
Buildings					477,916			477,916
<b>Total Expenditures</b>	<b>9,584,205</b>	<b>1,416,238</b>	<b>10,703,110</b>	<b>1,733,000</b>	<b>478,249</b>	<b>689,367</b>	<b>1,041,434</b>	<b>25,645,603</b>
Excess (Deficiency) of Revenues over (under) Expenditures	772,669	63,695	55,758	(124,428)	(381,885)	(508,112)	(610,237)	(732,540)
<b>Other Financing Sources (Uses)</b>								
Transfers in	136,510	1,517	20	472,271	62,823	497,192	752,636	1,922,969
Transfers out	(659,056)	(182,628)	(94,031)	(386,339)	(28,433)		(557,220)	(1,907,707)
Capitalized leases	1,303	107	148	1,076				2,634
Issuance of bonds:								
New issues					302,414		523,911	826,325
Refunding issues						572,721	415,956	988,677
Premiums				13,650	24,256	117,293	76,411	231,610
Discounts							(2,420)	(2,420)
Issuance of notes:								
New issues				106,850				106,850
Payments to refunded bond escrow agent						(682,174)	(434,142)	(1,116,316)
<b>Total Other Financing Sources (Uses)</b>	<b>(521,243)</b>	<b>(181,004)</b>	<b>(93,863)</b>	<b>207,508</b>	<b>361,060</b>	<b>505,032</b>	<b>775,132</b>	<b>1,052,622</b>
<b>Net Change in Fund Balances</b>	<b>251,426</b>	<b>(117,309)</b>	<b>(38,105)</b>	<b>83,080</b>	<b>(20,825)</b>	<b>(3,080)</b>	<b>164,895</b>	<b>320,082</b>
Fund Balances at July 1, As Restated	104,359	543,533	(59,404)	556,777	302,504	20,086	531,465	1,999,320
Increase (decrease) in inventories	(765)	2,967	(71)	122			(16)	2,237
<b>Fund Balances at June 30</b>	<b>\$ 355,020</b>	<b>\$ 429,191</b>	<b>\$ (97,580)</b>	<b>\$ 639,979</b>	<b>\$ 281,679</b>	<b>\$ 17,006</b>	<b>\$ 696,344</b>	<b>\$ 2,321,639</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, 2016**

(Expressed in Thousands)

Net Change in Fund Balances-Total Governmental Funds \$ 320,082

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	(116,183)	
Donated assets, fair market value	2,484	
Buildings, equipment, and other depreciable assets	78,092	
Infrastructure	701,818	
Accumulated depreciation	<u>(70,808)</u>	595,403

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 99,910

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

Prepaid expenses	7,293	
Inventories	<u>2,237</u>	9,530

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. (17,138)

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

Capital lease payments	6,318	
Compensated absence payments	1,472	
Pollution remediation payments	(5,628)	
Litigation payments	(300,648)	
Lexington-Fayette Urban County Government Public Facilities Corporation (LFUCGPFC) - Memorandum of Understanding (MOU) obligations	4,600	
Excess contributions to pension funds	<u>(1,033,804)</u>	(1,327,690)

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 position. 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 and note proceeds and premiums received	(2,151,042)	
Repayment of bond principal	612,093	
Payment to refunded bond escrow agent	1,037,962	
Accrued interest	(47,131)	
Loss on refunding	(2,953)	
Unamortized issue costs	<u>(42,894)</u>	<u>(593,965)</u>

Change in Net Position of Governmental Activities \$ (913,868)

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 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.

*Kentucky Reclamation Guaranty Fund* provides coverage to reclaim surface mined land when the permit holder has forfeited bonds posted for such purpose.

### Kentucky Public Employees Health Insurance Plan

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, local boards of education, and quasi-governmental agencies.

### 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 .....194

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Horse Park	Insurance Administration
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 2,584	\$ 434	\$ 92,985
Cash on deposit with the federal government (Note 5)			
Invested security collateral (Note 5)			281,771
Receivables, net (Note 4)	1,832	760	382
Interfunds receivable (Note 7)	197	8	294
Inventories	1,391	337	15,053
Prepaid expenses	69		2,286
Total Current Assets	<u>6,073</u>	<u>1,539</u>	<u>392,771</u>
Noncurrent assets:			
Restricted investments (Note 5)			
Investments, net of amortization (Note 5)	15,239	517	370,159
Receivables, net		122	
Capital assets (Note 6):			
Land	19,587	4,453	
Improvements other than buildings	117,339	30,798	
Buildings	248,107	101,241	
Machinery and equipment	14,723	5,567	2,140
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(213,617)	(41,388)	(1,236)
Construction in progress	10,718	2,341	2,216
Total Capital Assets	<u>199,179</u>	<u>103,012</u>	<u>3,120</u>
Total Noncurrent Assets	<u>214,418</u>	<u>103,651</u>	<u>373,279</u>
Total Assets	<u>220,491</u>	<u>105,190</u>	<u>766,050</u>
Deferred outflows of resources (Note 15)	<u>17,604</u>	<u>1,991</u>	<u>11,060</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable (Note 4)	5,362	1,400	1,896
Interfunds payable (Note 7)	652	57	354
Interfund loans payable (Note 7)			
Claims liability (Note 15)			79,909
Claims adjustment liability (Note 15)			5,520
Capital lease obligations (Note 10) (Note 15)	761	387	
Compensated absences (Note 15)	3,430	525	1,071
Unearned revenue	765		
Obligations under securities lending			281,771
Total Current Liabilities	<u>10,970</u>	<u>2,369</u>	<u>370,521</u>
Noncurrent liabilities:			
Claims liability (Note 15)			926,701
Claims adjustment liability (Note 15)			54,072
Capital lease obligations (Note 10) (Note 15)	8,381	1,824	
Compensated absences (Note 15)	2,020	28	374
Net pension liability (Note 8) (Note 15)	148,574	17,838	86,203
Other liabilities (Note 15)			
Total Noncurrent Liabilities	<u>158,975</u>	<u>19,690</u>	<u>1,067,350</u>
Total Liabilities	<u>169,945</u>	<u>22,059</u>	<u>1,437,871</u>
Deferred inflows of resources (Note 15)		690	208
<b>Net Position</b>			
Net investment in capital assets	190,037	100,801	3,120
Restricted for:			
Unemployment benefits			
Unrestricted	(121,887)	(16,369)	(664,089)
Total Net Position	<u>\$ 68,150</u>	<u>\$ 84,432</u>	<u>\$ (660,969)</u>

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

Enterprise Funds		Governmental	
Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2016	Activities- Internal Service Funds
\$ 382,796	\$ 6,292	\$ 485,091	\$ 54,161
	183,134	183,134	
78,121	214,853	281,771	1,175
69,968		295,948	2,294
		70,467	2,366
		16,781	
215		2,570	
<u>531,100</u>	<u>404,279</u>	<u>1,335,762</u>	<u>59,996</u>
233,132		233,132	
		385,915	16,399
		122	188
		24,040	17,761
		148,137	3,133
		349,348	338,468
		22,430	132,337
		2,322	1,674
		(256,241)	(287,521)
		15,275	78,365
		<u>305,311</u>	<u>284,217</u>
<u>233,132</u>		<u>924,480</u>	<u>300,804</u>
<u>764,232</u>	<u>404,279</u>	<u>2,260,242</u>	<u>360,800</u>
<u>2,634</u>		<u>33,289</u>	<u>23,997</u>
18,736	9,582	36,976	14,520
	439	1,502	529
			3,930
120,386		200,295	24,015
		5,520	784
		1,148	7,737
268		5,294	4,975
		765	159
		281,771	
<u>139,390</u>	<u>10,021</u>	<u>533,271</u>	<u>56,649</u>
		926,701	184,607
		54,072	4,573
		10,205	15,106
14		2,436	2,629
15,294		267,909	224,024
705	24,827	25,532	
<u>16,013</u>	<u>24,827</u>	<u>1,286,855</u>	<u>430,939</u>
<u>155,403</u>	<u>34,848</u>	<u>1,820,126</u>	<u>487,588</u>
		898	2,904
		293,958	261,374
	369,431	369,431	
611,463		(190,882)	(367,069)
<u>\$ 611,463</u>	<u>\$ 369,431</u>	<u>\$ 472,507</u>	<u>\$ (105,695)</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Business-Type Activities-</b>		
	<b>State Parks</b>	<b>Kentucky Horse Park</b>	<b>Insurance Administration</b>
<b>Operating Revenues:</b>			
Charges for sales and services:			
State parks sales and services	\$ 51,424		
Horse park admissions and sales		12,930	
Insurance receipts			130,825
Unemployment insurance receipts			
Internal service fund receipts			
Other services	2,069	802	2,305
Total Operating Revenues	<u>53,493</u>	<u>13,732</u>	<u>133,130</u>
<b>Operating Expenses:</b>			
Personal services	63,985	9,326	28,572
Utilities, rental, and other services	15,439	3,901	3,022
Commodities and supplies	20,606	3,637	1,968
Grants and subsidies			194
Depreciation and amortization	11,649	4,098	272
Travel	303	15	363
Reinsurance expense			
Claims expense	363		150,374
Claims adjustment expense			(4,124)
Other expenses	667		4
Total Operating Expenses	<u>113,012</u>	<u>20,977</u>	<u>180,645</u>
Operating Income (Loss)	<u>(59,519)</u>	<u>(7,245)</u>	<u>(47,515)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of capital assets	(44)	11	(4)
Interest and other investment income			11,947
Securities lending income			326
Increase (decrease) in fair value of investments			15,562
Interest expense	(623)	(72)	(14)
Other revenues (expenses)			(8,813)
Total Nonoperating Revenues (Expenses)	<u>(667)</u>	<u>(61)</u>	<u>19,004</u>
Income (Loss) before Capital Contributions and Transfers	(60,186)	(7,306)	(28,511)
Capital contributions			
Transfers in	70,355	2,972	183
Transfers out	(939)		(13,903)
Change in Net Position	<u>9,230</u>	<u>(4,334)</u>	<u>(42,231)</u>
Net Position at July 1, As Restated	58,920	88,766	(618,738)
Net Position at June 30	<u>\$ 68,150</u>	<u>\$ 84,432</u>	<u>\$ (660,969)</u>

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

Enterprise Funds		Totals	Governmental
Kentucky Public Employees Health Plan	Unemployment Compensation	June 30, 2016	Activities- Internal Service Funds
\$	\$	\$	\$
1,624,815	598,144	51,424	
		12,930	
		1,755,640	
		598,144	
115,098		120,274	224,279
<u>1,739,913</u>	<u>598,144</u>	<u>2,538,412</u>	<u>18,129</u>
			<u>242,408</u>
8,651	1	110,535	107,053
1,761	35	24,158	39,612
9,070	343,821	379,102	58,329
		194	602
		16,019	17,376
6		687	143
			10,601
1,406,260		1,556,997	32,153
73,177		69,053	1,145
		671	
<u>1,498,925</u>	<u>343,857</u>	<u>2,157,416</u>	<u>267,014</u>
<u>240,988</u>	<u>254,287</u>	<u>380,996</u>	<u>(24,606)</u>
		(37)	(269)
1,535	954	14,436	4
		326	
		15,562	
		(709)	(860)
		(8,813)	73
<u>1,535</u>	<u>954</u>	<u>20,765</u>	<u>(1,052)</u>
242,523	255,241	401,761	(25,658)
			156
	20	73,530	12,739
(63,500)	(36,685)	(115,027)	(4,375)
<u>179,023</u>	<u>218,576</u>	<u>360,264</u>	<u>(17,138)</u>
432,440	150,855	112,243	(88,557)
<u>\$ 611,463</u>	<u>\$ 369,431</u>	<u>\$ 472,507</u>	<u>\$ (105,695)</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Business-Type Activities -</b>		
	<b>State Parks</b>	<b>Kentucky Horse Park</b>	<b>Insurance Administration</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$ 49,946	\$ 12,482	\$ 130,222
Cash received from customers - state	41	79	1,603
Cash payments to suppliers for goods and services	(43,391)	(7,600)	(5,035)
Cash payments for employee salaries and benefits	(57,154)	(8,924)	(24,766)
Cash payments for claims expense	(363)		(82,555)
Cash payments from other sources	2,069	802	1,571
Cash payments to other sources	(667)		(9,118)
Net Cash Provided (Used) by Operating Activities	<u>(49,519)</u>	<u>(3,161)</u>	<u>11,922</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds	70,355	2,972	183
Transfers to other funds	(939)		(13,903)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>69,416</u>	<u>2,972</u>	<u>(13,720)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(3,372)	(233)	(1,970)
Principal paid on revenue bond maturities and equipment contracts	(731)	(352)	
Interest paid on revenue bonds and equipment contracts	(624)	(72)	
Proceeds from the sale of capital assets	26	11	
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(4,701)</u>	<u>(646)</u>	<u>(1,970)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(12,748)		(222,467)
Proceeds from the sale of investment securities		93	245,477
Interest and dividends on investments			13,753
Net Cash Provided (Used) in Investing Activities	<u>(12,748)</u>	<u>93</u>	<u>36,763</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,448	(742)	32,995
Cash and Cash Equivalents at July 1	136	1,176	59,990
Cash and Cash Equivalents at June 30	<u>\$ 2,584</u>	<u>\$ 434</u>	<u>\$ 92,985</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ (59,519)	\$ (7,245)	\$ (47,515)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	11,649	4,098	272
Miscellaneous nonoperating income (expense)			(8,903)
Change in assets and liabilities:			
(Increase) decrease in assets:			
Receivables, net	(470)	(306)	359
Interfund receivables	(156)	(8)	154
Inventories	(17)	55	
Prepaid expenses	(23)		
Other assets			
(Increase) decrease in deferred outflows	(9,953)	(986)	(5,842)
Increase (decrease) in liabilities:			
Accounts payable	(2,370)	(69)	(386)
Interfund payables	(4,953)	(48)	(309)
Claims liability			67,567
Claims adjustment liability			(4,126)
Compensated absences	213	(22)	(97)
Unearned revenue	(810)	(56)	
Pension liability	18,802	1,016	11,294
Other liabilities	16		
Increase (decrease) in deferred inflows	(1,928)	410	(546)
Net Cash Provided (Used) by Operating Activities	<u>\$ (49,519)</u>	<u>\$ (3,161)</u>	<u>\$ 11,922</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$	\$	\$ 15,678
Capital assets acquired through leases	65	109	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 65</u>	<u>\$ 109</u>	<u>\$ 15,678</u>

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

Enterprise Funds			Governmental
Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2016	Activities - Internal Service Funds
\$ 186,340	\$ 416,452	\$ 795,442	\$ 24,369
1,494,667		1,496,390	222,595
(16,064)	(3,589)	(75,679)	(109,506)
(74,182)		(165,026)	(98,446)
(1,356,961)		(1,439,879)	(36,247)
		4,442	515
43,697	(379,729)	(345,817)	(1,997)
277,497	33,134	269,873	1,283
	20	73,530	12,739
(63,500)	(36,685)	(115,027)	(4,375)
(63,500)	(36,665)	(41,497)	8,364
		(5,575)	(2,338)
		(1,083)	(10,471)
		(696)	(858)
		37	956
		(7,317)	(12,711)
(73,180)		(308,395)	
		245,570	1,288
1,535	954	16,242	(2)
(71,645)	954	(46,583)	1,286
142,352	(2,577)	174,476	(1,778)
240,444	8,869	310,615	55,939
\$ 382,796	\$ 6,292	\$ 485,091	\$ 54,161
\$ 240,988	\$ 254,287	\$ 380,996	\$ (24,606)
		16,019	17,376
(300)		(9,203)	73
53,937	1,348	54,868	387
(66,417)	94	(66,333)	1,784
		38	116
15		(8)	5
	(183,134)	(183,134)	
(1,870)		(18,651)	(11,394)
(1,482)	(22,581)	(26,888)	2,541
	(3,553)	(8,863)	(2,896)
49,689		117,256	(1,451)
		(4,126)	(31)
(90)		4	(380)
		(866)	137
3,183		34,295	19,507
	(13,327)	(13,311)	
(156)		(2,220)	115
\$ 277,497	\$ 33,134	\$ 269,873	\$ 1,283
\$	\$	\$ 15,678	\$
		174	(651)
\$	\$	\$ 15,852	\$ (495)

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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 POSITION**  
**ALL FIDUCIARY FUNDS**  
**JUNE 30, 2016**  
(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)	\$ 1,045,733	\$ 285,220
Investments, net of amortization (Note 5)		26,516
Pension trust fund investments (Note 5):		
Corporate and government bonds	4,995,620	
Common stocks	23,795,542	
Mortgages	180,105	
Alternatives	956,744	
Derivatives	16,928	
Real estate	1,691,466	
Other	2,708,048	
Invested security collateral	1,293,344	520,076
Receivables, net	835,101	44,708
Prepaid expenses	89	
Capital assets, net	25,204	
Total Assets	<u>37,543,924</u>	<u>876,520</u>
<b>Liabilities</b>		
Investments - accounts payable	489,150	
Accounts payable	21,016	157,193
Amounts held in custody for others		199,251
Obligations under securities lending	1,293,344	520,076
Total Liabilities	<u>1,803,510</u>	<u>876,520</u>
<b>Net Position</b>		
Restricted for:		
Pension and other post employment benefits	35,740,414	
Total Net Position	<u>\$ 35,740,414</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 POSITION**  
**ALL FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(Expressed in Thousands)**

	<b>Pension (and Other Post Employment Benefit) Trust Funds</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 1,542,455
Member	961,568
Non-Employer	484,987
Total Contributions	<u>2,989,010</u>
Other Contributions:	
Recovery income	53,383
Participant fees	8,058
Other receipts	17,949
Total Other Contributions	<u>79,390</u>
Investment income:	
Net increase (decrease) in fair value of investments	(847,544)
Interest	476,444
Dividends	203,281
Real estate operating income, net	28,040
Securities lending income, net	8,965
Total Investment Income	<u>(130,814)</u>
Less: Investment expense	177,982
Less: Securities lending expense	1,910
Net Investment Income	<u>(310,706)</u>
Total Additions	<u>2,757,694</u>
<b>Deductions</b>	
Benefit payments	3,972,891
Refunds	58,733
Administrative expenses	54,094
Capital project expense	533
Self funding insurance costs	6,418
Healthcare premiums subsidies	347,556
Other deductions, net	288,512
Total Deductions	<u>4,728,737</u>
Change in Net Position	(1,971,043)
Net Position at July 1	37,711,457
Net Position at June 30	<u>\$ 35,740,414</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.

### Kentucky Lottery Corporation

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

### Kentucky Public Transportation Infrastructure Authority (KPTIA)

The Kentucky Public Transportation Infrastructure Authority is an independent de jure municipal corporation and political subdivision of the Commonwealth established in 2009 pursuant to KRS Chapter 175B as amended. The authority reviews, approves and monitors certain significant transportation projects. The projects are within the Commonwealth and between the Commonwealth and other states.

### Universities, Colleges, and Related Entities

The Universities, Colleges, and Related Entities account for all transactions relating to the eight State-supported universities and the system of 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 .....220

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET POSITION**  
**COMPONENT UNITS**  
**JUNE 30, 2016**  
(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>Kentucky Housing Corporation</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Note 5)	\$ 693,743	\$ 136,061	\$ 150,653	\$ 93,710
Restricted cash (Note 5)				
Investments, net of amortization (Note 5)	16,977	6,936		155,059
Accounts receivable, net	296,066	108,079	23,333	8,497
Interest receivable	1,554		53	
Inventories	38,164	883		
Prepaid expenses	10,229	2,138	2,988	
Other current assets	2,067	9,723		55,620
<b>Total Current Assets</b>	<b>1,058,800</b>	<b>263,820</b>	<b>177,027</b>	<b>312,886</b>
Noncurrent assets:				
Restricted cash (Note 5)	398,569	28,046	114,115	
Long-term investments (Note 5)	49,507	722,202	17,278	311,120
Restricted long-term investments (Note 5)	1,471,489	4,619	49,780	
Long-term receivables, net	327,366	63,488	5,662	624,206
Capital assets (Note 6):				
Land	74,645	103,072	32,631	1,089
Improvements other than buildings	253,926	27,224	15,770	
Buildings	2,960,728	1,260,874	788,105	5,253
Machinery and equipment	895,536	477,253	216,623	4,582
Infrastructure				
Other capital assets				
Less: Accumulated depreciation and amortization	(1,734,223)	(877,380)	(475,243)	(7,486)
Construction in progress	259,026	83,784	51,592	
<b>Total Capital Assets</b>	<b>2,709,638</b>	<b>1,074,827</b>	<b>629,478</b>	<b>3,438</b>
Other assets	441	176,170		3,631
<b>Total Noncurrent Assets, Net</b>	<b>4,957,010</b>	<b>2,069,352</b>	<b>816,313</b>	<b>942,395</b>
<b>Total Assets</b>	<b>6,015,810</b>	<b>2,333,172</b>	<b>993,340</b>	<b>1,255,281</b>
Deferred outflows of resources (Note 15)	12,164	6,967	40,170	7,739
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	326,817	125,501	10,665	30,642
Current portion of long-term debt:				
Notes payable (Note 15)	18,929	5,657		47,018
Bonds payable (Note 15)	27,929	21,184		92,325
Capital lease obligations (Note 10)(Note 15)	27,515	3,706	5,116	
Compensated absences (Note 16)	781		1,140	
Claims liability				
Prize liability				
Unearned revenues	79,648	82,300	8,696	
Payable from restricted assets				
Other current liabilities	26,915	32,538	15,611	62,680
<b>Total Current Liabilities</b>	<b>508,534</b>	<b>270,886</b>	<b>41,228</b>	<b>232,665</b>
Noncurrent liabilities:				
Notes payable (Note 15)		59,920		
Bonds payable (Note 15)	923,988	262,628		657,757
Capital lease obligations (Note 10)	104,541	17,890	75,512	
Prize liability				
Compensated absences (Note 16)	6,419		10,260	
Net pension liability (Note 8) (Note 15)			405,960	75,182
Other long-term liabilities	391,219	120,519	846	13,954
<b>Total Noncurrent Liabilities</b>	<b>1,426,167</b>	<b>460,957</b>	<b>492,578</b>	<b>746,893</b>
<b>Total Liabilities</b>	<b>1,934,701</b>	<b>731,843</b>	<b>533,806</b>	<b>979,558</b>
Deferred inflows of resources (Note 15)	366,746	175	31,936	2,301
<b>Net Position</b>				
Net investment in capital assets	1,527,034	647,642	599,368	3,438
Restricted for:				
Debt service	17	19,283	33,316	226,495
Capital projects	186,168	20,146		
Other purposes (Note 1)	909,672	782,118	70,965	33,306
Unrestricted	1,103,636	138,932	(235,881)	17,922
<b>Total Net Position</b>	<b>\$ 3,726,527</b>	<b>\$ 1,608,121</b>	<b>\$ 467,768</b>	<b>\$ 281,161</b>

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

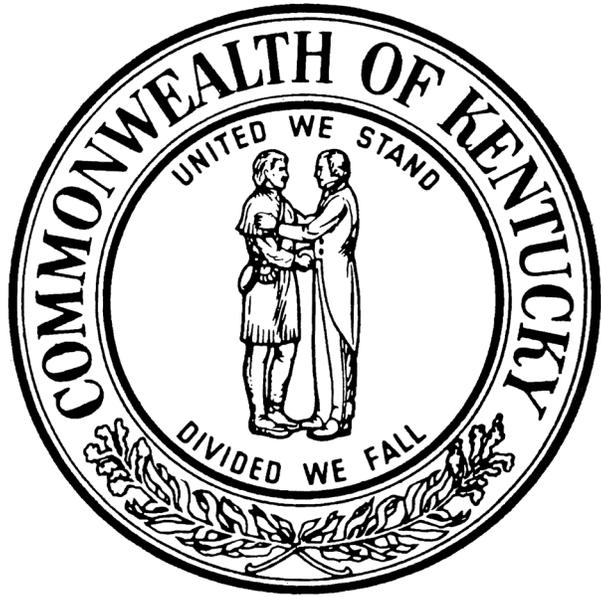
<b>AUTHORITIES</b>				
<b>Kentucky Higher Education Student Loan Corporation</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Public Transportation Infrastructure Authority</b>	<b>Non-Major Component Units</b>	<b>All Component Units Totals June 30, 2016</b>
\$ 54,232	\$ 10,387	\$ 2,863	\$ 411,627	\$ 1,553,276
	2,600		41,937	44,537
45	1,969	83,109	378,054	642,149
164,411	36,354	174	218,011	854,925
14,184			7,889	23,680
			7,687	46,734
627	67		14,646	30,695
	1,002		3,749	72,161
<u>233,499</u>	<u>52,379</u>	<u>86,146</u>	<u>1,083,600</u>	<u>3,268,157</u>
53,258			195,207	789,195
8,422	18,818		214,347	1,341,694
		32,645	290,106	1,848,639
890,217			974,594	2,885,533
	442		103,963	315,842
	350		250,721	547,991
	7,734		2,761,427	7,784,121
11,733	22,588	7,088	448,072	2,083,475
		44,263		44,263
			140,079	140,079
(11,389)	(25,403)		(1,723,159)	(4,854,283)
		985,403	249,488	1,629,293
<u>344</u>	<u>5,711</u>	<u>1,036,754</u>	<u>2,230,591</u>	<u>7,690,781</u>
	180		15,734	196,156
<u>952,241</u>	<u>24,709</u>	<u>1,069,399</u>	<u>3,920,579</u>	<u>14,751,998</u>
<u>1,185,740</u>	<u>77,088</u>	<u>1,155,545</u>	<u>5,004,179</u>	<u>18,020,155</u>
<u>11,368</u>			<u>224,006</u>	<u>302,414</u>
11,273	8,325		101,347	614,570
7,725			4,233	83,562
900			57,213	199,551
			13,214	49,551
2,339	160		25,103	29,523
			627	627
	26,124		41,667	26,124
		28,357	6,200	212,311
	5,578		13,196	34,557
<u>22,237</u>	<u>40,187</u>	<u>28,357</u>	<u>262,800</u>	<u>156,518</u>
				<u>1,406,894</u>
993,481		758,016	17,724	77,644
			802,480	4,398,350
			129,091	327,034
	15,034			15,034
	1,035		861	18,575
84,220			1,871,134	2,436,496
200			82,151	608,889
<u>1,077,901</u>	<u>16,069</u>	<u>758,016</u>	<u>2,903,441</u>	<u>7,882,022</u>
<u>1,100,138</u>	<u>56,256</u>	<u>786,373</u>	<u>3,166,241</u>	<u>9,288,916</u>
<u>18,213</u>			<u>87,995</u>	<u>507,366</u>
344	5,711	437,834	1,462,323	4,683,694
74,091			404	353,606
			29,071	235,385
4,322			1,669,895	3,470,278
	15,121	(68,662)	(1,187,744)	(216,676)
<u>\$ 78,757</u>	<u>\$ 20,832</u>	<u>\$ 369,172</u>	<u>\$ 1,973,949</u>	<u>\$ 8,526,287</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(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>Kentucky Housing Corporation</b>
<b>Expenses:</b>				
Operating and other expenses	\$ 2,888,039	\$ 1,229,672	\$ 602,479	\$ 288,473
Total Expenses	<u>2,888,039</u>	<u>1,229,672</u>	<u>602,479</u>	<u>288,473</u>
<b>Program Revenues:</b>				
Charges for services	2,214,231	912,048	104,663	88,700
Operating grants and contributions	389,557	103,416	96,759	221,969
Capital grants and contributions	165,896			
Total Program Revenues	<u>2,769,684</u>	<u>1,015,464</u>	<u>201,422</u>	<u>310,669</u>
<b>Net Program (Expense) Revenue</b>	<u>(118,355)</u>	<u>(214,208)</u>	<u>(401,057)</u>	<u>22,196</u>
<b>General Revenues:</b>				
Unrestricted grants and contributions	140,848	138,027	197,887	
Unrestricted investment earnings	1,322	(4,830)	2,445	
Gain on sale of capital assets				
Miscellaneous general	<u>245,454</u>	<u>136,493</u>	<u>200,540</u>	
Total General Revenues	<u>387,624</u>	<u>269,690</u>	<u>400,872</u>	
Change in Net Position	<u>269,269</u>	<u>55,482</u>	<u>(185)</u>	<u>22,196</u>
Net Position at July 1, As Restated (Note 2)	3,457,258	1,552,639	467,953	258,965
Net Position at June 30	<u>\$ 3,726,527</u>	<u>\$ 1,608,121</u>	<u>\$ 467,768</u>	<u>\$ 281,161</u>

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

<b>AUTHORITIES</b>				
<b>Kentucky Higher Education Student Loan Corporation</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Public Transportation Infrastructure Authority</b>	<b>Non-Major Component Units</b>	<b>All Component Units Totals June 30, 2016</b>
<b>\$</b> 29,845	<b>\$</b> 984,979	<b>\$</b> 60,510	<b>\$</b> 1,844,251	<b>\$</b> 7,928,248
29,845	984,979	60,510	1,844,251	7,928,248
28,833	983,842		783,125	5,115,442
			152,135	963,836
28,833	983,842	8,075	32,706	206,677
(1,012)	(1,137)	(52,435)	(876,285)	(1,642,293)
			218,203	694,965
	1,111		(3,559)	(3,511)
		793	648	648
		793	735,478	1,318,758
	1,111	793	950,770	2,010,860
(1,012)	(26)	(51,642)	74,485	368,567
79,769	20,858	420,814	1,899,464	8,157,720
<b>\$</b> 78,757	<b>\$</b> 20,832	<b>\$</b> 369,172	<b>\$</b> 1,973,949	<b>\$</b> 8,526,287



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## **NOTES TO FINANCIAL STATEMENTS**

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Note 1

**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 and GASB 61. 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 Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, Kentucky Public Employees' Deferred Compensation Authority, Turnpike Authority of Kentucky, and Kentucky Wired Infrastructure Company, Inc. 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 142 and 143 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 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.

**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

## COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements

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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.

#### **KentuckyWired Infrastructure Company, Inc.**

The KentuckyWired Infrastructure Company, Inc. (KWIC) was formed as a nonprofit corporation operating in the state of Kentucky. It was formed to finance the "Next Generation Kentucky Information Highway project (NGKIH). NGKIH will provide, reliable, high speed internet access across Kentucky, connecting key public sites and promoting economic development. The board consists of three members appointed by the Governor.

#### **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 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 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.

#### **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

## COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements

June 30, 2016

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members appointed by the Governor. The Commonwealth has the ability to impose its will and there also exists a financial benefit/burden relationship.

#### **Kentucky Public Transportation Infrastructure Authority (KRS 175B.15)**

This authority is an independent de jure municipal corporation and political subdivision of the Commonwealth. The authority reviews, approves and monitors certain significant transportation projects within the Commonwealth and between the Commonwealth and other states. If necessary the authority can assist with the operation, financing and management of those projects. The authority consists of eleven voting members: the authority Chairman, is the Secretary of the Transportation Cabinet. Vice Chair, the Secretary of the Finance and Administration Cabinet, one representative from the Kentucky Association of Counties, one representative from the Kentucky County Judges/Executive Association, one representative from the Kentucky League of Cities and six citizens at large. A financial benefit/burden exists between the Commonwealth and the Authority.

#### **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.

#### **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 its 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.

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

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**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. 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 (KRS 148.561) (The Kentucky Artisan Center)**

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 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. The Kentucky Lottery Corporation provides significant revenues to the Commonwealth 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, 2016 and

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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.

**C. Government-Wide Financial Statements**

**Government-Wide Financial Statements** - The Statement of Net Position 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, 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. 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 Position** presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net position. Net position is reported in three categories:

- (1) **Net investment in capital assets**, 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 position** result from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
- (3) **Unrestricted net position** are those net position that do not meet the definition of restricted net position 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 Position**

(Expressed in Thousands)

Restricted for Other Purposes:	<b>Major Component Units</b>
Loans	\$ 58,145
Education	10,446
Instruction	132,075
Scholarships and Fellowships	869,464
Research	730,253
Totals	<u>\$ 1,800,383</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 2016, the total amount of sales and gross receipts tax reported in the government wide statements was \$5,787,853,000 and comprised of:

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**Sales and Gross Receipts Tax**  
**(Expressed in Thousands)**

Sales and Use Tax	\$	3,451,793
Motor Fuels Tax		750,035
Motor Vehicles Usage Tax		484,624
Healthcare Provider Tax		293,248
Tobacco Products Tax		247,539
Insurance Premiums Tax		149,731
Limited Liability Entity Tax		187,447
Alcoholic Beverage Tax		139,924
Telecommunications Tax		65,373
Transient Room Tax		12,528
Parimutuel and Race Track Admission Tax		5,611
<b>Total Sales and Gross Receipts Tax</b>	<b>\$</b>	<b>5,787,853</b>

**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 fiscal year are considered unavailable and are reported as deferred inflows. Unearned revenue are reported as 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 purposes.

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 taxes, fees, and charges 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 expenditure 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

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## Notes to the Financial Statements

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revenues and expenses when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net position, 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.).

**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 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 Kentucky Reclamation Guaranty Fund.

**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, boards of education, and quasi-governmental agencies.

**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 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 within 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 net position.

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**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 Colleges and Universities are:

- Kentucky Community and Technical College System
- Kentucky Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- Kentucky Lottery Corporation
- Kentucky Public Transportation Infrastructure Authority
- University of Kentucky
- University of Louisville

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

- Bluegrass State Skills Corporation
- 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
- 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 2016, the primary government provided \$285,070,000 to the University of Kentucky, \$190,162,000 to the Kentucky Community and Technical College System, \$143,087,000 to the University of Louisville, and \$213,139,000 to the Kentucky Higher Education Assistance Authority. The Commonwealth contributed capital in the amount of \$8,075,000 to the Kentucky Public Transportation Infrastructure Authority. In addition, the State received \$250,745,000 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, 2016 are \$1,862,103,000.

**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

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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 Position, 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 position, 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.

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

The Kentucky Center for the Arts Corporation’s discretely presented component unit financial statements for Fiscal Year 2016, do not contain the Center’s capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, 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.

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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 which have been designated to be spent only for specific purposes through legislation passed by the General Assembly and approved by the Governor. 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. However, in accordance with KRS 42.0201(4) the state controller; the executive director of the Office of Financial Management and the state budget director placed these resources in the special revenue funds with the intent of appropriating at a later date.

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 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.

The classifications of governmental fund balances are shown in the table on page 66 and 67.

The functional categories are responsible for various activities and a brief description of each follows:

**General Government** - is comprised of one Cabinet and several Departments and Offices that support the various agencies throughout state government including providing central fiscal management, serving the administrative needs of state agencies, operating state tax process, providing technology support and providing a state wide audit function. It also includes numerous Boards and Commissions that certifies, licenses and regulates various professional groups (for example the State Board of Accountancy).

**Legislative and Judicial** - is comprised of both the Legislative and Judicial Branches of government. The Judicial Branch through its different levels handles all legal disputes affecting the people of the Commonwealth from capital offenses and felonies to land dispute cases to termination of parental rights. The Legislative Branch consists of thirty-eight (38) Senators and one-hundred (100) Representatives. The purpose of the Legislative Branch is to make laws, to determine the duties and services of government, to provide for their execution, and to levy taxes and appropriate funds for the support of government operations.

**Commerce** - includes the Tourism, Arts and Heritage Cabinet and the Cabinet for Economic Development. The focus is on tourism development and supporting our arts and heritage; in addition to, encouraging job development and retention, and new investment in the state.

**Education and Humanities** - provides life-long educational services through seamless, efficient and accessible learning opportunities for all Kentucky's citizens, from pre-school to senior citizens. And assists employers in finding qualified applicants for their job openings, assists job seekers to find employment, provides benefits to ease the financial burden on individuals who are unemployed through no fault of their own, provides assessment, guidance, counseling and job placement services to assist eligible Kentuckians with disabilities achieve their career goals, offers educational assistance, job training, job placement and assistive technology to Kentuckians with visual disabilities and compiles and disseminates a wide range of workforce statistics, including employment, unemployment and wage information.

**Human Resources** - is responsible for most of Kentucky's human services and health care programs, including Medicaid, the Department of Community Based Services and the Department of Public Health. The Cabinet's services include all Medicaid services, protection for vulnerable children and adults, child abuse investigations, foster care applications, child support collections, cash assistance, food stamps, disability determinations, mental health services, health insurance for children, physical health services and non-emergency transportation.

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### Notes to the Financial Statements

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**Justice** - is responsible for criminal justice services. These encompass law enforcement activities and training; prevention, education and treatment of substance abuse; juvenile treatment and detention; adult incarceration; autopsies; death certifications and toxicology analyses; special investigations; paroling of eligible convicted felons; and long range planning and recommendations on statewide criminal justice reform issues.

**Natural Resources and Environmental Protection** - Resources is responsible for ensuring that natural resources development activities such as agriculture, oil, and gas drilling, and mining are done in an environmental responsible manner, supporting state wide efforts in developing alternate energy resources and carbon sequestration opportunities, ensuring that the natural resources of Kentucky are protected, managed and enhanced to provide maximum benefits to the people and economy of the Commonwealth and coal mining, logging, firefighting and agriculture activities are performed in a safe manner.

**Public Protection and Regulation** - Protection is responsible for protecting and enhancing Kentucky's environment. Their functions are to ensure that Kentucky has clean air and safe water, protect human health by enhancing Kentucky's land resources, ensure environmental compliance by all entities, assist entities in achieving environmental compliance and facilitating environmental stewardship.

**Transportation** - is responsible for overseeing the development and maintenance of a safe, efficient multi-modal transportation system throughout the Commonwealth. The Cabinet manages more than 27,000 miles of highways, including roughly 20,500 miles of secondary roads, 3,600 miles of primary roads, and more than 1,400 interstate and parkway miles. The Cabinet also provides direction for 230 licensed airports and heliports and oversees all motor vehicle and driver's licensure for more than three million drivers in the Commonwealth.

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)

	Major Special Revenue Funds			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
<b>Fund Balances:</b>				
<b>Nonspendable:</b>				
Inventories	\$ 5,465	\$ 67,158	\$ 465	\$ 3,002
Long-term receivables				2,669
Cash with fiscal agents				
<b>Restricted for:</b>				
Government administration				113,817
Legislative and Judicial				1,684
Commerce				104,003
Education				64,829
Health and human services				83,270
Environmental and natural resources				20,172
Justice				26,591
Public Protection				73,982
Transportation		362,033		105,377
Debt service				
<b>Committed to:</b>				
Government administration				6,627
Commerce				29
Education				210
Health and human services				17
Environmental and natural resources				1,067
Public Protection				9,120
Transportation				9,038
<b>Assigned to:</b>				
Government administration	2,342			4,913
Legislative and Judicial	13,198			154
Commerce	10,756			263
Education	3,781			2,275
Health and human services				3,889
Environmental and natural resources				79
Justice	23			2,882
Public Protection	540			
Transportation	125			20
<b>Unassigned</b>	318,790		(98,045)	
<b>Total Fund Balances</b>	<b>\$ 355,020</b>	<b>\$ 429,191</b>	<b>\$ (97,580)</b>	<b>\$ 639,979</b>

COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
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<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
\$	\$	\$ 76,090
		2,669
	16,136	16,136
108,167		221,984
14,354		16,038
76,306		180,309
3,876		68,705
9,931		93,201
14,763		34,935
6,031		32,622
1,056		75,038
47,195		514,605
	870	870
		6,627
		29
		210
		17
		1,067
		9,120
		9,038
		7,255
		13,352
		11,019
		6,056
		3,889
		79
		2,905
		540
		145
		220,745
<u>\$ 281,679</u>	<u>\$ 17,006</u>	<u>\$ 1,625,295</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

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**N. Deferred Outflows/Inflows**

Deferred Outflows/Inflows - GASB 63, 68, and 71 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by the entity that is applicable to a future reporting period, and a deferred inflow of resources, an acquisition of net assets by the entity that is applicable to a future reporting period.

**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 Position. 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 including 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. Judgmental 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 Position 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 allows 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 \$2,876,458,300 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

**Q. Future Changes in Accounting Standards**

As of June 30, 2016, the Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the Commonwealth.

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans. The provisions of this statement are effective for fiscal years beginning after June 15, 2016.

The requirements of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability, and interperiod equity, and creating additional transparency.

# COMMONWEALTH OF KENTUCKY

## Notes to the Financial Statements

June 30, 2016

GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

The requirements of this Statement will enhance accounting and financial reporting for Postemployment Benefits Other Than Pensions that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit Postemployment Benefits Other Than Pensions, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit Postemployment Benefits Other Than Pensions will also be addressed.

GASB Statement No. 77 – Tax Abatement Disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition.

GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The requirements of this Statement are effective for periods beginning after December 15, 2015.

The requirements of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state and local governmental employers whose employees are provided with such pensions.

GASB Statement No. 80 – Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14. The requirements of this Statement are effective for periods beginning after June 15, 2016.

The requirements of this Statement is to improve financial report-

ing by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements. The requirements of this Statement are effective for periods beginning after December 15, 2016.

The requirements of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in

### Note 2

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

The following Accounting Pronouncement was adopted and implemented during the fiscal year.

GASB Statement No. 72 – Fair Value Measurement and Application.

This statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value.

All applicable provisions of this new statement has been incorporated into the financial statements and notes.

The fund balances/net positions 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: Governmental Activities restated net position due to prior year errors and a change in allocation methodology relating to the implementation of GASB 68 and 71. The effect on net position is a decrease of \$8,360,000.

### NON-MAJOR GOVERNMENTAL FUNDS:

Other Special Revenue – Other Special Revenue restated net position due to prior year errors. The effect on net position is a decrease of \$20,749,000.

### Internal Service Funds:

Prison Industries – Prison Industries restated net position due to a change in allocation methodology relating to the implementation of GASB 68 and 71. The effect on net position is an increase of \$12,391,000.

**Component Units – Authorities:**

**Kentucky Authority for Educational Television** – Kentucky Authority for Education Television restated net position due to a change in allocation methodology relating to the implementation of GASB 68 and 71. The effect on net position is a decrease of \$1,071,000.

a net position deficit of \$15,106,000. This deficit is a result of the recognition of the net pension liability, in accordance with GASB 68 and 71. The Kentucky Council on Postsecondary Education has a net position deficit of \$11,910,000. This deficit is a result of the recognition of the net pension liability, in accordance with GASB 68 and 71.

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

**University of Louisville** – University of Louisville restated net position due to GASB 61 and the adoption of the University of Louisville Foundation, Inc. and the University of Louisville Physicians, Inc. as discretely presented component units. The effect on net position is an increase of \$6,956,000.

<b>Note 3</b>
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**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

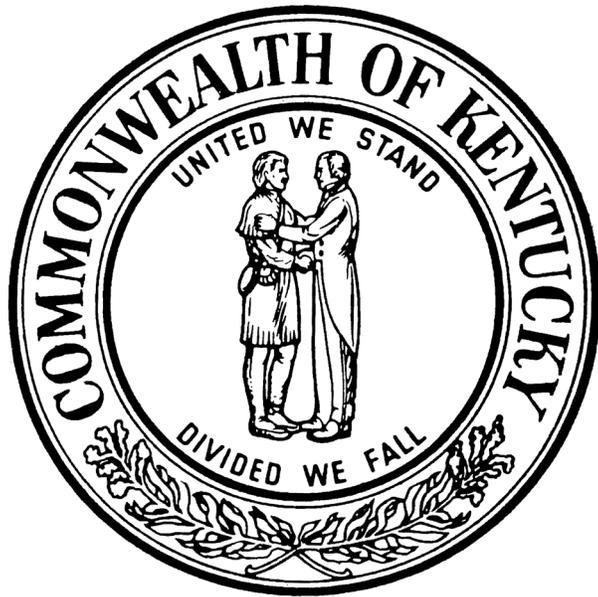
**A. Governmental Activities** – The governmental activities has a net position deficit of \$15,063,739. The deficit is a result of the recognition of the net pension liability, in accordance with GASB 68 and 71.

**B. Federal Fund** – The Federal Fund has a net position deficit of \$97,580,000. The deficit is a result of expenditure accruals, which will be funded in future periods.

**C. Enterprise Funds** – The Insurance Administration Fund has a net position deficit of \$660,969,000. The deficit is a result of accumulated claims liability estimated by actuarial methods for the risk pools, which will be funded in future periods.

**D. Internal Service Funds** – The Risk Management Fund has a net position deficit of \$208,806,000. 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 position deficit of \$4,376,000. 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. The Computer Services Fund has a net position deficit of \$137,262,000. This deficit is a result of the recognition of the net pension liability, in accordance with GASB 68 and 71.

**E. Component Units** – The Bluegrass State Skills Corporation has a net position deficit of \$550,000. This deficit is a result of the recognition of the net pension liability, in accordance with GASB 68 and 71. The Kentucky Authority for Educational Television has



**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, 2016. 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.

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 inflows of resources.

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, 2016. 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.

**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	\$ 154,687	\$ 131	\$ 6,835	\$ 161,653	\$ 4,534	\$ 166,187
Utilities, rental and other services	11,772	479	3,305	15,556	1,185	16,741
Commodities and supplies	9,901	9	1,176	11,086	1,151	12,237
Claims	7		682	689	20,047	20,736
Grants and subsidies	1,279,508	6,118	23	1,285,649	9,600	1,295,249
Capital outlay	68,501	2,096	2,211	72,808	342	73,150
Travel	1,798	4	8	1,810	27	1,837
Judgements	2,561			2,561	17	2,578
Interest Payable	115,125		66	115,191	39	115,230
Other	92,376	136	214	92,726	34	92,760
<b>Total Current Payables</b>	<b>\$ 1,736,236</b>	<b>\$ 8,973</b>	<b>\$ 14,520</b>	<b>\$ 1,759,729</b>	<b>\$ 36,976</b>	<b>\$ 1,796,705</b>
<b>Current Receivables</b>						
Charges for services	\$ 85,997	\$ 119,618	\$ 1,034	\$ 206,649	\$ 75,860	\$ 282,509
Taxes receivable	1,927,225	17,967		1,945,192		1,945,192
Investment receivable	2,239	3,559		5,798	361	6,159
Intergovernmental revenue	1,002,367	1,738		1,004,105	5,909	1,010,014
Other	80,799	50,389	141	131,329	232,166	363,495
Allowances for uncollectables	(954,465)	(75,618)		(1,030,083)	(18,348)	(1,048,431)
<b>Total Current Receivables</b>	<b>\$ 2,144,162</b>	<b>\$ 117,653</b>	<b>\$ 1,175</b>	<b>\$ 2,262,990</b>	<b>\$ 295,948</b>	<b>\$ 2,558,938</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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	\$ 911,611	\$ 5,049	\$ 916,660
Individual income	758,427		758,427
Corporate	86,335		86,335
Property	120,685		120,685
License and privilege	1,685	5,512	7,197
Coal severance	25,176	897	26,073
Inheritance and estate	8,500	9	8,509
Miscellaneous	14,806	6,500	21,306
Total Current Taxes Receivable	<u>\$ 1,927,225</u>	<u>\$ 17,967</u>	<u>\$ 1,945,192</u>

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, Kentucky River Authority, Kentucky Community and Technical College System 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, 2016, are as follows (Expressed in Thousands):**

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 22,420	\$ 6,462	\$ 28,882
2018	22,960	5,903	28,863
2019	17,730	5,006	22,736
2020	15,155	4,329	19,484
2021	13,445	3,661	17,106
2022-2026	37,920	11,750	49,670
2027-2031	21,335	6,974	28,309
2032-2036	16,810	2,227	19,037
Total leases receivable	<u>\$ 167,775</u>	<u>\$ 46,312</u>	<u>\$ 214,087</u>

**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 \$1,177,128,000 and the bank balance was \$1,177,128,000. 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 85 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 \$2,980,174. in securities lending income. On June 30, 2016, the fair value of the securities transferred was \$1,183,321,647 and the fair value of the securities purchased by the Commonwealth was \$1,285,120,945. The collateralization requirements and monitoring procedures in the securities lending program are similar to those requirements in regard to repurchase agreements. The Commonwealth requires 100% 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.

**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, 2016, 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 the Financial Statements**  
**June 30, 2016**

**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.

KentuckyWired Infrastructure Company, Inc. has no policy limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Company's Guaranteed Investment Contracts have maturities ranging from two to eight years.

The primary government's investments (excluding the pension and (OPEB) trust funds) at June 30, 2016, are presented below. All investments are presented by investment type.

**Cash And Investments By Type**

**Primary Government**

(Expressed in Thousands)

**I. Cash:**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 974,600	\$ 974,600
Cash with Fiscal Agents	19,394	19,394
Cash with Federal Government	183,134	183,134
Total Cash	<u>\$ 1,177,128</u>	<u>\$ 1,177,128</u>

**II. Investments:**

**Investments Managed Based Upon Duration**

**Debt Securities**

	<b>Fair Value</b>	<b>Effective</b>
Cash Equivalents	\$ 516,610	0.07
Fixed Income Mutual Funds	653,827	
U.S. Government & Agency Obligations	1,201,152	0.89
Mortgage-Backed Securities	265,037	1.34
Corporate Obligations	150,903	1.44
Asset Backed Securities	37,538	0.54
Municipal Obligations	24,935	0.81
Total Debt Securities	<u>2,850,002</u>	
Portfolio Effective Weighted Duration		<u>0.60</u>

**Other Investments**

Fixed Income Mutual Funds	1,739
Common Stock	5,758
Securities Lending Investments	1,385,122
Guaranteed Investment Contract (two to eight years)	175,189
Total Other Investments	<u>1,567,808</u>
Total Investments	<u>\$ 4,417,810</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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, 2016, and the ratings are presented in the following table.

**Investments and Credit Ratings**

**Primary Government**

(Expressed in Thousands)

**Standard & Poor's/Moody's Credit Ratings**

	<u>AAA/Aaa</u>	<u>AA/Aa</u>	<u>A</u>	<u>BBB/Baa</u>	<u>Unrated</u>	<u>NA</u>	<u>Total Fair Value of Investments</u>
Cash Equivalents	\$	\$ 61,271	\$ 107,244	\$	\$ 348,096	\$	\$ 516,611
Fixed Income Mutual Funds	653,822					1,743	655,565
U.S. Government & Agency Obligations		1,201,152					1,201,152
Mortgage-Backed Securities		265,037					265,037
Corporate Obligations	18,438	37,531	94,934				150,903
Common Stock						5,758	5,758
Asset Backed Securities	37,538						37,538
Municipal Obligations	974	14,814	8,532	615			24,935
Guaranteed Investment Contracts		175,189					175,189
Securities Lending						1,385,122	1,385,122
<b>Total Investments</b>	<b>\$ 710,772</b>	<b>\$ 1,754,994</b>	<b>\$ 210,710</b>	<b>\$ 615</b>	<b>\$ 348,096</b>	<b>\$ 1,392,623</b>	<b>\$ 4,417,810</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, 2016, the primary government had no investments which would constitute a concentration of credit risk.

KentuckyWired Infrastructure Company, Inc. has no limit on the amount that may be invested in any one issuer. At June 30, 2016, all investments of the Company were held with Natixis Funding Corp.

**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.

**Fair Value Measurement Techniques**

The Commonwealth groups its assets measured at fair value in three levels, based on the markets in which the assets are traded

and the reliability of the assumptions used to determine fair value. This hierarchy requires the Commonwealth to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the level of significant input.

These levels are:

- Level 1-Valuation is based upon quoted prices for identical instruments in active markets.
- Level 2-Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3-Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

The primary government's, excluding the pension and (OPEB) trust funds, has the following valuation measurements, by type, as of June 30, 2016.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Fair Value Measurements and Techniques**  
**Primary Government**  
(Expressed in Thousands)

	<u>Fair Value Measurement Using</u>				
	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Amortized or Historical Cost</u>
<b>Investments</b>					
Cash Equivalents	\$ 516,607	\$ 516,607	\$	\$	\$
U.S. Agencies/Treasuries	1,201,152	1,201,152			
Fixed Income Mutual Funds	655,569		655,569		
Guaranteed Investment Contracts	175,189			175,189	
Mortgage Backed Securities	265,037		265,037		
Corporate Debt	150,903		150,903		
State and Municipal Obligations	24,935		24,935		
Asset Backed Securities	37,538		37,538		
Common Stock	5,758	5,758			
Securities Lending					1,385,122
<b>Total Investments</b>	<b>\$ 3,032,688</b>	<b>\$ 1,723,517</b>	<b>\$ 1,133,982</b>	<b>\$ 175,189</b>	<b>\$ 1,385,122</b>

**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 \$88,852,000 and the bank balance was \$88,852,000.

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 \$1,799,250,000 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

**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 position 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, 2016, are presented below. All investments are presented by investment type.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

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

(Expressed in Thousands)

**I. Cash**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 78,620	\$ 78,620
Money Market	10,232	10,232
Total Cash	<u>\$ 88,852</u>	<u>\$ 88,852</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>6-15 Years</u>
U.S. Government & Agency Obligations	\$ 28,159	\$ 1,520	\$ 26,639	\$ 21,667
Corporate Obligations	80,493		58,826	
Other	3,375		3,375	
Total Debt Securities	<u>112,027</u>	<u>\$ 1,520</u>	<u>\$ 88,840</u>	<u>\$ 21,667</u>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<u>Fair Value</u>	<u>Effective</u>	<u>Modified</u>	<u>Macaulay</u>
Cash Equivalents	178,479		7.02	
Cash Equivalents	527,237	0.03		
Fixed Income Mutual Funds	20,333		3.12	
U.S. Government & Agency Obligations	384,843		4.57	
U.S. Government & Agency Obligations	859,807	8.52		
Mortgage-Backed Securities	87,883		2.96	
Mortgage-Backed Securities	180,104	15.15		
Corporate Obligations	625,388		5.91	
Corporate Obligations	2,262,286	7.22		
Asset Backed Securities	114,676		5.54	
Asset Backed Securities	62,625	14.31		
Municipal Obligations	69,154		1.72	
Municipal Obligations	405,755	12.54		
Guaranteed Investment Contract\Annuities	676,380			3.36
Other	534,759			8.89
Other	20,041		8.12	
Total Debt Securities	<u>7,009,750</u>			
Portfolio Weighted Effective Duration		<u>7.54</u>		
Portfolio Weighted Modified Duration			<u>5.30</u>	
Portfolio Weighted Macaulay Duration				<u>5.80</u>

**Other Investments**

Corporate Obligations	4,401
Common Stock	19,943,922
Pooled Investments	11,472
Limited Partnerships	4,590,618
Real Estate	1,691,467
Securities Lending	1,293,344
Other Investments	1,937,677
Total Other Investments	<u>29,472,901</u>
Total Investments	<u>\$ 36,594,678</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
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**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, 2016, and the ratings are presented in the following table.

**Investments and Credit Ratings**  
**Pension and (OPEB) Trust Funds**  
(Expressed in Thousands)

<u>Quality Rating</u>	<u>Amount</u>
AAA	\$ 900,067
AA+	81,830
AA	1,480,213
AA-	49,299
A+	40,838
A	608,832
A-	40,044
BBB+	69,500
BBB	711,112
BBB-	78,971
BB+	84,543
BB	435,876
BB-	82,069
B+	94,465
B	387,124
B-	46,038
CCC+	50,113
CCC	5,793
CCC-	1,661
CC	2,858
D	7,438
Not Rated	1,569,245
<b>Total Credit Risk Debt Securities</b>	<b>6,827,929</b>
U.S. Government & Agencies	293,848
Corporate Obligations	4,401
Common Stock	19,943,922
Pooled Investments	11,472
Limited Partnerships	4,590,618
Real Estate	1,691,467
Securities Lending	1,293,344
Other	1,937,677
<b>Total Investments</b>	<b>\$ 36,594,678</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. 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, 2016.

<u>Asset Description</u>	<u>Amount</u>
Fixed Contract Fund	\$676,380,000
T Rowe Price Mid Cap Growth	311,748,000
Vanguard Wellington	254,320,000
Fidelity Contrafund	246,869,000
Fidelity Growth Co	197,983,000
Vanguard Institutional Index Fund	149,071,000

**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, 2016, are presented in the following table.

COMMONWEALTH OF KENTUCKY

Notes to the Financial Statements

June 30, 2016

**Foreign Currency Risk  
Pension and (OPEB) Trust Funds (Expressed in Thousands)**

<b>Foreign Currency</b>	<b>Short Term</b>	<b>Equity</b>	<b>Debt</b>	<b>None Designated</b>	<b>Total</b>
Argentine Peso	\$	\$ 7,930	\$	\$	\$ 7,930
Australian Dollar	30	189,934	46,284		236,248
Bermudian Dollar		48,899	4,502		53,401
Brazilian Real		36,777	1,843		38,620
British Pound Sterling	200	909,574	54,271		964,045
Bulgarian Lev		326			326
Canadian Dollar	13	310,568	99,972		410,553
Cayman Islands Dollar		76,233	9,291		85,524
Chilean Peso		13,256			13,256
Chinese Yuan		150,030			150,030
Columbian Peso		7,088			7,088
Czech Crown		335			335
Danish Krone		117,581			117,581
Egyptian Pound		1,744			1,744
Euro	163	1,878,946	95,158		1,974,267
Hong Kong Dollar	32	243,961			243,993
Hungarian Forint		450			450
Indian Rupee		66,170			66,170
Indonesian Rupiah		37,174			37,174
Israeli Shekel		61,789			61,789
Japanese Yen	331	813,882	819		815,032
Korean Won		42,150	3,399		45,549
Liberian Dollar		1,604	1,337		2,941
Malaysian Ringgit		18,089			18,089
Mexican Peso	1	89,320	4,268		93,589
Netherlands Antillean Guilder		31,870			31,870
New Taiwan Dollar		5,732			5,732
New Zealand Dollar		66,373			66,373
Norwegian Krone		54,895	7,092		61,987
Panamanian Balboa		29,278			29,278
Peruvian Nuevo Sol		90			90
Philippine Peso		17,701			17,701
Polish Zloty	1	3,348	2,294		5,643
Qatari Rial		1,459			1,459
Russian Ruble		44,659			44,659
Singapore Dollar	2	62,559			62,561
South African Rand	21	42,129			42,150
South Korean Won		49,865			49,865
Swedish Krona	1	146,681	18,058		164,740
Swiss Franc		219,872	1,800		221,672
Taiwan Dollar		91,640			91,640
Thai Bhat		18,978			18,978
Turkish Lira		22,849			22,849
UAE Dirham		17,984			17,984
Various		4,321			4,321
American Funds Euro Pacific Growth Fund		73,972			73,972
Dodge & Cox International Stock Fund		24,478			24,478
DFA International Small Cap		18,265			18,265
Vanguard Total International Stock Fund		3,920			3,920
Total Securities Subject To Foreign Currency Risk	795	6,176,728	350,388		6,527,911
USD (Securities Held By Intl Investment Mgrs)				12,988,853	12,988,853
Total International Investment Securities	\$ 795	\$ 6,176,728	\$ 350,388	\$ 12,988,853	\$ 19,516,764

### **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 an initial fair value of 102 percent or 105 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, 2016, 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, 2016. More detail on those individual investment derivatives may be found in the audited financial statements of Kentucky Retirement Systems.

### **Fair Value Measurement Techniques**

The Pension and (OPEB) trust funds group assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires the Pension and (OPEB) trust funds to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the level of significant input.

These levels are:

- Level 1-Valuation is based upon quoted prices for identical instruments in active markets.
- Level 2-Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3-Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
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The Pension and (OPEB) trust funds, have the following valuation measurements, by type, as of June 30, 2016. More detail on the valuation measurements may be found in the audited financial statements of each retirement system.

**Fair Value Measurements and Techniques**  
**Pension and OPEB Trust Funds**  
(Expressed in Thousands)

	<u>Fair Value Measurement Using</u>				
	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Amortized or Historical Cost</u>
U.S. Agencies/Treasuries	\$ 859,807	\$ 797,596	\$ 62,211	\$	\$
Guaranteed investment contracts					676,380
Cash Equivalents	986,913	548,555	284,384	153,974	11,472
Mortgage Backed Securities	180,105		177,758	2,347	
Corporate Debt	2,501,166	135,657	1,931,020	434,489	
State and Municipal Obligations	405,755		398,731	7,024	
Asset Backed Securities	62,625		57,155	5,470	
Common Stock	23,659,373	14,397,435	4,310,225	4,951,713	
Securities Lending					1,293,344
Other:	5,957,419	2,235,986	4,400	3,717,033	319
<b>Total Investments</b>	<b>\$ 34,613,163</b>	<b>\$ 18,115,229</b>	<b>\$ 7,225,884</b>	<b>\$ 9,272,050</b>	<b>\$ 1,981,515</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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 \$1,738,237,000 and bank balance was \$1,764,114,000.

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, 2016.

**Custodial Risk**  
**Discretely Presented Major Component Units**

(Expressed in Thousands)

**I. Deposits**

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

Deposits are uninsured and

a) uncollateralized;	\$	127,343
b) collateralized with securities held by the pledging financial institution; or		60,965
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.		(79,228)
Total Deposits Subject To Custodial Credit Risk	<u>\$</u>	<u>109,080</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	\$	681,290
(b) the counterparty's trust department or agent but not in the Commonwealth's name.		919,768
Total Non-Current Cash And Investments Subject To Custodial Credit Risk	<u>\$</u>	<u>1,601,058</u>

**Investment Types:**

	<b>Type A (counterparty)</b>	<b>Type B (trust or agent)</b>
Debt Securities		
Cash Equivalents	\$ 499	\$ 129,075
Fixed Income Mutual Funds	678,874	
U.S. Government & Agency Obligations	3,290	1,689
Municipal Obligations	421	
Total Debt Securities	<u>683,084</u>	<u>130,764</u>
Other Investments		
Cash Equivalents		3,577
Fixed Income Mutual Funds	71,607	19,403
Common Stock	39,843	32,843
Alternatives	100,173	
Real Estate		1,947
Funds Held In Trust By Others		58,593
Limited Partnerships	447,576	
Other Various	10,155	1,493
Total Other Investments	<u>669,354</u>	<u>117,856</u>
Total Type A	<u>1,352,438</u>	<u>248,620</u>
Total Non-Current Cash And Investments Subject To Custodial Credit Risk		<u>\$ 1,601,058</u>

**COMMONWEALTH OF KENTUCKY**  
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**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, 2016.

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

(Expressed in Thousands)

**I. Cash**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 521,901	\$ 548,154
Money Market	297,589	297,589
Other	918,747	918,371
Total Cash	<u>\$ 1,738,237</u>	<u>\$ 1,764,114</u>

**II. Investments:**

**Investments Managed Based On Maturities**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>&lt; 1 year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>&gt; 10 Years</b>
Cash Equivalents	\$ 127,324	\$ 120,246	\$ 203	\$ 1,350	\$ 5,525
U.S. Government & Agency Obligations	190,967	33,084	141,605	16,278	
Corporate Obligations	672	202	228	221	21
Municipal Obligations	12,266	4,397	7,869		
Guaranteed Investment Contract/Annuities	4,722	8		34	4,680
Total Debt Securities	<u>335,951</u>	<u>\$ 157,937</u>	<u>\$ 149,905</u>	<u>\$ 17,883</u>	<u>\$ 10,226</u>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>Effective</b>	<b>Modified</b>
Cash Equivalents	7,719		3.00
Money Market Funds	149,208		
Fixed Income Mutual Funds	75,694		2.80
U.S. Government & Agency Obligations	55,577		3.00
U.S. Government & Agency Obligations	159,659	2.78	
Mortgage Backed Securities	161,539	3.14	
Corporate Debt	69,397		2.60
Corporate Debt	4,240	2.45	
Other Investments	28		4.70
Total Debt Securities	<u>683,061</u>		
Portfolio Effective Weighted Duration		<u>2.95</u>	
Portfolio Modified Weighted Duration			<u>2.79</u>

**Other Investments**

Cash Equivalents	3,577
Fixed Income Mutual Funds	19,403
Common Stock	556,154
Alternatives	476,998
Real Estate	131,890
Funds Held In Trust By Others	19,654
Other	723,287
Total Other Investments	<u>1,930,963</u>
Total Investments	<u>\$ 2,949,975</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**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, 2016, and the ratings are presented in the following table.

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

(Expressed in Thousands)

	<b>Standard &amp; Poor's/Moody's Credit Ratings</b>						<b>Unrated</b>	<b>NA</b>	<b>Total Fair Value of Investments</b>
	<b>AAA/Aaa</b>	<b>AA/Aa</b>	<b>A</b>	<b>BBB/Baa</b>	<b>BB/Ba or Lower</b>				
Cash Equivalents	\$	\$	\$	\$	\$	\$	\$	\$	\$
Fixed Income Mutual Funds	428	69	204	422	72,672	30,394	241,060	271,454	
U.S. Government & Agency Obligations	347,453	23,255					1,899	75,694	
Mortgage Backed Securities	161,539						63,467	434,175	
Corporate Obligations	6,614	5,281	19,389	28,260	14,454	311		161,539	
Common Stock							556,155	74,309	
Municipal Obligations	7,442	259	4,144					556,155	
Guaranteed Investment Contracts/Annuities		34				4,688		11,845	
Alternatives							476,999	4,722	
Real Estate							131,890	476,999	
Funds Held In Trust								131,890	
By Others							7,795	7,795	
Other	1,986				7506		733,906	743,398	
<b>Total Investments</b>	<b>\$ 525,462</b>	<b>\$ 28,898</b>	<b>\$ 23,737</b>	<b>\$ 28,682</b>	<b>\$ 94,632</b>	<b>\$ 35,393</b>	<b>\$ 2,213,171</b>	<b>\$ 2,949,975</b>	

**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 GNMA, U.S. Treasury and Dreyfus. These investments are 35%, 31% and 32%, 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, 2016. The university has \$5,929,000 in a pooled private equity fund, \$7,404,000 in a pooled real estate fund, \$33,459,000 in common stock and \$288,000 in cash equivalents.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Fair Value Measurement Techniques**

The component units' group assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. This hierarchy requires the component units to maximize the use of observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Each fair value measurement is placed into the proper level based on the level of significant input.

These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Additional information regarding the fair value measurements can be found in the note to the audited financial statements of the individual component units.

The major discretely presented component units, have the following valuation measurements, by type, as of June 30, 2016.

**Fair Value Measurements and Techniques**  
**Discretely Presented Major Component Units**  
(Expressed in Thousands)

	Fair Value Measurement Using					
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Amortized or Historical Cost	Investments Measured at NAV
<b>Debt Securities</b>						
U.S. Agencies/Treasuries	\$ 407,892	\$ 25,951	\$ 381,941	\$	\$	\$
Fixed Income Mutual Funds	74,765	69,471	4,189	1,105		19,403
Cash Equivalents	122,097	70,182	51,915		22,865	149,208
Mortgage Backed Securities	161,539		161,539			
Corporate Debt	74,309		74,287	22		
State and Municipal Obligations	12,266		12,266			
Asset Backed Securities	4,722		4,722			
Other:	28		28			1,493
<b>Total Debt Securities</b>	<b>857,618</b>	<b>165,604</b>	<b>690,887</b>	<b>1,127</b>	<b>22,865</b>	<b>170,104</b>
<b>Equity Securities</b>						
Common Stock	95,202	90,714	2,124	2,364	669	633,315
<b>Total Equity Securities</b>	<b>95,202</b>	<b>90,714</b>	<b>2,124</b>	<b>2,364</b>	<b>669</b>	<b>633,315</b>
<b>Other Investments</b>						
Alternatives	100,432		47,842	52,590	3,387	381,573
Funds held in Trust by Others	67,392	4,734	62,658			66,590
Investments in Partnerships	418,938		285,732	133,206		130,805
Real Estate	1,085	1,085				
<b>Total Other Investments</b>	<b>587,847</b>	<b>5,819</b>	<b>396,232</b>	<b>185,796</b>	<b>3,387</b>	<b>578,968</b>
<b>Total Investments</b>	<b>\$ 1,540,667</b>	<b>\$ 262,137</b>	<b>\$ 1,089,243</b>	<b>\$ 189,287</b>	<b>\$ 26,921</b>	<b>\$ 1,382,387</b>



COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
June 30, 2016

Note 6

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016  
(Expressed in Thousands):

	Primary Government			Ending Balance
	Beginning Balance	Additions	Decreases	
<b>Primary Government:</b>				
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 219,501	\$ 17,781	\$ (43)	\$ 237,239
Construction in progress	1,911,871	742,838	(302,144)	2,352,565
Infrastructure	20,230,790	133,728	(70,478)	20,294,040
Easements and Other Intangibles	135,037	4,195	(44,184)	95,048
Total capital assets not being depreciated	<u>22,497,199</u>	<u>898,542</u>	<u>(416,849)</u>	<u>22,978,892</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	25,945	4,519		30,464
Buildings	1,399,687	129,098	(1,330)	1,527,455
Machinery and Equipment	643,321	60,202	(38,153)	665,370
Easements and Other Intangibles	44,576	49,984		94,560
Total capital assets, being depreciated/amortized	<u>2,113,529</u>	<u>243,803</u>	<u>(39,483)</u>	<u>2,317,849</u>
<i>Less accumulated depreciation/amortization:</i>				
Improvements other than buildings	(10,603)	(922)		(11,525)
Buildings	(612,533)	(33,371)	1,322	(644,582)
Machinery and Equipment	(429,263)	(49,803)	35,625	(443,441)
Easements and Other Intangibles	(21,041)	(4,088)		(25,129)
Total accumulated depreciation	<u>(1,073,440)</u>	<u>(88,184)</u>	<u>36,947</u>	<u>(1,124,677)</u>
Total capital assets, being depreciated/amortized, net	<u>1,040,089</u>	<u>155,619</u>	<u>(2,536)</u>	<u>1,193,172</u>
Governmental activities capital assets, net	<u>\$ 23,537,288</u>	<u>\$ 1,054,161</u>	<u>\$ (419,385)</u>	<u>\$ 24,172,064</u>
<b>Business-type activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,823	\$ 2,217	\$	\$ 24,040
Construction in progress	25,876	1,983	(12,584)	15,275
Total capital assets, not being depreciated	<u>47,699</u>	<u>4,200</u>	<u>(12,584)</u>	<u>39,315</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	144,933	3,204		148,137
Buildings	339,962	9,386		349,348
Machinery and Equipment	21,799	1,362	(731)	22,430
Easements and Other Intangibles	2,322			2,322
Total capital assets, being depreciated/amortized	<u>509,016</u>	<u>13,952</u>	<u>(731)</u>	<u>522,237</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(75,227)	(4,087)		(79,314)
Buildings	(150,650)	(10,845)		(161,495)
Machinery and Equipment	(13,433)	(972)	659	(13,746)
Easements and Other Intangibles	(1,571)	(115)		(1,686)
Total accumulated depreciation	<u>(240,881)</u>	<u>(16,019)</u>	<u>659</u>	<u>(256,241)</u>
Total capital assets, being depreciated/amortized, net	<u>268,135</u>	<u>(2,067)</u>	<u>(72)</u>	<u>265,996</u>
Business-type activities capital assets, net	<u>\$ 315,834</u>	<u>\$ 2,133</u>	<u>\$ (12,656)</u>	<u>\$ 305,311</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
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**Depreciation expense, charged to functions/programs of the primary government as follows:**

(Expressed in Thousands)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General Government	\$ 12,231	\$
Legislative and Judicial	1,637	
Commerce	2,286	
Education and Humanities	2,146	
Human Resources	3,167	
Justice	21,029	
Natural Resources and Environmental Protection	2,178	
Public Protection and Regulation	326	
Transportation	25,808	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	17,376	
State Parks		11,649
Horse Park		4,098
Insurance Administration		272
<b>Total depreciation expense by activities</b>	<b>\$ 88,184</b>	<b>\$ 16,019</b>

**Discretely presented major component units**

Capital asset activity for the year ended June 30, 2016

(Expressed in Thousands):

	<b>Component Units</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 197,890	\$ 55,527	\$ (41,538)	\$ 211,879
Construction in progress	1,187,095	450,105	(257,395)	1,379,805
Infrastructure	23,421	20,842		44,263
<b>Totals, capital assets not being depreciated</b>	<b>1,408,406</b>	<b>526,474</b>	<b>(298,933)</b>	<b>1,635,947</b>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	264,889	36,812	(4,431)	297,270
Buildings	4,549,559	539,347	(66,212)	5,022,694
Machinery and Equipment	1,659,627	122,027	(146,251)	1,635,403
<b>Total capital assets, being depreciated/amortized</b>	<b>6,474,075</b>	<b>698,186</b>	<b>(216,894)</b>	<b>6,955,367</b>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(104,531)	(11,675)	251	(115,955)
Buildings	(1,714,691)	(135,920)	24,685	(1,825,926)
Machinery and Equipment	(1,197,684)	(96,244)	104,685	(1,189,243)
<b>Total accumulated depreciation</b>	<b>(3,016,906)</b>	<b>(243,839)</b>	<b>129,621</b>	<b>(3,131,124)</b>
<b>Total capital assets, being depreciated/amortized, net</b>	<b>3,457,169</b>	<b>454,347</b>	<b>(87,273)</b>	<b>3,824,243</b>
<b>Component units capital assets, net</b>	<b>\$ 4,865,575</b>	<b>\$ 980,821</b>	<b>\$ (386,206)</b>	<b>\$ 5,460,190</b>

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

(Expressed in Thousands)

Kentucky Housing Corporation	\$ 394
Kentucky Higher Education Student Loan Corporation	145
University of Kentucky	148,201
University of Louisville	62,036
Kentucky Community and Technical College System	31,750
Kentucky Lottery Corporation	1,313
<b>Total depreciation expense by functions/programs</b>	<b>\$ 243,839</b>

**COMMONWEALTH OF KENTUCKY**  
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**Note 7**

**INTERFUND TRANSACTIONS**

**Interfund Transfers In and Out**

The table below shows the interfund operating transfers for fiscal year 2016  
(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	\$	\$	\$ 99	\$ 56,258	\$
Transportation Fund				997	296
Federal Fund					20
Agency Revenue Fund	59,115	40	14,957		3,588
Capital Projects Fund	29	20,827	12,624	26,719	
Debt Service	391,798	11,715	65,755	2,030	145
Non-Major Governmental Funds	127,946	150,046	500	300,317	569
State Parks Fund	58,892		62		11,401
Kentucky Horse Park Fund	2,397				575
Insurance Administration Fund	148		34		1
Unemployment Compensation Fund					
Internal Service Funds	901				11,838
Fiduciary Funds	17,830			18	
<b>Total</b>	<b>\$ 659,056</b>	<b>\$ 182,628</b>	<b>\$ 94,031</b>	<b>\$ 386,339</b>	<b>\$ 28,433</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.

**Interfund Receivables and Payables**

The table below shows the interfund receivables and payables for fiscal year 2016  
(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	\$	\$	\$ 4,614	\$ 4,442	\$ 119
Transportation Fund			203	352	196
Federal Fund	7,782			1,594	
Agency Revenue Fund	30,098	491	35,114		
Capital Projects Fund	65		162	398	
Non-Major Governmental Funds	13,640	175	369	7,076	17
State Parks Fund	197				
Kentucky Horse Park Fund				8	
Kentucky Public Employees Health Plan	64,550	1,555	1,453	1,724	1
Insurance Administration Fund	191			103	
Internal Service Funds	1,372		280	433	3
<b>Total</b>	<b>\$ 117,895</b>	<b>\$ 2,221</b>	<b>\$ 42,195</b>	<b>\$ 16,130</b>	<b>\$ 336</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.

COMMONWEALTH OF KENTUCKY

Notes to the Financial Statements

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Transfers Out

Non-Major Governmental Funds	State Parks Fund	Kentucky Public Employees Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 5,813		\$ 63,500	\$ 7,723		\$ 1,960	\$ 1,157	\$ 136,510
224							1,517
							20
351,878			4,452	36,685	1,386	170	472,271
2,006	18		378		222		62,823
24,154	921				674		497,192
173,125					133		752,636
							70,355
							2,972
							183
20							20
							12,739
			1,350				19,198
<u>\$ 557,220</u>	<u>\$ 939</u>	<u>\$ 63,500</u>	<u>\$ 13,903</u>	<u>\$ 36,685</u>	<u>\$ 4,375</u>	<u>\$ 1,327</u>	<u>\$ 2,028,436</u>

Interfund Payables

Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Total
\$ 642	\$ 393	\$ 34	\$ 8		\$ 19	\$ 10,271
163					803	1,717
164				1		9,541
35,617			93	438	1,555	103,406
						625
118,547			140		1,764	141,728
						197
						8
9	259	23	113		281	69,968
						294
169					37	2,294
<u>\$ 155,311</u>	<u>\$ 652</u>	<u>\$ 57</u>	<u>\$ 354</u>	<u>\$ 439</u>	<u>\$ 4,459</u>	<u>\$ 340,049</u>

**Note 8**

**PENSION PLANS AND OTHER POST  
EMPLOYMENT BENEFITS**

**Kentucky Retirement Systems**

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.

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.

The financial statements are prepared using the accrual basis of accounting which is the same method used by all retirement plans of the Commonwealth. 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.

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 or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**Kentucky Judicial Form Retirement System**

The Judicial Retirement Plan is governed by KRS Chapter 21 Section 345 through Section 580. A single employer defined benefit plan, which provides retirement, disability and death benefits to plan members and their beneficiaries.

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries.

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 40602-0791, or by telephone at (502) 564-5310 or online at [www.kjfrs.ky.gov](http://www.kjfrs.ky.gov).

**Kentucky Teachers' Retirement System**

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 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.

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, or by telephone at (502) 848-8500 or online at [www.ktrs.ky.gov](http://www.ktrs.ky.gov).

**Kentucky Employees' Retirement System**  
**Governance KRS 61.510 through KRS 61.705**  
**Cost Sharing Multiple Employer Defined Benefit**  
**Non-Hazardous**

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Covered Employees:</b>	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.		
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
<b>Final Compensation:</b>	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
<b>Benefit Factor:</b>	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
<b>Reduced Retirement Benefit:</b>	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller.	No reduced retirement benefit

**COMMONWEALTH OF KENTUCKY**  
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**Kentucky Employees' Retirement System**  
**Governance KRS 61.510 through KRS 61.705**  
**Cost Sharing Multiple Employer Defined Benefit**  
**Hazardous**

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Covered Employees:</b>	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.		
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
<b>Final Compensation:</b>	Average of the highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	Average of the highest 3 fiscal years; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
<b>Benefit Factor:</b>	2.49%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. 25 years and greater = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 20 years of service. Age 55 with 60 months of service. Money Purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.
<b>Reduced Retirement Benefit:</b>	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 55 or has less than 20 years service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 60 or has less than 25 years service, whichever is smaller.	No reduced retirement benefit

**State Police Retirement System**  
**Governance KRS 16.505 through KRS 16.652**  
**Single Employer Defined Benefit**

	<b>Tier 1</b> Participation before 9/1/2008	<b>Tier 2</b> Participation on or between 9/1/2008 and 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
<b>Covered Employees:</b>	All full-time state troopers employed in a hazardous duty position by the Kentucky State Police.		
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service	Final Compensation X Benefit Factor X Years of Service	No benefit formula. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Final Compensation:</b>	Average of the highest 3 fiscal years (must contain at least 24 months). Includes lump-sum compensation payments (before and at retirement).	Average of the highest 3 fiscal years; each year must contain 12 months. Lump sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
<b>Benefit Factor:</b>	2.50%	10 years or less = 1.30%. Greater than 10 years, but no more than 20 years = 1.50%. Greater than 20 years, but no more than 25 years = 2.25%. 25 years and greater = 2.50%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 20 years of service. Age 55 with 60 months of service. Money purchase for age 55 with less than 60 months based on contributions and interest.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.	Any age with 25 years of service. Age 60 with 5 years of service. No Money Purchase calculations.
<b>Reduced Retirement Benefit:</b>	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 55 or has less than 20 years service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 60 or has less than 25 years service, whichever is smaller.	No reduced retirement benefit

**Judicial Retirement Plan**  
**Governance KRS 21.345 through KRS 21.580**  
**Single Employer Defined Benefit**

Tier 1	Tier 2	Tier 3	Tier 4
Participation prior to 7/1/1978	Participation between 7/1/1978 and 6/30/1980	Participation between 7/1/1980 and 1/1/2014	Participation on or after 1/1/2014

<b>Covered Employees:</b>	District, Circuit, Court of Appeals, and Supreme Court Judges may, within 30 days after taking office, elect to make monthly contributions, and thereby become eligible for membership in the plan. Individuals commencing participation on or after January 1, 2014, will participate in the hybrid plan .		
<b>Benefit Formula:</b>	Final Average Compensation X Benefit Factor X Years of Service	Cash Balance Plan	
<b>Final Compensation:</b>	Average of 36 months of service immediately preceding retirement before 1/1/2009. Average of 60 months of service immediately preceding retirement after 12/31/2008.	No Final Compensation	
<b>Benefit Factor:</b>	5.0% if service continued without interruption; not to exceed 100% of final average compensation.	4.15%, not to exceed 100% of final average compensation.	2.75%, not to exceed 100% of final average compensation.
<b>Cost of Living Adjustment (COLA):</b>	1.5% yearly on July 1 if the funding level is 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for increase and the Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.	Any cost of living adjustment will be granted providing the following requirements are met: the funding level of Judicial Hybrid Cash Balance Plan is 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase and the Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.	
<b>Unreduced Retirement Benefit:</b>	8 years of service and age 65. The age 65 requirement shall be reduced by 1 year for each 5 years of service and 1 year for each year beyond the years of service needed to accrue a benefit of 100%. The age requirement will never be reduced below 60.	Accumulated Hypothetical account as either a lump sum or as one of a variety of annuity options, calculated by dividing their accumulated Hypothetical Account by an actuarial factor.	
<b>Reduced Retirement Benefit:</b>	5% per year for each year under normal retirement age.	With at least 5 years of service is eligible for a full refund of their accumulated Hypothetical Account as a lump sum.	

**Legislators' Retirement Plan**  
**Governance KRS 6.500 through KRS 6.577**  
**Single Employer Defined Benefit**

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>	<b>Tier 4</b>
	Participation prior to 7/1/1978	Participation between 7/1/1978 and 6/30/1980	Participation between 7/1/1980 and 12/31/2013	Participation on or after 1/1/2014
<b>Covered Employees:</b>	Members of the General Assembly may elect to make monthly contributions within 30 (thirty) days of taking office, and thereby become eligible for membership in the plan. Individuals commencing participation on or after January 1, 2014, will participate in the hybrid plan.			
<b>Benefit Formula:</b>	Final Average Compensation X Benefit Factor X Years of Service			Cash Balance Plan
<b>Final Compensation:</b>	The average compensation for the highest 36 months of state salary.			No Final Compensation
<b>Benefit Factor:</b>	5.0% for all service that continues without interruption thereafter, not to exceed 100% of final average compensation; 2.75% for all other service.	4.15% for all service that continues without interruption thereafter, not to exceed 100% of final average compensation; 2.75% for all other service.	3.5% for all service that continues without interruption thereafter, not to exceed 100% of final average compensation; 2.75% for all other service.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on the member's accumulated account balance.
<b>Cost of Living Adjustment(COLA):</b>	1.5% yearly on July 1 if the funding level is greater 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for increase and the Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.			Any cost of living adjustment will be granted providing the following requirements are met: the funding level of Legislative Hybrid Cash Balance Plan is 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase and The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.
<b>Unreduced Retirement Benefit:</b>	Members who have attained age 65 and completed at least 5 years of legislative service or have service under other state authorized system when added to Legislative service will equal at least 8 years of service. The age 65 requirement shall be reduced by 1 year for each 5 years of service and 1 year for each year beyond the years of service needed to accrue a benefit of 100%. The age requirement will never be reduced below 60.			Members who have attained the age of 65 and have at least 5 years of active service credit in the Legislators Plan and any other state-supported retirement system; or at least age 57 and service with Legislators and other state-supported retirement systems of the Commonwealth plus age equals at least 87.
<b>Reduced Retirement Benefit:</b>	5% per year for each year under normal retirement age.			With at least 5 years of service is eligible for a full refund of their accumulated Hypothetical Account as a lump sum.

**Kentucky Teachers' Retirement System**  
**Governance KRS 161.220 through KRS 161.716, and KRS 161.990**  
**Cost Sharing Multiple Employer Defined Benefit with Special Funding**

	<b>Tier 1</b> Participation prior to 7/1/2008	<b>Tier 2</b> Participation on or after 7/1/2008
<b>Covered Employees:</b>	Provides pension plan coverage for local school districts and other educational agencies in the state.	
<b>Benefit Formula:</b>	Final Compensation X Benefit Factor X Years of Service	
<b>Final Compensation:</b>	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.
<b>Benefit Factor:</b>	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
<b>Cost of Living Adjustment (COLA):</b>	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
<b>Reduced Retirement Benefit:</b>	Reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service.	Reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

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**Single Employer Defined Benefit Plans**  
**Source of Changes in Net Pension Liability and Related Ratios**  
**(Expressed in Thousands)**

	<b>Fiscal Year 2016</b>		
	<b>Kentucky Legislators' Retirement Plan</b>	<b>Kentucky Judicial Retirement Plan</b>	<b>State Police Retirement System</b>
Total Pension Liability			
Service Costs	\$ 1,046	\$ 4,952	\$ 7,696
Interest	5,077	22,205	50,660
Differences between expected and actual experience	(3,421)	4,401	9,331
Changes in assumptions	(1,547)	(4,401)	40,202
Benefit payments/refunds	(3,690)	(22,243)	(54,851)
Net change in total pension liability	(2,535)	4,914	53,038
Total pension liability at July 1	78,748	366,291	681,119
Total pension liability at June 30	<u>\$ 76,213</u>	<u>\$ 371,205</u>	<u>\$ 734,157</u>
Pension Plan Fiduciary Net Position			
Contributions - employer	\$ 3,367	\$ 15,362	\$ 31,990
Contributions - member	217	1,863	5,244
Net investment income	5,550	25,614	3,427
Benefit payments/refunds	(3,690)	(22,243)	(54,851)
Administrative expenses			(201)
Other			646
Net change in plan fiduciary net position	5,444	20,596	(13,745)
Pension plan fiduciary net position at July 1	54,645	243,870	260,974
Pension plan fiduciary net position at June 30	<u>\$ 60,089</u>	<u>\$ 264,466</u>	<u>\$ 247,229</u>
Net pension liability at June 30	<u>\$ 16,124</u>	<u>\$ 106,739</u>	<u>\$ 486,928</u>
Pension plan fiduciary net position as a % of the total pension liability	78.8%	71.2%	33.68%
Covered-employee payroll	\$ 4,500	\$ 30,000	\$ 45,765
Net Pension liability as a % of covered employee payroll	358.3%	355.8%	1,063.97%

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	Kentucky Employees' Retirement System		State Police Retirement System
	Non-Hazardous	Hazardous	
<b>Employer Contribution</b>	38.77%	26.34%	75.8%
<b>State Contribution as a percentage of nonemployer special funding situation</b>			
<b>Member Contribution</b>	5.00%	8.00%	8.00%
<b>Contributions made in thousands</b>	\$336,866	\$27,467	\$31,990
<b>Actuarial Valuation Date</b>	June 30, 2015	June 30, 2015	June 30, 2015
<b>Actuarial Cost Method</b>	Entry age	Entry age	Entry age
<b>Amortization Method</b>	Level percent closed	Level percent closed	Level percentage of payroll closed
<b>Remaining amortization period</b>	28 years	28 years	28 Years
<b>Asset valuation method</b>	Five-year smoothed Market	Five-year smoothed Market	Five-year smoothed Market
<b>Actuarial assumptions:</b>			
<b>Investment rate of return</b>	7.50%	7.50%	7.50%
<b>Inflation Rate</b>	3.25%	3.25%	3.25%
<b>Projected salary increases</b>	4.0% , average , including inflation	4.0% , average , including inflation	4.0% , average , including inflation
<b>Mortality Tables</b>	Active members RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females) For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB in the current mortality table to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.		The mortality table used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females.) For healthy retired members and beneficiaries, the mortality table used RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females. For disabled members the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back four years for males is used for the period after disability retirement.)
<b>Date of Experience Study</b>	The period July1, 2008 - June 30, 2013	The period July1, 2008 - June 30, 2013	The period July1, 2008 - June 30, 2013
<b>Update procedures applied</b>	No update procedures were required.	No update procedures were required.	No update procedures were required.
<b>Membership Information</b>			
<b>Retirees and beneficiaries receiving benefits</b>	38,827	2,575	1,324
<b>Inactive members</b>	42,479	3,761	257
<b>Active plan members</b>	39,289	3,932	940
<b>Total</b>	<u>120,595</u>	<u>10,268</u>	<u>2,521</u>
<b>Membership Information-Hybrid</b>			
<b>Active plan members</b>			
<b>Number of participating employers</b>	354	354	1

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<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Kentucky Teachers' Retirement System</b>
51%	75%	10.875% - 13.355%
		10.75% - 13.35%
Members entering the plan prior to September 1, 2008, must contribute 5%. Members entering the plan on or after September 1, 2008, contribute 6% of official salary. Members joining July 1, 2014, or later contribute 5% to a hybrid cash account.		7.625% - 9.105%
\$15,405	\$3,375	\$480,073
July 1, 2015	July 1, 2015	June 30, 2015
Entry age normal funding method	Entry age normal funding method	Entry age
Interest + 1% Unfunded past liability	Interest + 1% Unfunded past liability	Level percent open
25 Years	25 Years	30 Years
Market Value	Market Value	Five-year smoothed Market
6.41%	6.85%	7.50%
3.00%	3.00%	3.50%
1.0% for the next five years, thereafter 3.5%	1.0% for the next five years, thereafter 3.5%	4.0%-8.2%, including inflation

RP 2000 Mortality Tables with white collar adjustment with Pre- and Post-Commencement Rates with projected mortality improvements after year 2000 under Project Scale AA (males and female scales.)

Mortality rates were based on RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on projection of Scale AA to 2020 with a setback of one year for females.

No Procedures Applied

No Procedures Applied

The period July 1, 2005 - June 30, 2010

The actuarial valuation was last performed as of July 1, 2015, and is roll-forward for July 1, 2016. The roll forward method employs generally accepted actuarial techniques. The results in this report have been developed with full reliance on the July 1, 2015, Actuarial Valuation Report and does not include any hybrid plan liabilities. At the measurement date, the hybrid Judicial and Legislators' Plans had multiple members as presented below.

The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the year and then applies the assumed interest rate (SEIR) for the year.

329	194	49,822
20	45	8,051
247	104	72,246
<u>596</u>	<u>343</u>	<u>130,119</u>
16	11	
1	1	193

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**Kentucky Judicial Retirement System**

The long-term expected rate of return on Judicial and Legislators' Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Judicial and Legislators' Plan's target asset allocation as of June 30, 2015 (see the discussion of the Judicial Plan's investment policy in Note 5) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	5.05%
International Equity	5.45%
Fixed Income	0.55%
Cash	(1.85%)

The discount used to measure the total pension liability was 6.41%, an increase from the 6.15% discount rate used as of July 1, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contribution will be made at the current statutory contribution rates. Based on those assumptions, the Judicial Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2049. The long-term expected rate of return on the Judicial Pension Plan's investments was applied to periods of projected benefit payments through this date, and the municipal bond rate, determined by using the 20-year municipal AA bond yield at July 1, 2015, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 34 years, and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.41%.

The following presents the net pension liability of the Judicial Plan, calculated using the discount rate of 6.41%, as well as what the Judicial Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.41%) or 1% point higher (7.41%) than the current rate:

<b>Kentucky Judicial Retirement System</b>			
(Expressed in Thousands)			
	1% Decrease (5.41%)	Current Discount Rate (6.41%)	1% Increase (7.41%)
Net Pension Liability	\$ 146,913	\$ 106,739	\$ 72,977

**Kentucky Legislators' Retirement System**

The discount used to measure the total pension liability was 6.85%, an increase from the 6.50% discount rate used as of July 1, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contribution will be made at the current statutory contribution rate. Based on those assumptions, the Legislative Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2062. The long-term expected rate of return on the Legislative Pension Plan's investments was applied to periods of projected benefit payments through this date, and the municipal bond rate, determined by using the 20-year municipal AA bond yield at July 1, 2015, for the periods thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 47 years, and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.85%.

The following presents the net pension liability of the Legislators Plan, calculated using the discount rate of 6.85%, as well as what the Legislative Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.85%) or 1% point higher (7.85%) than the current rate:

<b>Kentucky Legislators' Retirement System</b>			
(Expressed in Thousands)			
	1% Decrease (5.85%)	Current Discount Rate (6.85%)	1% Increase (7.85%)
Net Pension Liability	\$ 24,402	\$ 16,124	\$ 9,198

**Kentucky State Police Retirement System and Kentucky Employee Non-Hazardous and Hazardous Retirement System**

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended

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for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<b>Kentucky Retirement Systems</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	(0.25%)
Total	<u>100%</u>	

The discount rate used to measure the total pension liability was 7.50% a decrease from 7.75% The projection of cash flow used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The following presents the net pension liability of KSPRS, and KERS calculated using the discount rate of 7.50%, as well as what the net position liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%).

<b>State Police Retirement System - Hazardous</b>			
<small>(Expressed in Thousands)</small>			
	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 563,792	\$ 486,928	\$ 422,248

**Kentucky Employees' Retirement System -Non-Hazardous**

<small>(Expressed in Thousands)</small>			
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ 7,854,926	\$ 6,973,384	\$ 6,227,634

**Kentucky Employees' Retirement System - Hazardous**

<small>(Expressed in Thousands)</small>			
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ 431,810	\$ 335,667	\$ 255,008

**Kentucky Teachers' Retirement System**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<b>Kentucky Teachers' Retirement System</b>		
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Nominal Rate of Return</b>
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
Total	<u>100%</u>	

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The discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the System, calculated using the discount rate of 4.88%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.88%) or 1-percentage-point higher (5.88%) than the current rate:

<b>Kentucky Teachers' Retirement System</b>			
(Expressed in Thousands)			
	1% Decrease (3.88%)	Current Discount Rate (4.88%)	1% Increase (5.88%)
State as employer	\$ 524,969	\$ 421,794	\$ 336,415
State as a nonemployer special funding situation	28,379,300	22,801,761	18,186,259
<b>Total Net Pension Liability</b>	<b>\$ 28,904,269</b>	<b>\$ 23,223,555</b>	<b>\$ 18,522,674</b>

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**Kentucky Judicial Retirement System**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$10,360,000 for the Kentucky Judicial Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

Kentucky Judicial Form Retirement System (Expressed in Thousands)		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,576	\$
Changes in assumptions	12,923	2,577
Net difference between projected and actual earnings on investments		20,400
Contributions subsequent to the measurement date	15,115	
Total	<u>\$ 30,614</u>	<u>\$ 22,977</u>

The \$15,115,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

Kentucky Judicial Retirement System (Expressed in Thousands)	
Year ended June 30:	
2017	\$ 1,881
2018	(1,386)
2019	(6,214)
2020	(1,759)

**Kentucky Legislators' Retirement System**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expense/(income) of (\$573,000) for the Kentucky Legislators' Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

Kentucky Legislators' Retirement System (Expressed in Thousands)		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 1,625
Changes in assumptions	1,230	734
Net difference between projected and actual earnings on investments		4,209
Contributions subsequent to the measurement date	3,367	
Total	<u>\$ 4,597</u>	<u>\$ 6,568</u>

The \$3,367,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

Kentucky Legislators' Retirement System (Expressed in Thousands)	
Year ended June 30:	
2017	\$ (2,417)
2018	(1,288)
2019	(1,288)
2020	(345)

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**Kentucky Employees' Non-Hazardous Retirement System**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$680,402,000 for the Kentucky Employees' Non-Hazardous Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

	Kentucky Employees' Retirement System Non-Hazardous <i>(Expressed in Thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,945	\$
Changes in assumptions	334,244	
Net difference between projected and actual earnings on investments	19,814	
Change in proportionate share	115,380	41,085
Contributions subsequent to the measurement date	350,118	
Total	<u>\$ 834,501</u>	<u>\$ 41,085</u>

The \$350,118,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

	Kentucky Employees' Retirement System Non-Hazardous <i>(Expressed in Thousands)</i>	
Year ended June 30:		
2017	\$	136,399
2018		136,399
2019		136,399
2020		34,101
2021		
Thereafter		

**Kentucky Employees' Hazardous Retirement System**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$39,025,000 for the Kentucky Employees' Hazardous Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

	Kentucky Employees' Retirement System <i>(Expressed in Thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,127	\$
Changes in assumptions	35,490	
Net difference between projected and actual earnings on investments	1,966	
Change in proportionate share	1,573	1,685
Contributions subsequent to the measurement date	25,408	
Total	<u>\$ 68,564</u>	<u>\$ 1,685</u>

The \$25,408,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

	Kentucky Employees' Retirement System <i>(Expressed in Thousands)</i>	
Year ended June 30:		
2017	\$	12,270
2018		12,270
2019		12,270
2020		4,661
2021		
Thereafter		

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**Kentucky State Police Retirement**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$46,817,000 for the Kentucky State Police Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

	Kentucky State Police Retirement System (Expressed in Thousands)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 6,520	\$
Changes in assumptions	28,092	
Net difference between projected and actual earnings on investments		406
Change in proportionate share		
Contributions subsequent to the measurement date	31,990	
<b>Total</b>	<b>\$ 66,602</b>	<b>\$ 406</b>

The \$31,990,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

	Kentucky State Police Retirement System (Expressed in Thousands)	
Year ended June 30:		
2017	\$	13,708
2018		13,708
2019		3,563
2020		3,227
2021		
Thereafter		

**Kentucky Teachers' Retirement System**

For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$26,243,000 as an employer and \$1,293,542,000 as a Governmental Nonemployer Contributing Entity to Kentucky Teachers' Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

	Kentucky Teachers' Retirement System (Expressed in Thousands)			
	Employer		Nonemployer Special Funding Situation	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$	\$ 3,811	\$	\$ 245,972
Changes in assumptions	21,610	3,370	1,394,742	217,498
Net difference between projected and actual earnings on investments		8,856		571,591
Change in proportionate share	17,245	7,602	1,605	2,363
Contributions subsequent to the measurement date	8,809		476,178	
<b>Total</b>	<b>\$ 47,664</b>	<b>\$ 23,639</b>	<b>\$ 1,872,525</b>	<b>\$ 1,037,424</b>

The \$8,809,000 and \$476,178,000 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date as the employer and nonemployer contribution entity, respectively will be recognized as a reduction of net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

	Kentucky Teachers' Retirement System (Expressed in Thousands)		Nonemployer Special Funding Situation (Expressed in Thousands)	
	Employer		Special Funding Situation	
	Year ended June 30:			
2017	\$	2,858	\$	64,627
2018		2,858		64,627
2019		2,858		64,627
2020		2,858		64,627
2021		2,858		64,627
Thereafter		926		35,788

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For the Year Ended June 30, 2016, the Commonwealth of Kentucky recognized pension expenses of \$775,153,000 as an employer and \$1,293,542,000 as a Governmental Nonemployer Contributing Entity to Kentucky Teachers' Retirement System. Deferred outflows and deferred inflows related to pensions are from the following sources:

	<b>Primary Government</b> <i>(Expressed in Thousands)</i>			
	<b>Governmental Activities</b>			
	<b>Employer</b>		<b>Nonemployer Special Funding Situation</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,510	\$ 5,436	\$	\$ 245,972
Changes in assumptions	420,548	6,681	1,394,742	217,498
Net difference between projected and actual earnings on investments	21,053	33,871		571,591
Change in proportionate share	128,966	49,475	1,605	2,363
Contributions subsequent to the measurement date	421,196		476,178	
<b>Total</b>	<b>\$ 1,019,273</b>	<b>\$ 95,463</b>	<b>\$ 1,872,525</b>	<b>\$ 1,037,424</b>

For the Year Ended June 30, 2016, The Commonwealth of Kentucky recognized pension expenses of \$27,121,000 and deferred outflows and deferred inflows related to pensions from the following sources:

	<b>Business-Type Activities</b> <i>(Expressed in Thousands)</i>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 658	\$
Changes in assumptions	13,061	
Net difference between projected and actual earnings on investments	727	
Change in proportionate share	5,232	898
Contributions subsequent to the measurement date	13,611	
<b>Total</b>	<b>\$ 33,289</b>	<b>\$ 898</b>

Major Component Units recognized pension expenses of \$24,686,000 and deferred outflows and deferred inflows related to pensions from the following sources:

	<b>Major Component Units</b> <i>(Expressed in Thousands)</i>	
	as Employer	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 740	\$ 2,366
Changes in assumptions	29,955	2,092
Net difference between projected and actual earnings on investments		
Net difference between projected and actual earnings on investments	984	5,484
Change in proportionate share	2,725	19,929
Contributions subsequent to the measurement date	24,873	
<b>Total</b>	<b>\$ 59,277</b>	<b>\$ 29,871</b>

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

Primary Government reports \$910,985,000 and Major Component Units report \$24,873,000 as deferred outflows resulting from contributions made subsequent to the measurement date. Outflows from deferred contributions will reduce the net pension liability for the year end June 30, 2017, as reflected below. Other amounts reported as deferred outflows will be recognized in pension expense as follows:

	Primary Government <i>(Expressed in Thousands)</i>			Component Units Major <i>(Expressed in Thousands)</i>
	Governmental Activities	Nonemployer Special Funding Situation	Business-Type Activities	
Year ended June 30:				
2017	\$ 158,927	\$ 64,627	\$ 5,772	\$ 1,393
2018	156,789	64,627	5,772	1,393
2019	141,816	64,627	5,772	(433)
2020	41,278	64,627	1,465	2,228
2021	2,858	64,627		(46)
Thereafter	948	35,788		

**Schedule of Retiree Health Insurance Benefit and Eligibility**

**Judicial Retirement System**

<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
Participation before 7/1/2003	Participation on or after 7/1/2003	Participation on or after 1/1/2014
Based on years of service and type of service, JRS pays a percentage of the monthly contribution rate as follows: 20 or more years of service, 100% paid; 15 to 19 years 11 months of service, 75% paid; 10 to 14 years 11 months of service, 50% paid; 4 to 9 years 11 months of service, 25% paid; Less than 4 years of service, 0% paid.	10 years for eligibility. Benefit of \$10 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually.	15 years for eligibility. Benefit of \$10 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually.

**Kentucky Retirement Systems**

<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
<b>Non-Hazardous</b>		
Participation before 7/1/2003	Participation on or after 7/1/2003	Participation on or after 1/1/2014
Based on years of service and type of service, KRS pays a percentage of the monthly contribution rate as follows: 20 or more years of service, 100% paid; 15 to 19 years of service, 75% paid; 10 to 14 years of service, 50% paid; 4 to 9 years of service, 25% paid; Less than 4 years of service, 0% paid.	10 years for eligibility. Benefit of \$10 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually.	15 years for eligibility. Benefit of \$10 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually.
<b>Hazardous (includes State Police)</b>		
Based on years of service and type of service, KRS pays a percentage of the monthly contribution rate as follows: 20 or more years of service, 100% paid; 15 to 19 years of service, 75% paid; 10 to 14 years of service, 50% paid; 4 to 9 years of service, 25% paid; less than 4 years of service, 0% paid.	10 years for eligibility. Benefit of \$15 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually. \$10 per month for each year of hazardous service for surviving spouse of deceased member.	15 years for eligibility. Benefit of \$15 per month for each year of earned service without regard to maximum dollar amount; adjusted by 1.5% annually. \$10 per month for each year of hazardous service for surviving spouse of deceased member.

**Legislators' Retirement System**

<b>Tier 1</b> Participation before 7/1/2003	<b>Tier 2</b> Participation on or after 7/1/2003	<b>Tier 3</b> Participation on or after 1/1/2014
<p>Based on years of service, LRS pays a percentage of the monthly contribution rate as follows: 20 or more years of service, 100% paid; 19 to 19 years 11 months, 95% paid; 18 years to 18 years 11 months, 90% paid; 17 years to 17 years 11 months, 85% paid; 16 years to 16 years 11 months, 80% paid; 15 years to 15 years 11 months, 75% paid; 14 years to 14 years 11 months, 70% paid; 13 years to 13 years 11 months, 65% paid; 12 years to 12 years 11 months, 60% paid; 11 years to 11 years 11 months, 55% paid; 10 years to 10 years 11 months, 50% paid; 4 to 9 years 11 months of service, 25% paid; less than 4 years of service, 0% paid.</p>	<p>10 years of earned service at retirement to be eligible for insurance benefits. Benefit of \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually.</p>	<p>15 years of earned service at retirement to be eligible for insurance benefits. Benefit of \$15 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually.</p>

**Kentucky Teachers' Retirement System**

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS medical plan offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. The Commonwealth of Kentucky bears risk for excess claims expenses that exceed the premium equivalents charged for the Kentucky Employees Health Plan. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**Schedule of Other Post Employment Benefits (Insurance) Actuarial Information**  
**(Expressed in Thousands)**

	<b>Kentucky Judicial Retirement Plan</b>	<b>Kentucky Legislators' Retirement Plan</b>
Contribution rates:		
State	4.02%	0.11%
Plan members	1.00%	1.00%
Annual required contribution (ARC)	\$1,274	\$5
Contributions made	\$1,274	\$5
Actuarial valuation date	July 1, 2015	July 1, 2015
Actuarial cost method	Entry age normal funding method Interest + 1% Unfunded Past Liability	Entry age normal funding method Interest + 1% Unfunded Past Liability
Amortization method	open	open
Remaining amortization period	25 years	25 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	6.41%	6.85%
Inflation Rate	3%	3%
Projected salary increases	1% for next 5 years, and 3.5% thereafter	1% for next 5 years, and 3.5% thereafter
Increases in Health Insurance Cost	11%	11%
Actuarial Required Contribution (ARC)	\$ 1,274	\$ 5
Interest on NOPEBO	71	(23)
Adjustment to ARC	(89)	(27)
Annual pension cost	1,256	(45)
Contributions made	1,274	5
Increase (Decrease) in NOPEBO	(18)	(50)
NOPEBO beginning of year	1,100	(333)
NOPEBO as of 6/30/16	<u>\$ 1,082</u>	<u>\$ (383)</u>
Percentage APC contributed	<u>101.4%</u>	
<b>June 30, 2015</b>		
Annual pension cost	\$ 1,256	\$ (43)
Percentage APC contributed	101.4%	
NOPEBO as of 6/30/15	<u>\$ 1,100</u>	<u>\$ (333)</u>
<b>June 30, 2014</b>		
Annual Pension Cost	\$ 884	\$ 5
Percentage APC Contributed	72%	
NOPEBO as of 6/30/14	<u>\$ 1,118</u>	<u>\$ (290)</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

State Police Retirement System	Kentucky Employees' Retirement System		Kentucky Teachers' Retirement System
	Non-Hazardous	Hazardous	
21.86%	7.93%	9.97%	0.890% - 3.750%
1.00%	1.00%	1.00%	2.775% - 3.750%
\$8,553	\$121,899	\$9,186	\$99,040
\$10,237	\$135,816	\$16,766	\$223,004
June 30, 2016	June 30, 2016		June 30, 2016
Entry age	Entry age		Entry age
Level percent closed	Level percent closed		Level percent open
27 years	27 years		30 years
Five-year smoothed Market	Five-year smoothed Market		Five-year smoothed Market
7.50%	7.50%		7.50% - 8.00%
3.25%	3.25%		3.00%
			3.50%
5.00% - 7.50%	5.0% - 7.50%		5.00% - 7.75%
<b>\$</b> 8,553	<b>\$</b> 121,899	<b>\$</b> 13,152	<b>\$</b> 99,040
12,704	136,355	7,226	117,819
(13,649)	(146,500)	(5,304)	(80,485)
7,608	111,754	15,074	136,375
10,237	135,816	16,766	223,004
(2,629)	(24,062)	(1,692)	(86,630)
169,382	1,818,070	96,554	1,472,220
<b>\$</b> 166,753	<b>\$</b> 1,794,008	<b>\$</b> 94,862	<b>\$</b> 1,385,590
134.6%	121.5%	111.2%	163.5%
<b>\$</b> 8,937	<b>\$</b> 120,222	<b>\$</b> 15,085	<b>\$</b> 145,587
116.2%	113.1%	98.7%	116.2%
<b>\$</b> 169,382	<b>\$</b> 1,818,070	<b>\$</b> 96,554	<b>\$</b> 1,472,220
<b>\$</b> 27,057	<b>\$</b> 276,191	<b>\$</b> 17,935	<b>\$</b> 197,693
54%	60%	133%	83%
<b>\$</b> 170,827	<b>\$</b> 1,833,788	<b>\$</b> 96,351	<b>\$</b> 1,495,738

COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
June 30, 2016

Schedule of Funding Progress - Insurance Funds

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>Judicial Retirement Plan</b>						
June 30, 2014	\$ 53,374,356	\$ 56,161,700	\$ 2,787,344	95.0	\$ 32,930,076	8.5
June 30, 2015	61,046,752	61,195,047	148,295	99.8	30,009,326	.5
June 30, 2016	67,725,236	64,684,050	(3,041,186)	104.7	30,009,326	(10.1)
<b>Legislators' Retirement Plan</b>						
June 30, 2014	\$ 29,405,073	\$ 24,525,907	\$ (4,879,166)	119.9	\$ 4,987,823	(97.8)
June 30, 2015	33,194,900	26,955,434	(6,239,466)	123.1	4,467,419	(139.7)
June 30, 2016	36,413,147	28,608,061	(7,805,086)	127.3	4,467,419	(174.7)
<b>State Police Retirement System</b>						
June 30, 2014	\$ 155,594,760	\$ 234,271,127	\$ 78,676,367	66.4	\$ 44,616,885	176.3
June 30, 2015*	167,774,940	254,838,710	87,063,770	65.8	45,764,515	190.2
June 30, 2016	172,703,691	257,197,259	84,493,568	67.1	45,551,469	185.5
<b>Kentucky Employees' Retirement System</b>						
<b>Non-Hazardous</b>						
June 30, 2014	\$ 621,236,646	\$ 2,226,759,925	\$ 1,605,523,279	27.9	\$ 1,577,496,447	101.8
June 30, 2015*	695,018,262	2,413,705,252	1,718,686,990	28.8	1,544,234,409	111.3
June 30, 2016	743,270,030	2,456,677,964	1,713,407,934	30.3	1,529,248,873	112.0
<b>Hazardous</b>						
June 30, 2014	\$ 419,395,867	\$ 396,986,820	\$ (22,409,047)	105.6	\$ 129,076,038	(17.4)
June 30, 2015*	451,514,191	374,904,234	(76,609,957)	120.4	128,680,130	(59.5)
June 30, 2016	473,160,173	377,745,230	(95,414,943)	125.3	147,563,457	(64.7)
<b>Kentucky Teachers' Retirement System</b>						
June 30, 2014	\$ 605,043,000	\$ 3,292,043,000	\$ 2,687,000,000	18.4	\$ 3,486,327,000	77.1
June 30, 2015	735,025,000	3,624,323,000	2,889,298,000	20.3	3,515,113,000	82.2
June 30, 2016	892,324,000	3,740,132,000	2,847,808,000	23.9	3,537,226,000	80.5

\* Discount rate changed from 7.75% to 7.50%

COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
June 30, 2016

Three year trend for contributions - Insurance Funds  
(Expressed in thousands):

	<u>Insurance</u>	
	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
<b><u>Judicial Retirement Plan</u></b>		
2014	\$ 893	71.0%
2015	1,274	100.0%
2016	1,274	100.0%
<b><u>Legislators' Retirement Plan</u></b>		
2014	\$	
2015		
2016	5	100.0%
<b><u>State Police Retirement System</u></b>		
2014	\$ 20,879	69.4%
2015	9,890	105.0%
2016	8,553	119.7%
<b><u>Kentucky Employees' Retirement System</u></b>		
<b><u>Non-Hazardous</u></b>		
2014	\$ 208,881	79.8%
2015	130,455	104.2%
2016	121,899	111.4%
<b><u>Hazardous</u></b>		
2014	\$ 15,627	152.8%
2015	13,152	113.2%
2016	9,186	182.5%
<b><u>Kentucky Teachers' Retirement System</u></b>		
2014	\$ 160,628	101.9%
2015	107,656	157.7%
2016	99,040	163.5%

**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 deferral 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 \$926,483,267 in the 457 Plan at June 30, 2016, \$429,102,547 was applicable to the Commonwealth, while the remaining \$497,380,810 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$1,628,801,781 at June 30, 2016, of which \$603,045,881 was applicable to the Commonwealth, while the remaining \$1,025,755,900 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 major component units is applicable to leases with the Commonwealth.

Changes in leases payable for the year ended June 30, 2016, are summarized in Note 15, Long-Term Obligations.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**At June 30, 2016, 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	\$ 52,756	\$ 14,611	\$ 480,973
Equipment	59,778	1,146	101,898
Other			82,303
Total	<u>112,534</u>	<u>15,757</u>	<u>665,174</u>
Less: Accumulated depreciation	(52,416)	(8,767)	(294,530)
Total Net of Depreciation	<u>\$ 60,118</u>	<u>\$ 6,990</u>	<u>\$ 370,644</u>

**Future minimum rental commitments for capitalizable leases as of June 30, 2016, are as follows (Expressed in Thousands):**

	<u>Primary Government</u>				<u>Component Units - Major</u>	
	<u>Governmental</u>		<u>Business-Type</u>		<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2017	\$ 14,360	\$ 1,726	\$ 1,148	\$ 314	\$ 36,337	\$ 7,518
2018	11,871	1,277	1,172	268	32,499	6,843
2019	8,923	894	1,152	236	22,447	5,787
2020	4,673	466	1,158	204	18,593	5,251
2021	3,482	539	1,090	173	15,929	4,519
2022-2026	12,667	1,848	4,710	444	63,217	20,756
2027-2031	2,088	76	923	16	28,237	5,838
2032-2036					17,021	1,935
Present value of future minimum lease payments	<u>\$ 58,064</u>	<u>\$ 6,826</u>	<u>\$ 11,353</u>	<u>\$ 1,655</u>	<u>\$ 234,280</u>	<u>\$ 58,447</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 \$7,190,000 reported in the Program at June 30, 2016, 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 2016 and 2015 were:

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
Beginning of fiscal year liability	\$ 9,572,000	\$ 4,720,620
Incurred claims	6,553,241	16,396,225
Changes in estimates		
Claims payments	<u>(8,935,241)</u>	<u>(11,544,845)</u>
Balance at Fiscal Year End	<u>\$ 7,190,000</u>	<u>\$ 9,572,000</u>

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 the Financial Statements**

**June 30, 2016**

The actuarially determined aggregate claims liability of \$175,139,265 reported in the Program at June 30, 2016, 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 2016 and 2015 were:

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 176,883,414	\$ 175,694,730
Claims and claims adjustments incurred:		
Current year	22,185,372	24,846,571
Increase (Decrease) in Prior year	(4,107,312)	(2,421,815)
Total Claims and Claims Adjustments Incurred	18,078,060	22,424,756
Claims and claims adjustment payments:		
Current year	(5,385,844)	(6,220,653)
Increase (Decrease) in Prior year	(14,436,365)	(15,015,419)
Total Claims and Claims Adjustment Payments	(19,822,209)	(21,236,072)
Balance at Fiscal Year End	<u>\$ 175,139,265</u>	<u>\$ 176,883,414</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.

The claims liability of \$31,649,485 reported in the Program at June 30, 2016, includes both reported and unreported insured events, including estimates of both future payments of losses and related claims adjustments expenses. Changes in the Program's claims liability amount in Fiscal Years 2016 and 2015 were:

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 29,005,422	\$ 28,711,821
Claims and claims adjustments incurred	5,735,411	3,648,294
Changes in estimates		
Claims and claims adjustment payments	(3,091,348)	(3,354,693)
Balance at Fiscal Year End	<u>\$ 31,649,485</u>	<u>\$ 29,005,422</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 \$684,230,478 as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$899,787,000, discounted at 2.7 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$22,353,628, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$25,888,000 discounted at 2.7 percent and net of the estimated realizable value of reimbursements.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2016. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 1,008,341,000	\$ 1,092,540,000
Claims and claims adjustments incurred	6,100,000	6,204,000
Changes in estimates	(29,668,000)	(29,008,000)
Claims and claims adjustment payments	(59,098,000)	(61,395,000)
Balance at Fiscal Year End	<u>\$ 925,675,000</u>	<u>\$ 1,008,341,000</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

**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 \$48,505,568 as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$55,239,000 discounted at 3.5 percent. The claims adjustment liability of \$1,038,000 as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,182,000 discounted at 3.5 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

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.

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 49,695,000	\$ 34,703,000
Claims and claims adjustments incurred	7,264,000	6,688,000
Changes in estimates	7,168,000	15,377,000
Claims and claims adjustment payments	<u>(7,706,000)</u>	<u>(7,073,000)</u>
Balance at Fiscal Year End	<u>\$ 56,421,000</u>	<u>\$ 49,695,000</u>

**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 \$193,345,123 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 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 193,345,123	\$ 181,143,394
Claims and claims adjustments incurred	15,334,362	5,953,264
Changes in estimates		23,795,409
Claims and claims adjustment payments	<u>(15,334,362)</u>	<u>(17,546,944)</u>
Balance at Fiscal Year End	<u>\$ 193,345,123</u>	<u>\$ 193,345,123</u>

**Kentucky Reclamation Guaranty Fund:**

The Kentucky Reclamation Guaranty Fund was established in 2013 to provide additional monies for the reclamation of forfeited coal mining operations where the permit specific performance bonds are insufficient for the Commonwealth to complete reclamation to program standards. Participation in the fund is mandatory for all companies mining coal in the Commonwealth, with certain exclusions.

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On the date of the establishment of the fund, each entity (member) holding a permit will be assessed a start-up assessment of \$1,500 and an assessment of \$10 per active acre. Entities entering after the date of establishment of the fund shall pay a onetime assessment \$10,000 to the fund. Additionally, members pay tonnage fees of \$.0757 per ton of surface mined coal and \$.0357 per ton for underground mined coal. All permits previously subject to the voluntary bond pool at the time of its repeal shall be excluded from the start-up assessments but will be subject to the tonnage fees. Member entities shall be given the option to provide full-cost bonds based on a reclamation cost estimate that reflects reclamation costs to the cabinet and certified by a professional engineer in lieu of participation in the fund.

Permits which are used exclusively for coal preparation, processing operations, loading activities, disposal of refuse operations, coal haulage, access roads, mine maintenance areas, support facilities, and other permits are exempt to the provisions of the previous paragraph as determined by the Commission. Exempt members shall pay an annual fee of \$10 per acre.

As determined by the Commission any permits, or expired permits, not subject to the above paragraphs shall pay an annual fee of \$6 per surface acre to the fund. This fee shall not apply to those permits specified in KRS 350.518(2)(f).

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 Kentucky Reclamation Guaranty Fund in turn provides coverage for reclamation costs that exceed the permit specific bond. The Fund will 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 \$116,728,544 as reported in the financial statements is the aggregate actuarially determined claims liability.

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 189,552	\$ 189,552
Claims and claims adjustments incurred	116,538,992	
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 116,728,544</u>	<u>\$ 189,552</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 zero claims liability at June 30, 2016. Changes in the Program's aggregate liabilities for the claims and claims adjustments for the past two years were:

	Fiscal Year 2016	Fiscal Year 2015
Beginning of fiscal year liability	\$ 5,131	\$
Claims and claims adjustments incurred		5,131
Changes in estimates		
Claims and claims adjustment payments	(5,131)	
Balance at Fiscal Year End	<u>\$</u>	<u>\$ 5,131</u>

**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 Administra-

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tor 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 \$120,385,655 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:

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
Beginning of fiscal year liability	\$ 70,696,529	\$ 99,354,848
Claims and claims adjustments incurred	1,473,690,710	1,460,101,994
Changes in estimates	5,746,977	12,103,085
Claims and claims adjustment payments	<u>(1,429,748,561)</u>	<u>(1,500,863,398)</u>
Balance at Fiscal Year End	<u>\$ 120,385,655</u>	<u>\$ 70,696,529</u>

**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.

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. There were no cash payments for claims expenses during 2016 or 2015; and, there was not a claims liability for FY 2016 or FY 2015.

**Note 13**

**DEFEASANCE OF LONG-TERM DEBT**

**The School Facilities Construction Commission**

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, 2016 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated March 16, 2016, were issued for the Barren County School District Finance Corporation to refund a 2008 issue. The Commission’s portion of the refunding issue was \$372,174 maturing September 1, 2016, through September 1, 2028, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated March 15, 2016, were issued for the Berea Independent School District Finance Corporation to refund a 2007 issue. The Commission’s portion of the refunding issue was \$501,469 maturing June 1, 2016, through December 1, 2027, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated June 16, 2016, were issued for the Bourbon County School District Finance Corporation to refund a 2009 issue. The Commission’s portion of the refunding issue was \$120,640 maturing August 1, 2016, through June 30, 2029, and carrying interest rates of 1.000% to 3.000%.

Revenue refunding bonds dated June 30, 2016, were issued for the Breathitt County School District Finance Corporation to refund a 2006 issue. The Commission’s portion of the refunding issue was \$1,009,954 maturing August 1, 2016, through February 1, 2028, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated December 30, 2015, were issued for the Breckinridge County School District Finance Corporation to refund a 2008 issue. The Commission’s portion of the refunding issue was \$713,826 maturing April 1, 2016, through April 1, 2028, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated May 10, 2016, were issued for the Butler County School District Finance Corporation to refund a 2008 issue. The Commission’s portion of the refunding issue was \$133,174 maturing August 1, 2016, through February 1, 2028, and carrying interest rates from 1.000% to 2.750%.

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Revenue refunding bonds dated March 8, 2016, were issued for the Clinton County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$334,197 maturing July 1, 2016, through July 1, 2027, and carrying interest rates from 2.000% to 2.750%.

Revenue refunding bonds dated February 1, 2016, were issued for the Corbin Independent School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$639,184 maturing August 1, 2016, through February 1, 2027, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated June 1, 2016, were issued for the Cumberland County School District Finance Corporation to refund a 2007 and a 2008 issue. The Commission's portion of the refunding issue was \$1,225,207 maturing December 1, 2016, through June 1, 2028, and carrying interest rates from 1.000% to 2.125%.

Revenue refunding bonds dated March 1, 2016, were issued for the Erlanger-Elsmere Independent School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$948,135 maturing May 1, 2016, through May 1, 2027, and carrying interest rates from 2.000% to 2.500%.

Revenue refunding bonds dated October 22, 2015, were issued for the Estill County School District Finance Corporation to refund a 2007A issue. The Commission's portion of the refunding issue was \$2,155,000 maturing January 1, 2016, through January 1, 2027, and carrying interest rates from 1.750% to 3.000%.

Revenue refunding bonds dated September 23, 2015, were issued for the Fayette County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$3,043,882 maturing November 1, 2015, through May 1, 2027, and carrying interest rates from 3.000% to 4.000%.

Revenue refunding bonds dated July 28, 2015, were issued for the Fayette County School District Finance Corporation to refund a 2005B issue. The Commission's portion of the refunding issue was \$476,175 maturing January 1, 2016, through July 1, 2019, and carrying an interest rate of 4.000%.

Revenue refunding bonds dated May 1, 2016, were issued for the Fleming County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$960,000 maturing August 1, 2016, through August 1, 2026, and carrying interest rates from 2.000% to 2.250%.

Revenue refunding bonds dated March 30, 2016, were issued for the Franklin County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$407,298 maturing May 1, 2016, through May 1, 2027, and carrying interest rates from 2.000% to 4.000%.

Revenue refunding bonds dated June 15, 2016 were issued for the Grayson County School District Finance Corporation to refund a 2009 issue. The Commission's portion of the refunding issue was \$1,077,527 maturing November 1, 2016, through May 1, 2029, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated February 1, 2016 were issued for the Greenup County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$726,127 maturing September 1, 2016, through March 1, 2027, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated March 1, 2016, were issued for the Hancock County School District Finance Corporation to refund a 2007 and a 2010 issue. The Commission's portion of the refunding issue was \$1,254,322 maturing October 1, 2016, through October 1, 2029, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated March 22, 2016, were issued for the Hardin County School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$1,197,015 maturing August 1, 2016, through August 1, 2028, and carrying interest rates from 2.000% to 5.000%.

Revenue refunding bonds dated April 6, 2016, were issued for the Henry County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$898,734 maturing October 1, 2016, through October 1, 2027, and carrying interest rates from 2.000% to 4.000%.

Revenue refunding bonds dated February 25, 2016, were issued for the Hopkins County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$955,000 maturing May 1, 2016, through November 1, 2026, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated June 15, 2016, were issued for the Jenkins Independent School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$182,877 maturing November 1, 2016, through November 1, 2027, and carrying interest rates from 1.150% to 3.000%.

Revenue refunding bonds dated March 1, 2016, were issued for the Kenton County School District Finance Corporation to refund a 2009 issue. The Commission's portion of the refunding issue was \$1,157,161 maturing August 1, 2016, through February 1, 2029, and carrying interest rates from 0.950% to 4.000%.

Revenue refunding bonds dated March 1, 2016, were issued for the Knox County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$4,811,358 maturing September 1, 2016, through September 1, 2027, and carrying interest rates from 2.000% to 3.000%.

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Revenue refunding bonds dated May 24, 2016, were issued for the LaRue County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$1,495,327 maturing August 1, 2016, through August 1, 2019, and carrying an interest rate of 1.250%.

Revenue refunding bonds dated May 24, 2016, were issued for the LaRue County School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$147,650 maturing December 1, 2016, through December 1, 2028, and carrying interest rates from 1.000% to 2.625%.

Revenue refunding bonds dated April 1, 2016, were issued for the Leslie County School District Finance Corporation to refund a 2006 issue and a 2007 issue. The Commission's portion of the refunding issue was \$5,015,580 maturing August 1, 2016, through August 1, 2027, and carrying an interest rate of 3.000%.

Revenue refunding bonds dated February 1, 2016, were issued for the Lewis County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$530,167 maturing April 1, 2016, through October 1, 2026, and carrying interest rates of 1.150% to 2.500%.

Revenue refunding bonds dated November 17, 2015, were issued for the Lincoln County School District Finance Corporation to refund a 2010 issue. The Commission's portion of the refunding issue was \$2,422,372 maturing March 1, 2016, through September 1, 2030, and carrying interest rates of 2.000% to 3.000%.

Revenue refunding bonds dated December 1, 2015, were issued for the Ludlow Independent School District Finance Corporation to refund a 2006 issue and a 2003 lease agreement. The Commission's portion of the refunding issue was \$235,745 maturing March 1, 2016, through March 1, 2026, and carrying interest rates of 2.000% to 3.000%.

Revenue refunding bonds dated March 1, 2016, were issued for the Madison County School District Finance Corporation to refund a 2006 issue and a 2010 issue. The Commission's portion of the refunding issue was \$2,018,635 maturing May 1, 2016, through May 1, 2030, and carrying interest rates of 2.250% to 5.000%.

Revenue refunding bonds dated July 6, 2015, were issued for the Marion County School District Finance Corporation to refund a 2005B issue. The Commission's portion of the refunding issue was \$376,053 maturing October 1, 2015, through October 1, 2019, and carrying interest rates from 0.400% to 1.500%.

Revenue refunding bonds dated January 6, 2016, were issued for the Marshall County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$1,232,467 maturing May 1, 2016, through May 1, 2027, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated March 1, 2016, were issued for the McCreary County School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$4,870,294 maturing November 1, 2016, through May 1, 2028, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated March 2, 2016, were issued for the Meade County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$453,762 maturing September 1, 2016, through September 1, 2026, and carrying interest rates from 0.800% to 5.000%.

Revenue refunding bonds dated February 1, 2016, were issued for the Mercer County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$578,663 maturing May 1, 2016, through May 1, 2027, and carrying interest rates from 2.000% to 3.000%.

Revenue refunding bonds dated June 1, 2016, were issued for the Montgomery County School District Finance Corporation to refund a 2007A and a 2007B issue. The Commission's portion of the refunding issue was \$149,600 maturing September 1, 2016, through September 1, 2027, and carrying an interest rate of 2.000%.

Revenue refunding bonds dated February 1, 2016, were issued for the Nelson County School District Finance Corporation to refund a 2006 and a 2007 issue. The Commission's portion of the refunding issue was \$1,311,105 maturing June 1, 2016, through December 1, 2027, and carrying interest rates from 2.000% to 2.500%.

Revenue refunding bonds dated January 5, 2016, were issued for the Ohio County School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$885,141 maturing May 1, 2016, through May 1, 2028, and carrying interest rates from 1.000% to 3.000%.

Revenue refunding bonds dated January 5, 2016, were issued for the Ohio County School District Finance Corporation to refund a 2010 issue. The Commission's portion of the refunding issue was \$508,913 maturing March 1, 2016, through September 1, 2030, and carrying interest rates from 1.400% to 3.000%.

Revenue refunding bonds dated April 1, 2016, were issued for the Owensboro Independent School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$513,274 maturing September 1, 2016, through September 1, 2028, and carrying interest rates from 2.000% to 4.000%.

Revenue refunding bonds dated June 16, 2016, were issued for the Paducah Independent School District Finance Corporation to refund a 2009 issue. The Commission's portion of the refunding issue was \$396,329 maturing October 1, 2016, through April 1, 2029, and carrying interest rates from 2.000% to 3.000%.

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Revenue refunding bonds dated June 1, 2016, were issued for the Paris Independent School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$1,340,000 maturing October 1, 2016, through October 1, 2027, and carrying an interest rate of 2.000%.

Revenue refunding bonds dated May 26, 2016, were issued for the Perry County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$1,475,802 maturing August 1, 2016, through August 1, 2026, and carrying interest rates from 2.000% to 2.250%.

Revenue refunding bonds dated February 1, 2016, were issued for the Pike County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$7,363,310 maturing October 1, 2016, through October 1, 2027, and carrying interest rates of 2.000% to 3.000%.

Revenue refunding bonds dated June 14, 2016, were issued for the Pulaski County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$2,080,000 maturing December 1, 2016, through June 1, 2027, and carrying an interest rate of 2.000%.

Revenue refunding bonds dated September 1, 2015, were issued for the Rowan County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$1,192,950 maturing February 1, 2016, through August 1, 2026, and carrying interest rates of 2.000% to 2.750%.

Revenue refunding bonds dated September 1, 2015, were issued for the Russell County School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$301,818 maturing March 1, 2016, through September 1, 2026, and carrying interest rates of 2.000% to 2.500%.

Revenue refunding bonds dated September 1, 2015, were issued for the Russell Independent School District Finance Corporation to refund a 2006 issue. The Commission's portion of the refunding issue was \$1,238,670 maturing March 1, 2016, through September 1, 2026, and carrying interest rates of 2.000% to 3.000%.

Revenue refunding bonds dated March 16, 2016, were issued for the Scott County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$1,243,065 maturing May 1, 2016, through May 1, 2027, and carrying interest rates of 2.000% to 4.000%.

Revenue refunding bonds dated March 17, 2016, were issued for the Spencer County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$1,413,970 maturing August 1, 2016, through August 1, 2027, and carrying interest rates of 2.000% to 3.000%.

Revenue refunding bonds dated June 1, 2016, were issued for the Trimble County School District Finance Corporation to refund a 2007 issue. The Commission's portion of the refunding issue was \$1,985,776 maturing September 1, 2016, through September 1, 2027, and carrying an interest rate of 2.000%.

Revenue refunding bonds dated February 1, 2016, were issued for the Warren County School District Finance Corporation to refund a 2008 issue. The Commission's portion of the refunding issue was \$510,617 maturing April 1, 2016, through April 1, 2028, and carrying interest rates of 0.050% to 4.000%.

Revenue refunding bonds dated June 1, 2016, were issued for the Williamstown Independent School District Finance Corporation to refund a 2007A and a 2007B issue. The Commission's portion of the refunding issue was \$2,693,724 maturing December 1, 2016, through December 1, 2027, and carrying an interest rate of 2.000%.

#### State Property and Buildings Commission

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

\$115,660,000 Project No. 110, Revenue and Revenue Refunding Bonds dated December 3, 2015. These bonds consist of Serial bonds maturing on February 1, 2016 through August 1, 2035 carrying interest rates of 2.00% to 5.00%. The net proceeds of this issue will be used to finance a portion of various public projects, including economic development projects and community developments, to refund certain outstanding bonds of the Kentucky Infrastructure Authority and pay certain costs of issuing the bonds. The net proceeds in the amount of \$6,242,607 related to the refunding were deposited in the Bond Fund for Prior Bonds. The par amount of the bonds refunded totaled 6,240,000 maturing June 1, 2016 through July 1, 2024 carrying interest rates of 4.500% to 5.250%. The refunding will result in net savings (increase in cash flows) of \$1,049,872 in future periods and a present value savings of \$788,149 at 3.0434%.

\$561,870,000 Project No. 112 Series B, Revenue Refunding Bonds dated March 23, 2016. These bonds consist of Serial bonds maturing on May 1, 2016 through November 1, 2028 carrying interest rates of 3.00% to 5.00%. The net proceeds of the issue in the amount of \$664,304,600 were deposited in Bond Repayment Fund to partially refund State Property and Buildings Commission issues of bonds. The bonds partially refunded consisted of State Property and Building Commission project number 87 in the amount of \$9,625,000 maturing March 1, 2018 through March 1, 2027 carrying interest rates from 4.00% to 5.00% ; project number 88 in the amount of \$56,830,000 maturing November 1, 2018 through November 1, 2027 carrying interest rates from 4.50% to 5.00%; project number 89 in the amount of \$142,885,000 matur-

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ing November 1, 2019 through November 1, 2027 carrying interest rates of 4.00% to 5.00%; project number 90 in the amount of \$159,510,000 maturing November 1, 2021 through November 1, 2028 carrying interest rates of 5.375% to 5.750%, and project number 93 in the amount of \$224,415,000 maturing February 1, 2020 through February 1, 2029 carrying interest rates of 4.00% to 5.00%; and Kentucky Asset/Liability Commission Project Notes titled 2005 General Fund First Series in the amount of \$50,060,000 maturing May 1, 2016 through May 1, 2025 carrying interest rates of 4.000% to 5.250%. The refunding will result in increase cash flows in future periods of \$65,319,899 and a present value savings of \$54,723,121 at 2.555%.

\$10,850,000 Project No. 113, Agency Revenue Refunding Bonds dated June 2, 2016. These bonds consist of Serial bonds maturing on April 1, 2017 through April 1, 2029 carrying interest rates of 1.90% to 5.00%. The net proceeds of the issue in the amount of \$11,626,873 were deposited in Bond Repayment Fund to partially refund State Property and Buildings Commission project number 91 in the amount of \$10,555,000. This refunding defeased term bonds maturing April 1, 2024 carrying an interest rate of 5.820% and term bonds maturing April 1, 2029 carrying an interest rate of 5.950%. This refunding completely refunds the portion of project number 91 that funded certain projects of the Kentucky River Authority. The refunding will result in increase cash flows in future periods of \$2,153,210 and a present value savings of \$1,875,737 at 2.292%.

#### The Turnpike Authority of Kentucky

The Turnpike Authority of Kentucky issued the following Revenue Refunding Bonds:

\$122,005,000 of 2015 Series B Economic Development Revenue Refunding Bonds dated July 22, 2015. These bonds mature on July 1, 2017 through July 1, 2026 carrying interest rates of 3.00% to 5.00%. The net proceeds in the amount of \$140,072,269 were deposited in the Bond Fund for Prior Bonds and used for complete refunding of Series 2006A bonds in the amount of \$14,190,000 maturing July 1, 2017, through July 1, 2026, and carrying interest rates of 4.00% to 4.40%; and Series 2006B bonds in the amount of \$120,235,000 maturing July 1, 2017, through July 1, 2023, and carrying interest rates of 4.20% to 5.00%. The refunding will result in net savings (increase in cash flows) of \$14,657,441 in future periods and a present value savings of \$12,433,249 at 2.742%.

\$222,670,000 of 2016 Series A Economic Development Revenue Refunding Bonds dated April 1, 2016. These bonds mature on July 1, 2016 through July 1, 2029 carrying interest rates of 2.00% to 5.00%. The net proceeds in the amount of \$262,350,744 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2008A bonds in the amount of \$138,765,000 maturing July 1, 2019, through July 1, 2028, and carrying interest

rates of 4.125% to 5.000%; and Series 2009A bonds in the amount of \$96,390,000 maturing July 1, 2020, through July 1, 2029, and carrying interest rates of 4.125% to 5.000%. The refunding will result in net savings (increase in cash flows) of \$24,190,922 in future periods and a present value savings of \$20,453,858 at 2.268%.

#### Component Units

**Eastern Kentucky University** issued \$5,825,000 of 2016 Series A General Receipts Refunding Bonds dated March 2, 2016. These bonds mature on May 1, 2016 through May 1, 2027 carrying interest rates of 0.500% to 3.00%. The net proceeds in the amount of \$5,817,288 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$5,500,000 maturing May 1, 2018 through May 1, 2027, and carrying interest rates of 4.200% to 4.500%. The refunding will result in net savings (increase in cash flows) of \$477,761 in future periods and a present value savings of \$434,154 at 1.902%.

**Morehead State University** issued \$3,280,000 of 2016 Series A General Receipts Refunding Bonds dated March 22, 2016. These bonds mature on May 1, 2016 through November 1, 2027 carrying interest rates of 1.00% to 3.00%. The net proceeds in the amount of \$3,274,077 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$3,065,000 maturing November 1, 2020 through November 1, 2027, and carrying an interest rate of 4.000%. The refunding will result in net savings (increase in cash flows) of \$191,410 in future periods and a present value savings of \$168,366 at 2.075%.

**Murray State University** issued \$8,310,000 of 2016 Series A General Receipts Refunding Bonds dated February 11, 2016. These bonds mature on March 1, 2016 through September 1, 2027 carrying interest rates of 1.00% to 3.00%. The net proceeds in the amount of \$9,509,195 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$8,810,000 maturing September 1, 2018 through September 1, 2027, and carrying interest rates of 4.375% to 4.500%. The refunding will result in net savings (increase in cash flows) of \$2,229,201 in future periods and a present value savings of \$1,991,798 at 1.944%.

**Northern Kentucky University** issued \$25,765,000 of 2016 Series A General Receipts Refunding Bonds dated May 17, 2016. These bonds mature on September 1, 2016 through September 1, 2027 carrying interest rates of 2.00% to 5.00%. The net proceeds in the amount of \$28,188,713 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$26,745,000 maturing September 1, 2019 through September 1, 2027, and carrying interest rates of 2.000% to 5.000%. The refunding will result in net savings (increase in cash flows) of \$2,846,885 in future periods and a present value savings of \$2,515,225 at 2.061%.

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**Western Kentucky University** issued the following General Receipts Refunding Bonds:

\$5,960,000 of General Receipts Refunding Bonds, 2015 Series A dated October 13, 2015. These bonds mature March 1, 2016 through September 1, 2026 and carry interest rates of 2.00% to 3.00%. The net proceeds in the amount of \$6,115,509 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2006A bonds in the amount of \$5,910,000 maturing September 1, 2017 through September 1, 2026, and carrying interest rates of 3.650% to 3.875%. The refunding will result in net savings (increase in cash flows) of \$367,066 in future periods and a present value savings of \$327,579 at 1.999%.

\$23,240,000 of General Receipts Refunding Bonds, 2016 Series A dated March 17, 2016. These bonds mature September 1, 2017 through September 1, 2026 and carry interest rates of 2.00% to 5.00%. The net proceeds in the amount of \$26,267,098 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$25,010,000 maturing September 1, 2017 through September 1, 2026, and carrying interest rates of 4.000% to 4.200%. The refunding will result in net savings (increase in cash flows) of \$1,597,769 in future periods and a present value savings of \$1,433,811 at 1.986%.

**University of Louisville** issued \$89,425,000 the following General Receipts and General Receipts Refunding Bonds as:

\$14,050,000 of General Receipts Bonds, 2016 Series A dated April 5, 2016. These bonds mature September 1, 2016 through March 1, 2036 and carry interest rates of 2.00% to 5.00%. The proceeds in the amount of \$15,756,026 will be used by the University to finance the renovation and expansion of the University of Louisville Student Activities Center, completely refund the University's outstanding Consolidated Educational Buildings Revenue Bonds, Series P, dated June 1, 2017, completely refund the University's outstanding General Receipts Bonds, Taxable Build America Bonds, 2010 Series A and pay costs of issuing the 2016 Series C Bonds. A portion of the proceeds related to the refunding of the Series P bonds in the amount of 2,649,241 were deposited in the Bond Fund for Prior Bonds and used for a complete refunding of the Series P bonds in the amount of \$2,605,000 maturing May 1, 2016 through May 1, 2025, and carrying interest rates of 3.700% to 4.000%. The refunding will result in net savings (increase in cash flows) of \$590,670 in future periods and a present value savings of \$542,420 at 2.526%. A portion of the proceeds related to the refunding of the 2010 Series A bonds in the amount of 3,204,933 were deposited in the Bond Fund for Prior Bonds and used for a complete refunding of the 2010 Series A bonds in the amount of \$3,190,000 maturing September 1, 2016 through September 1, 2027, and carrying interest rates of 3.050% to 5.750%. The refunding will result in net savings (increase in cash flows) of \$249,897 in future periods and a present value savings of \$216,378 at 2.526%.

\$23,725,000 of General Receipts Refunding Bonds, 2016 Series B dated, April 5, 2016. These bonds mature September 1, 2016 through September 1, 2027 and carry interest rates of 2.00% to 5.00%. The net proceeds in the amount of \$25,739,801 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2007A bonds in the amount of \$24,555,000 maturing September 1, 2018 through September 1, 2027, and carrying an interest rate of 4.000%. The refunding will result in net savings (increase in cash flows) of \$2,054,262 in future periods and a present value savings of \$1,835,328 at 1.915%.

\$51,650,000 of General Receipts Refunding Bonds, 2016 Series C dated, April 5, 2016. These bonds mature September 1, 2016 through September 1, 2028 and carry interest rates of 2.00% to 4.00%. The net proceeds in the amount of \$56,663,397 were deposited in the Bond Fund for Prior Bonds and used for a partial refunding of Series 2008A bonds in the amount of \$52,030,000 maturing September 1, 2019 through September 1, 2028, and carrying interest rates of 4.000% to 4.500%. The refunding will result in net savings (increase in cash flows) of \$3,474,187 in future periods and a present value savings of \$3,121,284 at 2.098%.

**The Kentucky Infrastructure Authority** issued Wastewater and Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2016A dated May 3, 2016 in the amount of \$49,070,000. The bonds mature February 1, 2021 through February 1, 2028 carrying interest rates of 2.000% to 5.000%. The net proceeds of the issue were \$59,778,535 with a cost of issuance of \$382,298. The net proceeds were deposited with the trustee and used for the partially refunding of Series 2010A bonds in the amount of \$27,750,000 maturing February 1, 2021 through February 1, 2028 with interest rates of 3.20% to 5.00% and for partial refunding of Series 2012A bonds in the amount of \$23,150,000 with an interest rate of 5.00%. The refunding will result in net savings (increase in cash flows) of \$4,038,461 in future periods and a present value savings of \$3,618,940 at 1.900%.

**The Kentucky Housing Corporation** issued \$72,465,000 of Housing Revenue Bonds dated June 29, 2016 consisting of: \$24,190,000 Series A (Taxable) Serial Bonds maturing semi-annually January 1 and July 1, 2017 through January 1 and July 1, 2026 carrying interest rates of 0.740% to 3.049%; \$15,235,000 Term Bonds at an interest rate of 3.499% due July 1, 2031; \$7,600,000 Term Bonds at an interest rate of 3.860% due January 1, 2034 and \$25,440,000 Term Bonds at an interest rate of 3.500% due January 1, 2040. The 2016 Series A serial bonds shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after July 1, 2025. The proceeds will be used to advance refund certain maturities of the 2006 Series U bonds in the amount of \$14,130,000, the 2007 Series A & B bonds in the amount of \$22,195,000 and the 2007 Series C & D bonds in the amount of \$36,140,000 and pay certain costs of issuance of the 2016 Series A Bonds.

**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, 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, 2016.

**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 In-

frastructure 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, 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, 2016 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 \$875,135,000 in revenue and revenue refunding bonds as follows:

\$20,075,000 Project No. 109, Judicial Branch Agency Revenue Bonds dated October 8, 2015. These bonds consist of Serial bonds maturing on October 1, 2016 through October 1, 2023 carrying interest rates of 2.10% to 5.00%. The net proceeds of this issue will be used to finance the acquisition, construction, equipping, and financing of the Phase 1 E-Case and Docket Management System, to refund certain interim financing and pay certain costs of issuing the bonds.

\$115,660,000 Project No. 110, Revenue and Revenue Refunding Bonds dated December 3, 2015. These bonds consist of Serial bonds maturing on February 1, 2016 through August 1, 2035 car-

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rying interest rates of 2.00% to 5.00%. The net proceeds of this issue will be used to finance a portion of various public projects, including economic development projects and community developments, to refund certain outstanding bonds of the Kentucky Infrastructure Authority and pay certain costs of issuing the bonds.

\$4,960,000 Project No. 111, Road Fund Revenue Bonds dated December 3, 2015. These bonds consist of Serial bonds maturing on November 1, 2016 through November 1, 2035 carrying interest rates of 0.600% to 4.000%. The net proceeds of this issue will be used for the replacement of the existing C-1 maintenance in Franklin County with a new 36,000 square foot facility to be located on approximately fourteen (14) acres of land currently owned by the Transportation Cabinet on Wilkinson Boulevard in Frankfort, Kentucky and pay certain costs of issuing the bonds.

\$117,165,000 Project No. 112 Series A, Revenue Bonds dated March 23, 2016. These bonds consist of Serial bonds maturing on February 1, 2017 through February 1, 2036 carrying interest rates of 2.000% to 5.000%. The net proceeds of this issue will be used for partially funding the construction of a \$265 million research building to be leased by the University of Kentucky and pay certain costs of issuing the bonds.

\$561,870,000 Project No. 112 Series B, Revenue Refunding Bonds, dated March 23, 2016, were issued. These bonds consist of Serial Bonds maturing on May 1, 2016 through November 1, 2028 and carrying interest rates of 3.006% to 5.000%. The proceeds of this issue are to be used to partially refund State Property and Building Commission projects number 87, 88, 89, 90 and 93 and to pay the costs of issuing the Bonds.

\$10,850,000 Project No. 113 Agency Fund Revenue Refunding Bonds, dated June 2, 2016, were issued. These bonds consist of Serial Bonds maturing on April 1, 2017 through April 1, 2029 and carrying interest rates of 2.000% to 5.000%. The proceeds of this issue are to be used to refund the State Property and Building Commission Agency Fund Revenue Bonds, Project No. 91 and to pay the costs of issuing the Bonds.

\$44,555,000 Project No. 114 Agency Fund Revenue Bonds dated June 16, 2016. These bonds consist of Serial bonds maturing on October 1, 2016 through October 1, 2035 carrying interest rates of 2.000% to 5.000%. The proceeds of this issue will be used for partially funding the construction of a long range series of capital constructions (BuildSmart Initiative) to be leased by the Kentucky Community and Technical College System and pay certain costs of issuing the bonds.

**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 Sec-

retary 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 \$413,555,000 in revenue and revenue refunding bonds as follows:

\$68,880,000 of Economic Development Revenue Bonds, 2015 Series A dated July 22, 2015. These bonds mature on July 1, 2017 through July 1, 2033 carrying interest rates of 2.00% to 5.00%. The net proceeds will be used to pay the costs of certain additions and improvements to the Kentucky Economic Development Road System, Revitalization Project and pay certain costs of issuance of the 2015 Series A Bonds.

\$122,005,000 of 2015 Series B Economic Development Revenue Refunding Bonds dated July 22, 2015. These bonds mature on July 1, 2017 through July 1, 2026 carrying interest rates of 3.00% to 5.00%. The proceeds will be used to advance refund certain maturities of the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2006 Series A and the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2006 Series B Bonds and pay certain costs of issuance of the 2015 Series B Bonds.

\$222,670,000 of 2016 Series A Economic Development Revenue Road Refunding Bonds dated April 7, 2016. These bonds mature on July 1, 2016 through July 1, 2029 carrying interest rates of 2.00% to 5.00%. The proceeds will be used to advance refund certain maturities of the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A and the outstanding Economic Development Road Revenue Bonds (Revitalization Projects), 2009 Series A Bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**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 2016.

**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 164.860 but is limited to \$16 million of refunding debt.

## COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements

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State supported universities issued \$317,505,000 in General Receipts Bonds and General Receipts Refunding Bonds.

**Eastern Kentucky University** issued \$5,825,000 of 2016 Series A General Receipts Refunding Bonds dated March 2, 2016. These bonds mature on May 1, 2016 through May 1, 2027 carrying interest rates of 0.500% to 3.000%. The 2016 Series A maturing on or after May 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after November 1, 2025. The proceeds will be used to advance refund certain maturities of the 2008 Series A bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**Morehead State University** issued \$3,280,000 of 2016 Series A General Receipts Refunding Bonds dated March 22, 2016. These bonds mature on May 1, 2016 through November 1, 2027 carrying interest rates of 1.00% to 3.00%. The 2016 Series A maturing on or after November 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after November 1, 2025. The proceeds will be used to advance refund certain maturities of the 2007 Series A bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**Murray State University** issued \$8,310,000 of 2016 Series A General Receipts Refunding Bonds dated February 11, 2016. These bonds mature on March 1, 2016 through September 1, 2027 carrying interest rates of 1.00% to 3.00%. The 2016 Series A maturing on or after September 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after March 1, 2026. The proceeds will be used to advance refund certain maturities of the 2007 Series A bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**Northern Kentucky University** issued \$25,765,000 of 2016 Series A General Receipts Refunding Bonds dated May 17, 2016. These bonds mature on September 1, 2016 through September 1, 2027 carrying interest rates of 2.00% to 5.00%. The 2016 Series A maturing on or after September 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after March 1, 2026. The proceeds will be used to advance refund certain maturities of the 2007 Series A bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**The University of Kentucky** issued \$155,780,000 of General Receipts Bonds as follows:

\$107,470,000 of General Receipts Bonds, 2016 Series A dated February 10, 2016. This issue consists of serial bonds in the amount of 41,755,000 maturing on April 1, 2027 through April 1, 2037 and carrying interest rates of 2.50% to 5.00%; \$12,775,000 of term bonds maturing on April 1, 2039 with an interest rate of 3.250%; \$13,675,000 of term bonds maturing on April 1, 2041 with an interest rate of 4.000%; 39,265,000 of term bonds matur-

ing on April 1, 2046 with an interest rate of 4.000%. The 2016 Series A maturing on or after April 1, 2027 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after April 1, 2025. The proceeds will be used to partially fund the construction of a new Student Center while retaining the historic original 1938 portion of the existing center, preserving the Alumni Gymnasium originally constructed in 1924 and pay certain costs of issuance of the 2016 Series A Bonds.

\$48,310,000 of General Receipts Bonds (taxable), 2016 Series B dated February 10, 2016. These bonds mature April 1, 2017 through April 1, 2032 and carry interest rates of 0.375% to 3.625%. The 2016 Series B maturing on or after April 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after April 1, 2025. The proceeds will be used to partially fund the construction of a new Student Center while retaining the historic original 1938 portion of the existing center, preserving the Alumni Gymnasium originally constructed in 1924 and pay certain costs of issuance of the 2016 Series B Bonds.

**The University of Louisville** issued \$89,425,000 of General Receipts Revenue and Revenue Refunding Bonds as follows:

\$14,050,000 of General Receipts Bonds, 2016 Series A dated April 5, 2016. These bonds mature September 1, 2016 through March 1, 2036 and carry interest rates of 2.00% to 5.00%. The 2016 Series A maturing on or after March 1, 2027 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after March 1, 2026. The proceeds in the amount of \$15,756,026 will be used by the University to finance the renovation and expansion of the University of Louisville Student Activities Center, completely refund the University's outstanding Consolidated Educational Buildings Revenue Bonds, Series P, dated June 1, 2017, completely refund the University's outstanding General Receipts Bonds, Taxable Build America Bonds, 2010 Series A and pay costs of issuing the 2016 Series C Bonds.

\$23,725,000 of General Receipts Refunding Bonds, 2016 Series B dated, April 5, 2016. These bonds mature September 1, 2016 through September 1, 2027 and carry interest rates of 2.00% to 5.00%. The 2016 Series B maturing on or after September 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after March 1, 2026. The proceeds will be used to advance refund certain maturities of the 2007 Series A bonds and pay certain costs of issuance of the 2016 Series B Bonds.

\$51,650,000 of General Receipts Refunding Bonds, 2016 Series C dated, April 5, 2016. These bonds mature September 1, 2016 through September 1, 2028 and carry interest rates of 2.00% to 4.00%. The 2016 Series C maturing on or after September 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after March 1, 2026.

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The proceeds will be used to advance refund certain maturities of the 2008 Series A bonds and pay certain costs of issuance of the 2016 Series C Bonds.

**Western Kentucky University** issued \$29,200,000 of General Receipts Refunding Bonds as follows:

\$5,960,000 of General Receipts Refunding Bonds, 2015 Series A dated October 13, 2015. These bonds mature March 1, 2016 through September 1, 2026 and carry interest rates of 2.00% to 3.00%. The 2015 Series A maturing on or after September 1, 2024 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after September 1, 2023. The proceeds will be used to refund certain maturities of the University's outstanding General Receipts Bonds, 2006 Series A maturing on and after September 1, 2017 and pay certain costs of issuing the bonds.

\$23,240,000 of General Receipts Refunding Bonds, 2016 Series A dated March 17, 2015. These bonds mature September 1, 2017 through September 1, 2026 and carry interest rates of 2.00% to 5.00%. The 2016 Series A maturing on or after September 1, 2026 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after September 1, 2025. The proceeds will be used to refund certain maturities of the University's outstanding General Receipts Bonds, 2007 Series A maturing on and after September 1, 2017 and pay certain costs of issuing the bonds.

**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 \$5.0 billion total maximum principal value of debt outstanding.

The Corporation issued \$72,465,000 of Housing Revenue Bonds dated June 29, 2016 consisting of: \$24,190,000 Series A (Taxable) Serial Bonds maturing semi-annually January 1 and July 1, 2017 through January 1 and July 1, 2026 carrying interest rates of 0.740% to 3.049%; \$15,235,000 Term Bonds at an interest rate of 3.499% due July 1, 2031; \$7,600,000 Term Bonds at an interest rate of 3.860% due January 1, 2034 and \$25,440,000 Term Bonds at an interest rate of 3.500% due January 1, 2040. The 2016 Series A serial bonds shall be subject to redemption, in whole or in part, prior to their maturity at the option of the Corporation, on or after July 1, 2025. The proceeds will be used to advance refund certain maturities of the 2006 Series U bonds, the 2007 Series A bonds, the 2007 Series B bonds, the 2007 Series C bonds and the 2007 Series D bonds and pay certain costs of issuance of the 2016 Series A Bonds.

**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 Wastewater and Drinking Water Revolving Fund Revenue Refunding Bonds, Series 2016A dated May 3, 2016 in the amount of \$49,070,000. The bonds mature February 1, 2021 through February 1, 2028 carrying interest rates of 2.000% to 5.000%. The 2016 Series A maturing on or after February 1, 2027 shall be subject to redemption, in whole or in part, prior to their maturity at the option of the University, on or after September 1, 2026. The proceeds will be used for the refunding of certain Series 2010A bonds and for refunding of certain Series 2012A bonds and pay certain costs of issuing the 2016A bonds.

**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 2016.

**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 Corporation issued \$89,500,000 in Student Loan Asset-backed Bonds Series 2016-1 dated June 1, 2016 with a final maturity date of June 1, 2026 which carry variable interest rates that change based on specified indices. The proceeds from the sale of the bonds will be used to partially defease certain bonds issued by the Corporation and to repay certain other Issuer debt obligations that are secured by student loans.

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**The Kentucky Public Transportation Infrastructure Authority** is an independent de jure municipal corporation and political subdivision of the Commonwealth established in 2009 pursuant to KRS Chapter 175B, as amended. The authority reviews, approves and monitors certain significant transportation projects within the Commonwealth and between the Commonwealth and other states.

The authority issued no bonds during fiscal year 2016.

**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 2016.

**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 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, 2016, the Commission sold school building revenue and revenue refunding bond issues having aggregate state participation of \$258,818,493 maturing through June 30, 2036, at interest rates of 0.050% to 5.00%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2016, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016. 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, 2016.

**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, 2016.

#### **The KentuckyWired Infrastructure Company, Inc.**

The Commonwealth under a “Design/ Build / Finance/Operate/Maintain” structure, determined to develop the Next Generation – Kentucky Infrastructure Highway System entered into a project agreement with KentuckyWired Infrastructure Company, Inc. (the Company) a non-profit component unit of the Commonwealth. The non-profit was formed in 2015 for the sole benefit of Kentucky. The Commonwealth granted the non-profit an exclusive right to design, construct, finance, operate and maintain the system in return for payments by the Commonwealth in the form of milestone payment, a designated equipment payment and availability payments. All payments made by the Commonwealth to the non-profit are subject to appropriation by the General Assembly.

The Kentucky Economic Development Finance Authority issued Senior Revenue bonds in the amount of \$267,494,000 for the KentuckyWired Infrastructure Company, Inc. The bonds consist of \$231,950,000 Series A serial bonds dated September 3, 2015 maturing on July 1, 2019 through January 1, 2045 carrying interest rates of 2.50% to 5.00%; Series 2015B-1 in the amount of \$19,506,000 Series B serial bonds dated September 3, 2015 maturing on July 1, 2019 through January 1, 2045 carrying interest rates of 4.570% to 4.690% and Series 2015-B in the amount of \$16,038,000 Series B serial bonds dated September 3, 2015 maturing on July 1, 2019 through January 1, 2045 carrying interest rates of 4.570% to 4.690% The proceeds of the bond will be used for the Next Generation Kentucky Information Highway project, a fiber optic backbone infrastructure which will extend into every county in the Commonwealth and pay certain costs of issuing the bonds. The debt service requirements are shown in the chart on page 132.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

*The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2016, are as follows (Expressed in Thousands):*

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 3,748,995	1.00%-8.25%	2034
Kentucky School Facilities Construction Commission	1,063,128	.085%-5.90%	2035
Turnpike Authority of Kentucky	1,415,555	1.00%-5.72%	2034
Total	\$ 6,227,678		

*Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2016, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2017	\$ 454,007	\$ 256,062	\$ 710,069
2018	466,596	240,816	707,412
2019	509,612	219,910	729,522
2020	508,225	197,004	705,229
2021	512,063	174,639	686,702
2022-2026	2,012,147	583,900	2,596,047
2027-2031	1,380,983	213,864	1,594,847
2032-2036	384,045	35,126	419,171
Total	\$ 6,227,678	\$ 1,921,321	\$ 8,148,999

*Future debt service requirements for aggregated Next Generation Kentucky Information Highway Project at June 30, 2016, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2017	\$	\$ 13,277	\$ 13,277
2018		13,842	13,842
2019	687	13,923	14,610
2020	1,659	13,882	15,541
2021	1,918	13,795	15,713
2022-2026	16,549	67,227	83,776
2027-2031	33,301	61,639	94,940
2032-2036	56,280	51,587	107,867
2037-2041	76,999	31,488	108,487
2042-2046	80,101	8,310	88,411
Total	\$ 267,494	\$ 288,970	\$ 556,464

COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
June 30, 2016

*Component Unit Revenue Bonds payable as of June 30, 2016 (Expressed in Thousands):*

<u>Component Unit Revenue Bonds Payable:</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>	<u>Annual Maturity To</u>
Kentucky Housing Corporation *	\$ 746,835	.045-6.06%	2042
Kentucky Infrastructure Authority*	249,175	2.00-5.29%	2032
Kentucky Higher Education Student Loan Corporation	996,139	.044-5.00%	2038
Kentucky Public Transportation Infrastructure Authority	816,725	3.00-6.875%	2054
University of Kentucky*	892,670	1.03-4.50%	2046
University of Louisville*	270,030	1.50-6.46%	2035
Eastern Kentucky University	64,780	2.00-5.00%	2035
Western Kentucky University*	213,135	2.00-5.00%	2034
Murray State University *	75,835	1.00-5.00%	2035
Morehead State University	77,895	1.00-5.00%	2035
Kentucky State University	2,980	3.625-3.875%	2027
Northern Kentucky University*	118,700	2.00-5.00%	2034
<b>Total Component Unit Revenue Bonds Payable</b>	<b>\$ 4,524,899</b>		

*Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2016, are as follows (Expressed in Thousands):*

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 186,670	\$ 146,296	\$ 332,966
2018	594,455	131,840	726,295
2019	144,115	115,758	259,873
2020	149,280	110,463	259,743
2021	154,135	93,631	247,766
2022-2026	734,660	459,679	1,194,339
2027-2031	1,227,501	319,668	1,547,169
2032-2036	548,515	208,599	757,114
2037-2041	355,795	137,029	492,824
2042-2046	253,908	77,551	331,459
2047-2051	100,350	37,983	138,333
Thereafter	75,515	6,972	82,487
Total	<u>\$ 4,524,899</u>	<u>\$ 1,845,469</u>	<u>\$ 6,370,368</u>

**NOTES PAYABLE** At June 30, 2016, the following entities had notes payable as follows:

**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 the following during fiscal year 2016.

\$106,850,000 of Project Notes, 2015 First Series Federal Highway Trust Fund First Series A dated October 15, 2015. These project notes mature September 1, 2016 through September 1, 2027 carrying interest rates of 2.00% to 5.00%. The net proceeds of this issue will be used to construct a new bridge over Kentucky Lake, to construct a new bridge over Lake Barkley, to widen certain portions of US 68/KY80 and pay certain costs of issuing the 2015 Notes.

**The Component Units** of the Commonwealth reported notes payable of \$161,120,000 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 142 and 143.

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

**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.

**Memorandum of Understanding (MOU)** - The Commonwealth of Kentucky has entered into an understanding with The Lexington-Fayette Urban County Government Public Facilities Corpora-

tion (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.

***Future debt service requirements, under Memorandum of Understanding to be paid with State Funds, at June 30, 2016, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2017	\$ 4,830	\$ 6,428	\$ 11,258
2018	5,075	6,186	11,261
2019	5,325	5,932	11,257
2020	5,590	5,666	11,256
2021	5,870	5,387	11,257
2022-2026	34,075	22,224	56,299
2027-2031	43,805	12,490	56,295
2032-2036	20,910	1,607	22,517
Total	<u>\$ 125,480</u>	<u>\$ 65,920</u>	<u>\$ 191,400</u>

The Finance and Administration Cabinet, a statutory administrative organization of the Commonwealth entered into a Lease Agreement with semi-annual payments to pay the principal and interest due on the Certificates of Participation (Certificates) dated April 29, 2015 to fund this project.

The Cabinet issued \$68,575,000 in Certificates which consisted of \$19,380,000 2015 serial Certificates maturing June 15, 2017 through June 15, 2030 and carrying interest rates of 2.00% to 5.00%; \$3,370,000 4.00% Series 2015 Term Certificates due June 15, 2032; \$3,580,000 5.00% Series 2015 Term Certificates due June 15, 2034; \$8,035,000 5.00% Series 2015 Term Certificates due June 15, 2038; \$4,475,000 4.00% Series 2015 Term Certificates due June 15, 2040; \$12,360,000 4.00% Series 2015 Term Certificates due June 15, 2045; \$5,460,000 4.00% Series 2015 Term Certificates due June 15, 2047 and \$11,915,000 4.125% Series 2015 Term Certificates due June 15, 2051. The proceeds of the bonds will be deposited to various trustee bank accounts and will be used to construct, install and equip an office building consisting of approximately 371,160 square feet in Frankfort, Kentucky and pay certain costs of issuing the certificates. These Certificates are subject to redemption in whole on any date on which the Commonwealth exercises the option to purchase the Project

and terminate the lease with the trustee. The redemption price in any such event shall be the principal amount of the certificates to be redeemed, plus accrued interest to the redemption date. The Cabinet also has an annual trustee fee of \$3,000 through June 15, 2015 and has entered into a Facilities Lease agreement (renewable in two year increments at the option of the Cabinet) with the facilities lessor to provide certain management and maintenance services pertaining to the office building. The office building is designed to accommodate 1,400 workers which will be displaced due to the termination of a lease on privately owned space used by Commonwealth agencies. The Commonwealth maintains an option to purchase. The debt service requirement, the trustee fee and management and maintenance fee under the lease agreement is shown on the following page.

*Future debt service requirements for Certificates of Participation June 30, 2016, are as follows  
(Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Operations & Maintenance	Totals
2017	\$ 1,150	\$ 2,829	\$ 429	\$ 4,408
2018	1,160	2,806	442	4,408
2019	1,205	2,748	455	4,408
2020	1,250	2,687	468	4,405
2021	1,290	2,638	482	4,410
2022-2026	7,030	12,372	2,637	22,039
2027-2031	7,955	11,030	3,055	22,040
2032-2036	9,155	9,348	3,539	22,042
2037-2041	10,980	6,964	4,100	22,044
2042-2046	12,715	4,566	4,750	22,031
2047-2051	14,685	1,849	5,505	22,039
Total	<u>\$ 68,575</u>	<u>\$ 59,837</u>	<u>\$ 25,862</u>	<u>\$ 154,274</u>

**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 based upon cost estimates. 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 Changes in long-term liabilities chart on page 136.

**Deferred Outflows and Inflows** - GABS 65 provides financial reporting guidance relative to deferred outflows of resources, a consumption of assets by the entity that is applicable to a future reporting period, and a deferred inflow of resources, an acquisition of assets by the entity that is applicable to a future reporting period. The following table provides information about amounts reported as deferred inflows of resources and deferred outflows of resources on the Government-Wide Statement of Net Position. GASB 68 and GASB 71 establish financial reporting of deferred inflows of resources and deferred outflows of resources related to pensions. Additional information can be found in Note 8.

*Deferred Outflows/Inflows in the  
Governmentwide Statement of Net Position are as follows  
(Expressed in Thousands):*

	Governmental Activities	Business-Type Activities	Major Component Units
<b>Deferred Outflow of Resources:</b>			
Deferred Loss on Refunding	\$ 31,417	\$	\$ 18,664
Interest Rate Swap-Derivative	3,784		467
Pension Related Outflows	2,891,799	33,289	59,277
<b>Total</b>	<u>\$ 2,927,000</u>	<u>\$ 33,289</u>	<u>\$ 78,408</u>
<b>Deferred Inflow of Resources:</b>			
Deferred Gain on Refunding	\$ 103,835	\$	\$ 18,213
Interest Rate Swap-Derivative	3,784		175
Service Concession Arrangement			371,112
Pension Related Inflows	1,132,887	898	29,871
<b>Total</b>	<u>\$ 1,240,506</u>	<u>\$ 898</u>	<u>\$ 419,371</u>

COMMONWEALTH OF KENTUCKY  
Notes to the Financial Statements  
June 30, 2016

*Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2016, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2017	\$ 170,480	\$ 58,477	\$ 228,957
2018	202,794	51,538	254,332
2019	176,196	43,994	220,190
2020	148,665	36,706	185,371
2021	130,500	30,248	160,748
2022-2026	481,060	73,858	554,918
2027-2031	89,445	2,922	92,367
Total	<u>\$ 1,399,140</u>	<u>\$ 297,743</u>	<u>\$ 1,696,883</u>

*Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2016, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2017	\$ 83,475	\$ 1,800	\$ 85,275
2018	22,441	934	23,375
2019	4,177	546	4,723
2020	1,826	430	2,256
2021	2,245	391	2,636
2022-2026	28,045	1,479	29,524
2027-2031	6,830	916	7,746
2032-2036	5,512	383	5,895
2037-2041	6,569	180	6,749
Total	<u>\$ 161,120</u>	<u>\$ 7,059</u>	<u>\$ 168,179</u>

*Changes in long-term liabilities for the fiscal year ended June 30, 2016, 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	\$ 236,246	\$ 1,568	\$ (3,419)	\$ 234,395	\$ 152,777	\$ 81,618
Capital leases	71,493	3,361	(16,790)	58,064	14,360	43,704
Claims liability	215,460	30,366	(31,848)	213,978	24,798	189,180
Notes payable	1,467,573	106,850	(175,283)	1,399,140	170,480	1,228,660
Certificate of Participation KWIC	68,575			68,575	1,150	67,425
Bonds payable	6,154,942	1,547,508	(1,474,772)	6,227,678	454,007	5,773,671
Unamortized premiums	369,790	231,610	(67,301)	534,099	40,366	493,733
Unamortized discounts	(10,875)	(2,420)	2,965	(10,330)	(808)	(9,522)
Judgments and contingent liabilities	67,597	381,682	(44,159)	405,120	87,003	318,117
LFUCGPFC MOU obligations	130,080		(4,600)	125,480	4,830	120,650
Pollution remediation liabilities	14,500	6,793	(5,206)	16,087	2,218	13,869
Unfunded employer OPEB contributions	3,557,326		(115,030)	3,442,296		3,442,296
Net pension liability	27,224,875	3,649,613		30,874,488		30,874,488
<b>Total Governmental Activities</b>	<u>39,567,582</u>	<u>6,224,425</u>	<u>(1,935,443)</u>	<u>43,856,564</u>	<u>951,181</u>	<u>42,905,383</u>
<b>Business-Type Activities</b>						
Compensated absences	7,727	7,172	(7,169)	7,730	5,294	2,436
Capital leases	12,262	175	(1,084)	11,353	1,148	10,205
Claims and claims adjustment liability	1,073,451	1,654,697	(1,541,560)	1,186,588	205,815	980,773
Net pension liability	232,404	35,505		267,909		267,909
Loans payable to the Federal government	38,155	24,510	(62,665)			
Other Liabilities	25,344	942	(754)	25,532		25,532
<b>Total Business-Type Activities</b>	<u>1,389,343</u>	<u>1,723,001</u>	<u>(1,613,232)</u>	<u>1,499,112</u>	<u>212,257</u>	<u>1,286,855</u>
<b>Total Primary Government</b>	<u>\$ 40,956,925</u>	<u>\$ 7,947,426</u>	<u>\$ (3,548,675)</u>	<u>\$ 45,355,676</u>	<u>\$ 1,163,438</u>	<u>\$ 44,192,238</u>
<b>Major Component Units</b>						
Compensated absences	\$ 22,945	\$ 12,587	\$ (13,398)	\$ 22,134	\$ 4,420	\$ 17,714
Capital leases	221,769	65,445	(52,934)	234,280	36,337	197,943
Prize liability	43,517		(2,359)	41,158	26,124	15,034
Notes payable	140,490	260,943	(262,184)	139,249	79,329	59,920
Bonds payable	3,876,754	417,425	(555,971)	3,738,208	142,338	3,595,870
Net pension liability	525,947	44,513	(5,098)	565,362		565,362
<b>Total Major Component Units</b>	<u>\$ 4,831,422</u>	<u>\$ 800,913</u>	<u>\$ (891,944)</u>	<u>\$ 4,740,391</u>	<u>\$ 288,548</u>	<u>\$ 4,451,843</u>

**COMMONWEALTH OF KENTUCKY**  
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**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.

**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 being met as of June 30, 2016. There is no collateral pledged by either.

**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 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 Baa3 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.

**Governmental Activities**  
**Terms of each Hedging Derivative**  
**Cashflow Interest Rate Swaps**  
**at June 30, 2016 (Expressed in Thousands)**

Project Notes	Effective Date	Notional Amounts		Maturity Date	Pay-Fixed		Fair Value 6/30/2015	Fair Value 6/30/2016	Change in Fair Value
		Original	Outstanding		Rate	Variable Rate			
2007 ALCo	5/31/2007	\$ 25,210	\$ 5,395	11/1/2017	3.839%	67% 3M LIBOR +.4%	\$ (312)	\$ (127)	\$ 185
2007 ALCo	5/31/2007	71,310	64,760	11/1/2021	4.042%	67% 3M LIBOR +.52%	(6,659)	(8,527)	(1,868)
2007 ALCo	5/31/2007	70,935	70,935	11/1/2025	4.125%	67% 3M LIBOR +.55%	(12,041)	(6,343)	5,698
2007 ALCo	5/31/2007	75,625	50,690	11/1/2027	4.066%	67% 3M LIBOR +.53%	(7,224)	(15,023)	(7,799)
Total		<u>\$ 243,080</u>	<u>\$ 191,780</u> **				<u>\$ (26,236)</u>	<u>\$ (30,020)</u>	<u>\$ (3,784)</u> *

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

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

**Governmental Activities**  
**Future debt service requirements for aggregated ALCo Notes Associated with Interest Rate Swaps**  
**at June 30, 2016**  
**(Expressed in Thousands)**

Year Ending June 30	Principal	Interest	Net Swap Payments	Totals
2017	\$ 6,810	\$ 1,362	\$ 6,315	\$ 14,487
2018	18,005	1,275	5,904	25,184
2019	15,410	1,154	5,352	21,916
2020	16,705	1,039	4,817	22,561
2021	17,355	1,025	4,141	22,521
2022-2026	107,245	3,089	10,141	120,475
2027-2031	10,250	221	200	10,671
Total	<u>\$ 191,780</u>	<u>\$ 9,165</u>	<u>\$ 36,870</u>	<u>\$ 237,815</u>

**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 component 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, 2016 and 2015 amounted to \$151.9 and \$151.4 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 7.5-8.0 to 15.00-16.00 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, 2016, the estimated liability for annual and compensatory leave was \$234,395,000. for the governmental activities, and \$7,730,000 in the business-type activities.

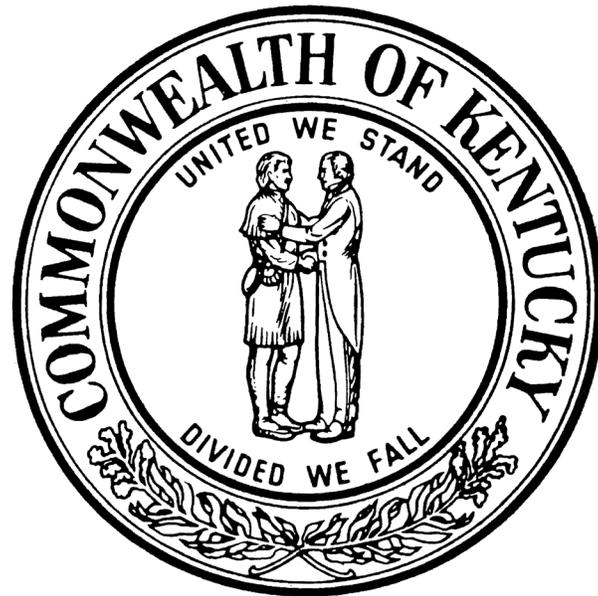
Compensated absence liabilities for the major component units totaled \$22,134,000 at June 30, 2016.

**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, 2016. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$420,245,000 and \$14,129,000, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 2016, had contractual commitments of approximately \$1,411,210,282 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 33 percent State funds, 55 percent Federal funds, and the remaining 12 percent with proceeds from the sale of revenue bonds.

**Deferred Inflows of Resources** – Deferred inflows of resources in the governmental funds represents unavailable revenues. “Unavailable” means that the assets are not available to finance expenditures of the current fiscal period.

**Unearned Revenue** – Unearned revenue may result from the recognition of assets before the earnings process is complete and is reported as a contingent liability.



**Note 17**

**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, 2016, and prior to December 14, 2016, and reported other subsequent events for the same period, as described below.

**The Turnpike Authority of Kentucky** issued \$41,980,000 of Economic Development Revenue Bonds, 2015 Series B dated December 2, 2016. These bonds mature on July 1, 2017 through July 1, 2034 carrying interest rates of 3.00% to 5.00%. The proceeds will be used to pay the costs of certain additions and improvements to the Kentucky Economic Development Road System, Revitalization Projects and pay certain costs of issuance of the 2016 Series B Bonds.

**The Kentucky Housing Corporation** issued \$41,110,000 of Housing Revenue Bonds, 2016 Series B dated November 22, 2016. These bonds consist of serial bonds in the amount of \$17,765,000 maturing July 1, 2017 through July 1, 2028 and carrying interest rates of 1.100% to 3.512%; term bonds in the amount of \$9,485,000 maturing on January 1, 2032 with an interest rate of 3.912% and term bonds in the amount of \$13,860,000 maturing on July 1, 2037 with an interest rate of 4.00%. The proceeds will be used with other funds to refund certain prior issued bonds of the Corporation and pay certain costs of issuing the bonds.

**Morehead State University** issued \$6,560,000 of General Receipts Bonds, 2016 Series B dated September 30, 2016. These bonds consist of serial bonds in the amount of \$3,085,000 maturing November 1, 2017 through November 1, 2027 and carrying interest rates of 2.00% to 3.000%; term bonds in the amount of \$1,785,000 maturing on April 1, 2032 with an interest rate of 3.625% and term bonds in the amount of \$1,690,000 maturing on April 1, 2037 with an interest rate of 3.750%. The proceeds will be use in the financing of the acquisition, equipping, and installation of various improvements to the University's campus dining facilities. and pay certain costs of issuing the bonds.

**Northern Kentucky University** issued \$15,225,000 of General Receipts Refunding Bonds, 2015 Series B dated August 25, 2015. These bonds mature September 1, 2017 through September 1, 2028 and carry interest rates of 2.00% to 4.00%. The net proceeds will be used to finance the University's outstanding General Receipts Bonds, 2008 Series A maturing on and after September 1, 2019 and pay certain costs of issuing the bonds.

**Western Kentucky University** issued \$8,905,000 of General Receipts Bonds, 2016 Series B dated October 25, 2016. These bonds mature September 1, 2017 through September 1, 2036 and carry interest rates of 2.00% to 4.00%. The proceeds will be used to finance the remaining costs of the acquisition, construction, installation and equipping of a capital project identified as Construct Parking Structure 111 and pay certain costs of issuing the bonds.

**Western Kentucky University** issued \$27,395,000 of General Receipts Refunding Bonds, 2016 Series C dated October 25, 2016. These bonds mature March 1, 2017 through September 1, 2028 and carry interest rates of 3.00% to 4.00%. The net proceeds will be used to refund the University's outstanding General Receipts Bonds, 2009 Series A maturing on and after September 1, 2019 and pay certain costs of issuing the bonds.

**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, 2016, and maturing as to principal through 2036 as displayed in the table on page 141.

**COMMONWEALTH OF KENTUCKY**  
**Notes to the Financial Statements**  
**June 30, 2016**

**KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Allen County	11/22/16	\$ 810,000	\$ 810,000	2.050%
Allen County	12/05/16	8,530,000	880,105	2.000% to 3.250%
Ashland Independent	12/06/16	5,180,000	1,446,024	1.100% to 3.375%
Augusta independent	11/14/16	2,665,000	2,329,427	2.000% to 2.200%
Bath County	08/23/16	6,445,000	4,859,450	1.050% to 2.000%
Boone County	11/22/16	31,850,000	1,851,425	2.000% to 3.250%
Bowling Green Independent	10/26/16	7,330,000	565,185	1.050% to 2.000%
Calloway County	07/12/16	2,955,000	1,302,022	2.000% to 2.100%
Campbell County	10/06/16	6,175,000	3,553,202	1.000% to 3.000%
Campbellsville Independent	11/16/16	3,460,000	3,460,000	2.000% to 3.000%
Carlisle County	10/03/16	2,100,000	594,495	2.000% to 2.250%
Casey County	11/09/16	6,065,000	1,263,965	1.100% to 3.000%
Cloverport Independent	10/11/16	3,195,000	2,954,952	2.000%
Dayton Independent	12/01/16	1,645,000	362,624	2.000% to 3.125%
Elliott County	08/25/16	2,185,000	2,185,000	1.000% to 2.000%
Erlanger-Elsmere Independent	09/02/16	3,325,000	632,665	2.000%
Fort Thomas Independent	10/18/16	5,530,000	4,101,351	2.000% to 2.375%
Fulton County	10/19/16	1,580,000	1,342,871	2.000% to 2.250%
Gallatin County	09/22/16	1,635,000	162,415	2.000% to 3.000%
Green County	10/17/16	3,110,000	601,185	2.000% to 2.750%
Green County	10/17/16	1,645,000	140,414	2.000%
Harlan County	10/20/16	4,225,000	2,235,536	2.000% to 2.500%
Harrison County	08/24/16	4,245,000	722,074	1.000% to 2.000%
Hazard Independent	07/07/16	9,680,000	6,117,000	2.000% to 3.000%
Henderson County	11/10/16	17,845,000	5,357,784	2.000% to 3.125%
Hickman County	08/17/16	1,165,000	148,698	1.000% to 2.000%
Jefferson County	07/06/16	39,855,000	20,719,017	2.000% to 4.000%
Jefferson County	09/07/16	7,120,000	7,120,000	2.000%
LaRue County	07/28/16	3,805,000	1,123,137	1.000% to 2.750%
Laurel County	09/14/16	7,340,000	2,287,464	2.000% to 2.250%
Lee County	10/19/16	1,835,000	202,411	2.000%
Lewis County	11/15/16	2,225,000	387,735	2.000% to 2.500%
Logan County	09/06/16	17,415,000	1,023,045	2.000% to 5.000%
Ludlow Independent	07/06/16	1,135,000	592,070	2.000% to 3.000%
Madison County	09/13/16	27,790,000	142,637	2.000% to 4.000%
Meade County	10/13/16	15,665,000	2,620,470	2.000% to 3.000%
Monroe County	08/17/16	2,225,000	194,539	1.000% to 2.000%
Muhlenberg County	09/22/16	12,890,000	3,045,224	2.000% to 2.250%
Nelson County	10/12/16	7,260,000	733,323	2.000% to 2.375%
Paris Independent	07/06/16	2,790,000	1,913,429	1.500% to 3.000%
Pike County	08/23/16	19,400,000	19,400,000	1.000% to 5.000%
Oldham County	09/08/16	33,485,000	163,835	0.050% to 4.000%
Powell County	07/05/16	4,120,000	1,655,471	1.150% to 3.000%
Raceland-Worthington Independent	07/06/16	2,810,000	777,306	1.250% to 3.000%
Russellville Independent	10/12/16	6,910,000	1,301,111	1.000% to 2.000%
Science Hill Independent	09/14/16	2,555,000	11,793	2.000%
Scott County	09/15/16	17,290,000	1,154,588	1.000% to 3.000%
Shelby County	07/27/16	8,020,000	1,587,294	2.000% to 3.000%
Shelby County	10/12/16	31,555,000	2,116,062	1.000% to 4.000%
Somerset Independent	11/29/16	615,000	264,070	2.600%
Taylor County	08/02/16	2,585,000	63,829	2.000% to 2.750%
Todd County	12/08/16	815,000	815,000	3.050%
Washington County	07/13/16	1,885,000	464,048	1.000% to 3.000%
Webster County	09/01/16	8,840,000	5,496,648	2.000% to 2.250%
Webster County	11/03/16	1,245,000	670,819	2.000% to 3.000%
West Point Independent	11/03/16	1,425,000	1,289,438	2.000%
Williamsburg Independent	10/04/16	4,115,000	802,467	1.000% to 2.300%
		<b>\$ 441,595,000</b>	<b>\$ 130,118,149</b>	

**COMMONWEALTH OF KENTUCKY**

**Notes to the Financial Statements**

**June 30, 2016**

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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

KentuckyWired Infrastructure Company, Inc.  
209 St. Clair Street, 4th Floor  
Frankfort, Kentucky 40601

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

Kentucky Transportation Cabinet  
200 Mero Street  
Frankfort, Kentucky 40622

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

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

Kentucky Housing Corporation  
1231 Louisville Road  
Frankfort, Kentucky 40601

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

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

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

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

Murray State University  
322 Sparks Hall  
Murray, Kentucky 42071

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

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

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

Kentucky Educational Television  
600 Cooper Drive  
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority  
100 Airport Rd.  
Frankfort, Kentucky 40601

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

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

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

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

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 the Financial Statements**

**June 30, 2016**

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

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, 2nd 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, 3rd Floor  
501 High Street  
Frankfort, KY 40601

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

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

Kentucky Public Transportation Infrastructure Authority  
200 Mero Street, 6th Floor East  
Frankfort, Kentucky 40622



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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, 2016**  
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 9,667,758	\$ 9,900,942	\$ 9,965,192	\$ 64,250
Licenses, fees, and permits	34,534	38,129	30,239	(7,890)
Intergovernmental	37,130	22,259	10,563	(11,696)
Charges for services	6,318	5,129	6,829	1,700
Fines and forfeits	35,017	38,670	34,511	(4,159)
Interest and other investment income	800	(600)	291	891
Lottery proceeds	249,500	232,000	241,778	9,778
Other revenues	36,167	53,371	49,481	(3,890)
Tobacco Settlement	72,400	88,100	90,126	2,026
Subtotal of Budgeted Revenues	<u>10,139,624</u>	<u>10,378,000</u>	<u>10,429,010</u>	<u>51,010</u>
<b>Other Budgeted Financial Resources:</b>				
Transfers in (interfund)	77,410	140,910	140,134	(776)
Total Budgeted Revenues	<u>10,217,034</u>	<u>10,518,910</u>	<u>10,569,144</u>	<u>50,234</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor	5,630	5,630	5,377	253
Office of Homeland Security	237	237	226	11
Kentucky Infrastructure Authority	1,564	1,564	1,504	60
Department of Veterans Affairs	17,984	17,984	17,984	
Office of State Budget Director	3,195	3,195	3,052	143
State Planning Fund	151	151	151	
Unified Prosecutorial System:				
Commonwealth Attorneys	45,445	45,445	45,445	
County Attorneys	39,641	39,641	39,641	
Department of Agriculture	16,990	16,990	16,100	890
Office of the Attorney General	10,623	10,765	10,765	
Auditor of Public Accounts	4,775	4,775	4,560	215
Registry of Election Finance	1,221	1,221	1,167	54
Military Affairs	9,331	17,382	15,518	1,864
Governor's Office for Local Development	8,488	8,488	8,096	392
Local Government:				
Economic Assistance Fund	48,690	35,593	35,593	
Economic Development Fund	28,426	8,090	8,090	
Area Development Fund	474	474	452	22
Secretary of State	1,663	1,663	1,588	75
Department of Treasury	1,819	1,819	1,727	92
Board of Elections	4,047	4,074	3,960	114
School Facilities Construction Commission	108,580	108,580	108,580	
Executive Branch Ethics Commission	463	463	463	
Commission on Human Rights	1,739	1,739	1,661	78
Commission on Women	232	232	158	74
Council on Postsecondary Education	72,602	72,602	69,656	2,946
Budget Reserve Trust Fund	77,094	209,447		209,447
<b>Personnel:</b>				
State Group Health Insurance	960	960	896	64

	Original	Final	Actual	Variance
<b>Universities:</b>				
Eastern Kentucky University	\$ 68,034	\$ 68,034	\$ 68,034	\$
Kentucky State University	23,430	23,430	23,430	
Morehead State University	43,340	43,340	43,340	
Murray State University	48,025	48,025	48,025	
Northern Kentucky University	48,538	48,538	48,538	
University of Kentucky	279,611	285,070	285,070	
University of Louisville	140,416	143,087	143,087	
Western Kentucky University	74,649	74,649	74,649	
Kentucky Community and Technical College System	190,162	190,162	190,162	
<b>Finance and Administration:</b>				
General Administration and Support	10,417	10,417	10,016	401
Special Accounts - Capital Construction		13,000	13,000	
Debt Service	424,921	424,921	369,311	55,610
Office of the Controller	5,984	5,984	5,715	269
Department for Facilities and Support Services	6,129	6,129	5,884	245
Kentucky Higher Education Assistance Authority	213,831	215,230	213,139	2,091
Special Accounts - Tobacco Settlement	74,580	92,305	90,126	2,179
Finance - County Costs	15,897	20,846	20,698	148
Department of Revenue:				
General Operations	87,643	87,643	83,699	3,944
Office of Property Valuation Administrators	43,556	43,556	43,556	
Appropriations Not Otherwise Classified:				
Judgements		2,008	2,008	
Board of Claims Awards	407	200	200	
Guardian Ad Litem	2,125	14,066	14,066	
Prior Year Claims	100	448	448	
Unredeemed Checks Refunded	1,252	2,270	2,270	
Involuntary Commitments	65	61	61	
Blanket Employee Bonds	60	50	50	
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3			
Police and Firemen Life Insurance	304	489	489	
Attorney General Expense	350	404	404	
Medical Malpractice Liability Insurance Reimbursements	165	109	109	
<b>Total General Government</b>	<b>2,316,253</b>	<b>2,483,870</b>	<b>2,202,189</b>	<b>281,681</b>
<b>Legislative and Judicial:</b>				
General Assembly	27,775	27,775	21,439	6,336
Legislative Research Commission	46,255	46,255	37,419	8,836
Judicial Retirement System	16,917	16,917	16,916	1
Court of Justice - Court Facility Use	1,804	120	120	
Court of Justice - Operation and Administration	209,033	210,033	210,033	
Court of Justice - Local Facility Support	111,500	112,183	112,183	
<b>Total Legislative and Judicial</b>	<b>413,284</b>	<b>413,283</b>	<b>398,110</b>	<b>15,173</b>

**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, 2016**  
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Commerce:</b>				
<b>Economic Development:</b>				
Economic Development	\$ 35,172	\$ 35,172	\$ 23,547	\$ 11,625
<b>Commerce Cabinet:</b>				
Office of the Secretary	2,598	2,598	2,481	117
Kentucky State Fair Board	4,196	6,496	6,496	
Kentucky Horse Park	2,511	2,511	2,398	113
Department of Parks	34,429	46,809	46,809	
Department of Travel	3,152	3,152	3,011	141
Berea Artisans Center	406	406	388	18
<b>Total Commerce</b>	<u>82,464</u>	<u>97,144</u>	<u>85,130</u>	<u>12,014</u>
<b>Education:</b>				
General Administration and Program Support	4,750	4,750	4,536	214
Commission on the Deaf and Hard of Hearing	883	883	844	39
Kentucky Heritage Council	747	747	714	33
Kentucky Arts Council	2,796	2,796	2,670	126
Department of Education:				
Support Education Excellence In KY (SEEK)	3,009,491	3,009,491	3,009,431	60
Bureau of Support Services	54,727	36,297	36,297	
Learning Results Services	1,029,481	977,332	976,165	1,167
Kentucky Educational Television	13,245	13,245	12,649	596
Kentucky Historical Society	6,007	6,007	5,743	264
Kentucky Center for the Arts	1,124	1,124	1,081	43
Education Professional Standards Board	7,361	7,361	7,022	339
Libraries and Archives -				
Direct Local Aid	2,996	2,996	2,862	134
Public Library Facilities Construction Debt Assistance	3,330	3,330	3,330	
General Operations	6,218	6,218	5,938	280
Teachers' Retirement System	299,318	299,318	299,318	
Workforce Investment:				
Office of the Blind	1,414	1,414	1,350	64
Technical Education		18,429	18,429	
Vocational Rehabilitation	11,709	11,709	11,709	
<b>Total Education and Humanities</b>	<u>4,455,597</u>	<u>4,403,447</u>	<u>4,400,088</u>	<u>3,359</u>
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Services	26,029	26,029	24,737	1,292
Department for Community Based Services	414,581	414,923	399,157	15,766
Department for Family Resource Centers and Volunteer Services	1,479	53,628	53,561	67
Office of the Inspector General	3,000	3,000	3,000	
Office of Health Policy	455	455	435	20
Department for Aging and Independent Living	45,252	45,252	43,361	1,891
Department for Income Support	8,226	8,226	7,856	370
Department for Public Health	71,111	71,111	67,930	3,181
Department for Behavioral Health, Developmental and Intellectual Disal	194,854	194,854	186,592	8,262
Medicaid Administration	33,399	34,655	34,655	
Medicaid Services Benefits	1,578,193	1,578,193	1,578,193	
Commission for Children With Special Health Care Needs	5,587	5,587	5,338	249
<b>Total Human Resources</b>	<u>2,382,166</u>	<u>2,435,913</u>	<u>2,404,815</u>	<u>31,098</u>

	Original	Final	Actual	Variance
<b>Justice:</b>				
Justice Administration	\$ 11,210	\$ 21,210	\$ 20,706	\$ 504
Department of State Police	75,789	75,789	74,404	1,385
Department of Juvenile Justice	83,323	83,323	82,174	1,149
Department for Public Advocacy	47,473	47,850	47,850	
Department of Corrections:				
Management	9,635	9,635	9,635	
Adult Institutions	247,867	279,737	279,633	104
Local Jail Allotment	18,365	18,365	17,943	422
Community Services and Local Facilities	198,678	208,545	205,071	3,474
<b>Total Justice</b>	<u>692,340</u>	<u>744,454</u>	<u>737,416</u>	<u>7,038</u>
<b>Natural Resources and Environmental Protection:</b>				
General Administration and Support	3,244	3,244	3,098	146
Department for Energy Development and Independence	1,357	1,357	1,296	61
Kentucky River Authority	256	256	244	12
Kentucky Nature Preserves Commission	1,086	1,086	1,038	48
Department for Environmental Protection	21,846	21,846	20,865	981
Department for Natural Resources	33,580	19,033	18,712	321
Mine Safety and Licensing		9,762	9,021	741
Surface Mining Reclamation and Enforcement		8,478	8,089	389
<b>Total Natural Resources and Environmental Protection</b>	<u>61,369</u>	<u>65,062</u>	<u>62,363</u>	<u>2,699</u>
<b>Public Protection and Regulation:</b>				
General Administration and Support	283	283	270	13
Board of Claims and Crime Victims Compensation	709	709	709	
Board of Tax Appeals	472	472	392	80
Horse Racing Commission	2,739	2,739	2,615	124
Public Service Commission	17,674	17,674	9,647	8,027
Mine Safety Review Commission		164	102	62
Department of Alcoholic Beverage Control	618	618	590	28
Department of Housing, Buildings, and Construction	2,502	2,502	2,389	113
Labor:				
Workplace Standards	1,825	1,825	1,742	83
General Administration & Support	3,359	3,359	3,208	151
<b>Total Public Protection and Regulation</b>	<u>30,181</u>	<u>30,345</u>	<u>21,664</u>	<u>8,681</u>
<b>Transportation:</b>				
General Administration and Support	500	500	500	
Public Transportation	5,925	5,925	5,800	125
<b>Total Transportation</b>	<u>6,425</u>	<u>6,425</u>	<u>6,300</u>	<u>125</u>
Total Expenditures	<u>10,440,079</u>	<u>10,679,943</u>	<u>10,318,075</u>	<u>361,868</u>
Excess of Revenues Over (Under) Expenditures	(223,045)	(161,033)	251,069	412,102
Fund Balance at July 1	58,085	9,635	324,986	
Non-Budgeted Items			(2,223)	
Fund Balance at June 30	<u>\$ (164,960)</u>	<u>\$ (151,398)</u>	<u>\$ 573,832</u>	<u>\$</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, 2016**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 1,316,025	\$ 1,206,000	\$ 1,317,364	\$ 111,364
Licenses, fees, and permits	215,761	216,778	149,315	(67,463)
Intergovernmental			(6)	(6)
Charges for services	19,810	18,824	9,879	(8,945)
Fines and forfeits			31	31
Interest and other investment income	3,700	1,200	2,479	1,279
Other revenues	3,104	3,098	3,524	426
Subtotal of Budgeted Revenues	<u>1,558,400</u>	<u>1,445,900</u>	<u>1,482,586</u>	<u>36,686</u>
<b>Other Budgeted Financial Resources:</b>				
Transfers in (intrafund)	997	997	1,517	520
Total Budgeted Revenues	<u>1,559,397</u>	<u>1,446,897</u>	<u>1,484,103</u>	<u>37,206</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)				
Transfers in (intrafund)				
Total Non-Budgeted Revenue				
Total Revenues	<u>1,559,397</u>	<u>1,446,897</u>	<u>1,484,103</u>	<u>37,206</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor				
Office of Homeland Security	263	263	263	
Kentucky Infrastructure Authority				
Kentucky Communications Network 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				
Department of Treasury	250	250	250	
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Home Inspectors				
Licensed Diabetes Educators				
Medical Imaging and Radiation Therapy				
Applied Behavior Analysis Licensing				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Prosthetics, Orthotics and Pedorthics				
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 BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Board of: (Continued)				
Examiners of Social Workers	\$	\$	\$	\$
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
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				
Investigators				
Massage Therapy				
Real Estate Commission				
Board of Real Estate Appraisers				
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	429	429	429	
Office of the Controller				
Commonwealth Office of Technology				
Kentucky Higher Education Assistance Authority				
Turnpike Authority of Kentucky				
Finance - County Costs				
Kentucky Retirement Systems				
Department of Revenue:				
General Operations	2,525	2,525	2,525	
Office of Property Valuation Administrators	446	446	446	
Department for Facilities and Support Services				
<b>Total General Government</b>	<u>3,913</u>	<u>3,913</u>	<u>3,913</u>	

Federal				Agency			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				279	380	348	32
				1,397	1,397	1,303	94
				81	81	57	24
				61	61	59	2
				2,973	2,973	2,633	340
				6,270	6,270	6,049	221
				55	55	51	4
				209	209	197	12
				11	11	10	1
				147	177	176	1
				210	210	205	5
				116	136	118	18
				107	107	92	15
				856	856	742	114
				1,661	1,793	1,655	138
				499	519	519	
				38	38	36	2
				1,329	1,329	1,250	79
				170	190	164	26
				278	278	210	68
				102	102	69	33
				169	189	188	1
				2,201	2,201	2,062	139
				766	766	742	24
245	430	406	24		5	5	
18,103	18,103	13,340	4,763	6,028	6,028	4,641	1,387
				27,189	27,189	25,925	1,264
				9,162	9,162	7,842	1,320
				285,282	285,282	273,093	12,189
				53,990	53,990	13,353	40,637
				210,513	210,513	84,805	125,708
				137,886	137,886	120,201	17,685
				218,957	218,957	164,961	53,996
				2,633,841	2,633,841	2,269,625	364,216
				1,108,985	1,108,985	115,897	993,088
				332,459	332,459	250,042	82,417
				804,837	804,837	229,390	575,447
3,177	3,177		3,177	5,067	4,615	3,297	1,318
				7,379	7,296	6,653	643
1,991	1,991	530	1,461	2,200	2,200	760	1,440
59	59	59		28,457	29,785	24,999	4,786
				103	103	81	22
				1,703	1,703	1,212	491
				41,307	41,307	32,657	8,650
				11,480	13,518	11,171	2,347
					4,690	4,356	334
				1,367	1,367	1,169	198
158,920	209,013	161,858	47,155	6,129,258	6,155,051	3,790,039	2,365,012

**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, 2016**  
(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:</b>				
Office of the Secretary				
Department of Parks				
Department of Travel				
Berea Artisans Center	411	411	411	
Department of Fish and Wildlife Resources				
<b>Total Commerce</b>	411	411	411	
<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:				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Commission on Proprietary Education				
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				
Vocational Rehabilitation				
<b>Total Education and Humanities</b>				

Federal				Agency			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	884	884	250	634
				1,786	1,786		1,786
					236	207	29
5,742	7,492	3,713	3,779	71,259	71,259	49,229	22,030
5,743	7,493	3,713	3,780	73,929	74,165	49,686	24,479
5,100	5,525	5,186	339	50	50	34	16
				2,087	3,062	1,799	1,263
				613	2,485	2,432	53
				10,087	10,837	10,131	706
				50	50		50
				41	61	45	16
				1,583	1,632	1,612	20
16,371	16,371	15,000	1,371	33,801	36,601	35,606	995
21,471	21,896	20,186	1,710	48,312	54,778	51,659	3,119
				1,109	1,109	1,099	10
				242	242	158	84
825	982	969	13	265	435	417	18
760	760	711	49	152	152	39	113
341	2,611	1,850	761	5,398	5,815	5,726	89
559,731	531,663	486,052	45,611	25,634	25,634	18,980	6,654
328,656	394,824	352,318	42,506	8,276	8,276	2,704	5,572
				1,451	1,451	1,398	53
364	364	124	240	458	723	668	55
				283	283	177	106
205	1,259	710	549	750	750	146	604
515	515	37	478	896	1,030	993	37
2,225	2,225	1,573	652	2,280	2,380	1,597	783
				12,197	12,197	11,173	1,024
7,377	7,377	6,986	391	1,094	2,352	1,783	569
139,657	139,657	89,683	49,974	30,158	30,158	21,352	8,806
45,252	58,366	56,630	1,736	3,302	3,302	2,461	841
1,085,908	1,140,603	997,643	142,960	93,945	96,289	70,871	25,418

**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, 2016**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Support	\$	\$	\$	\$
Office of Health Benefit Exchange				
Department for Disability Determination Services				
Department for Community Based Services				
Department for Family Resources and Volunteer 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 Behavioral Health, Developmental and Intellectual Disabilities				
Medicaid Administration				
Medicaid Services Benefits				
Commission for Children with Special Health Care Needs				
Department for Human Support Services				
<b>Total Human Resources</b>				
<b>Justice:</b>				
Office of the Secretary				
Department of State Police	96,846	96,846	96,846	
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>	96,846	96,846	96,846	
<b>Natural Resources and Environmental Protection:</b>				
General Administration and Support				
Department for Energy Development and Independence				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	321	321	321	
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>	321	321	321	
<b>Public Protection and Regulation:</b>				
Office of the Commissioner				
Board of Claims and Crime Victims Compensation				
Horse Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
Occupations and Professions				
Department of Alcoholic Beverage Control				
Department of Charitable Gaming				
Department of Financial Institutions				
Department of Housing, Buildings, and Construction				
Department of Insurance				
Labor: Workplace Standards				
General Administration & Support				
<b>Total Public Protection and Regulation</b>				

Federal				Agency			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 1,800	\$ 25,810	\$ 24,496	\$ 1,314	\$ 16,800	\$ 13,200	\$ 11,254	\$ 1,946
3,483	21,336	13,798	7,538	23,505	26,292	15,662	10,630
47,727	47,727	44,308	3,419	126	126	114	12
502,118	527,118	496,181	30,937	123,931	123,931	121,642	2,289
211	211	162	49	28,755	28,755		28,755
41,010	15,200	14,004	1,196		5,400	5,213	187
	2,200	2,143	57	818	818	330	488
24,829	24,829	20,124	4,705	2,489	4,889	3,843	1,046
32,382	32,382	31,172	1,210	16,005	16,005	15,745	260
186,493	188,493	182,393	6,100	97,160	97,160	60,168	36,992
36,877	40,631	37,079	3,552	227,702	227,702	192,066	35,636
77,710	99,859	98,510	1,349	17,400	21,900	20,703	1,197
6,217,178	8,217,178	7,804,711	412,467	466,936	576,316	509,657	66,659
4,566	4,666	4,600	66	6,971	8,752	7,372	1,380
2,858	4,528	4,520	8				
<u>7,179,242</u>	<u>9,252,168</u>	<u>8,778,201</u>	<u>473,967</u>	<u>1,028,598</u>	<u>1,151,246</u>	<u>963,769</u>	<u>187,477</u>
11,136	11,136	9,643	1,493	3,815	3,815	3,245	570
11,562	14,039	11,962	2,077	22,766	27,266	22,823	4,443
1,320	2,258	1,605	653	3,036	4,421	4,421	
11,705	11,706	11,706		10,161	11,956	11,956	
140	188	76	112	51,900	51,900	50,463	1,437
75	100	100		300	300	291	9
522	522	191	331	4,786	7,146	7,049	97
365	865	566	299	5,830	8,830	3,668	5,162
<u>36,825</u>	<u>40,814</u>	<u>35,849</u>	<u>4,965</u>	<u>102,594</u>	<u>115,634</u>	<u>103,916</u>	<u>11,718</u>
1,046	1,046	772	274	1,248	1,765	997	768
580	946	588	358	1,847	1,847	1,492	355
				3,272	3,493	3,016	477
				50	205	161	44
56	56	34	22	357	432	376	56
23,231	24,379	21,690	2,689	37,685	40,397	38,291	2,106
				4,089	4,763	2,912	1,851
4,822	5,364	3,244	2,120	656	481	241	240
10,613	10,071	9,179	892	1,995	1,807	1,391	416
41,018	41,018	27,491	13,527	8,762	7,364	2,874	4,490
<u>81,366</u>	<u>82,880</u>	<u>62,998</u>	<u>19,882</u>	<u>59,961</u>	<u>62,554</u>	<u>51,751</u>	<u>10,803</u>
				1,407	4,524	3,918	606
400	400	302	98	1,042	1,042	923	119
				26,479	26,479	24,006	2,473
				169	169	133	36
237	512	469	43	223	223	126	97
				4,524	1,407	1,193	214
				5,770	5,770	5,509	261
				3,489	3,489	2,964	525
				10,984	10,984	10,204	780
				18,478	18,806	16,706	2,100
1,099	1,099	368	731	17,568	17,568	13,989	3,579
4,073	4,073	3,598	475				
48	82	57	25	3,327	3,327	2,557	770
<u>5,857</u>	<u>6,166</u>	<u>4,794</u>	<u>1,372</u>	<u>93,460</u>	<u>93,788</u>	<u>82,228</u>	<u>11,560</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, 2016**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Transportation:</b>				
Administration and Support	\$ 72,007	\$ 71,038	\$ 68,664	\$ 2,374
Revenue Sharing	505,655	448,450	328,981	119,469
Air Transportation	3,042	2,785	2,660	125
Highways				
Public Transportation	1,109,847	1,087,403	927,813	159,590
Vehicle Regulation	28,464	27,650	25,972	1,678
Debt Service	170,388	170,388	150,046	20,342
Transfers to Capital Projects	20,688	19,688	19,688	
BRAC Economic Development Road Bonds				
GARVEE Louisville Bridges Project Bonds				
GARVEE Western KY Bridges Project				
2005 GARVEE Bond Series				
2005 Ed Bond Series				
LSIORB TIFIA Loan				
<b>Total Transportation</b>	<u>1,910,091</u>	<u>1,827,402</u>	<u>1,523,824</u>	<u>303,578</u>
Total Expenditures	<u>2,011,582</u>	<u>1,928,893</u>	<u>1,625,315</u>	<u>303,578</u>
Excess of Revenues over (under)				
Expenditures	<u>(452,185)</u>	<u>(481,996)</u>	<u>(141,212)</u>	<u>340,784</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Trustees				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(452,185)	(481,996)	(141,212)	340,784
Fund Balances at July 1	(2,991)	10,723	455,564	444,841
Non-Budgeted Items			(149)	
Fund Balances at June 30	<u>\$ (455,176)</u>	<u>\$ (471,273)</u>	<u>\$ 314,203</u>	<u>\$</u>

Federal				Agency			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$ 20	\$ 80	\$ 15	\$ 65
837	1,837	501	1,336	20,701	25,006	9,776	15,230
1,310,308	1,310,308	754,839	555,469	96,179	96,179	81,057	15,122
44,842	44,842	24,042	20,800	496	660	658	2
2,886	4,600	2,671	1,929	15,315	15,315	11,172	4,143
				31,101	31,101	1,298	29,803
				12,574	12,574	2,082	10,492
				241,865	241,865	97,343	144,522
				2,523	2,523	1,595	928
				257,321	257,321	71,740	185,581
				220,800	220,800	218,410	2,390
<u>1,358,873</u>	<u>1,361,587</u>	<u>782,053</u>	<u>579,534</u>	<u>898,895</u>	<u>903,424</u>	<u>495,146</u>	<u>408,278</u>
<u>9,934,205</u>	<u>12,122,620</u>	<u>10,847,295</u>	<u>1,275,325</u>	<u>8,528,952</u>	<u>8,706,929</u>	<u>5,659,065</u>	<u>3,047,864</u>
		(6,563)				4,227,978	
						196,780	
						196,780	
		(6,563)				4,424,758	
		209,929				1,797,616	
		(16,496)				(4,491,510)	
<u>\$</u>	<u>\$</u>	<u>\$ 186,870</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,730,864</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 Legislature 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, 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 budgetary 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, 2016**

**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, 2016, 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, 2016:				
Budgetary basis	\$ 573,832	\$ 314,203	\$ 186,870	\$ 1,730,864
Adjustments:				
Accrued revenues	387,152	139,033	759,130	62,170
Accrued expenditures	(498,538)	(90,341)	(885,179)	(65,388)
Accrued transfers (net)			(13,840)	13,840
Total Accruals (1)	<u>(111,386)</u>	<u>48,692</u>	<u>(139,889)</u>	<u>10,622</u>
Reclassifications and other adjustments:				
Inventory balances (1)	5,465	67,158	205	3,002
To reclassify financial and other resources into financial statement fund types (2)	2,574	(862)	(144,766)	(1,104,509)
To record financial resources available as non-budgeted funds (3)	<u>(115,465)</u>			
Fund Balance				
Fund balance June 30, 2016:				
GAAP Basis	<u>\$ 355,020</u>	<u>\$ 429,191</u>	<u>\$ (97,580)</u>	<u>\$ 639,979</u>

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

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2016**

**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 63,586 lane miles of roads and approximately 9,016 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; including, the Pavement Condition Index (PCI) to measure and monitor pavement conditions. In use since the mid-1980s, the PCI for any particular pavement section is the mathematical difference between the current pavement smoothness and the acceptable pavement smoothness threshold based on traffic volumes. The corresponding pavement condition is based on the following PCI ranges:

<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>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Good	45.60%	56.40%	53.7%	56.6%	59.3%
Fair	37.10%	26.20%	27.0%	24.7%	21.6%
Poor	17.30%	17.40%	19.3%	18.7%	19.1%

**Bridges**

Measurement Scale

KYTC maintains information on its 9,016 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, 2016**

Assessed Conditions

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

Calendar Year	Structurally Deficient	Deck Area	
		Structurally Deficient	Structurally Deficient
2015	6.4%	5.6%	
2014	6.3%	4.7%	
2013	6.9%	4.9%	
2012	6.5%	6.4%	
2011	6.6%	6.9%	

**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 2017:</u>			
Estimated	\$ 971.9	\$ 75.8	\$ 1,047.70
<u>Fiscal Year 2016:</u>			
Estimated	\$ 1,064.9	\$ 55.2	\$ 1,120.1
Actual	\$ 916.1	\$ 71.4	\$ 987.5
<u>Fiscal Year 2015:</u>			
Estimated	\$ 1,103.0	\$ 57.2	\$ 1,160.2
Actual *	\$ 1,075.7	\$ 51.2	\$ 1,126.9
<u>Fiscal Year 2014:</u>			
Estimated	\$ 1,030.6	\$ 84.9	\$ 1,115.5
Actual	\$ 1,060.7	\$ 55.0	\$ 1,115.7
<u>Fiscal Year 2013:</u>			
Estimated	\$ 951.1	\$ 112.7	\$ 1,063.8
Actual *	\$ 1,009.4	\$ 73.5	\$ 1,082.9
<u>Fiscal Year 2012:</u>			
Estimated	\$ 839.2	\$ 103.1	\$ 942.3
Actual *	\$ 1,009.5	\$ 81.1	\$ 1,090.6
<u>Fiscal Year 2011:</u>			
Estimated	\$ 872.3	\$ 108.9	\$ 981.2
Actual *	\$ 855.2	\$ 79.2	\$ 934.4

\* Prior year actual expenditures have been restated.

**Kentucky Public Transportation Infrastructure Authority**

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Authority has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Authority expenses certain maintenance and preservation costs and does not report depreciation expense.

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

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

The Authority’s assets accounted for, under the modified approach, include approximately 56.1 lane miles of roads and 42 bridge structures. As the developer for the LSIORBP, as designated in House Bill 2 enacted by the Kentucky General Assembly in 2012, the Authority is responsible for maintaining the assets. The Authority’s pavement condition assessments will be relaxed during construction; however, bridge inspections will continue until access to structures is restricted by the construction activities. Once the LSIORB is complete, it is planned the Authority and the Cabinet will enter into a memorandum of agreement through which the Cabinet will resume responsibility for condition inspections, maintenance and preservation activities on behalf of the Authority.

**Pavements**

Measurement Scale

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

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

**Bridges**

Measurement Scale

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

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2016**

- 1 Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
- 0 Failure. Out of service; beyond corrective action.

Established Minimum Condition Level

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

Assessed Conditions

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

<u>Calendar Year</u>	<u>Deck Area</u>	
	<u>Structurally Deficient</u>	<u>Structurally Deficient</u>
2016	Not reported due to ongoing construction	
2015	43%	42%

The bridge condition goals above represent the Cabinet’s goal for all structures located on the Commonwealth’s state maintained highway system. The actual conditions of the bridges for which the Authority is responsible do not meet this stated goal in 2015 was not reported in 2016. The LSIORBP has required a lengthy planning and development period and in anticipation of the construction activities much of the needed preservation work was postponed. For the reporting period, the LSIORBP area was under active construction and the condition of the bridges in the area could not be assessed and was the responsibility of the contractor. During construction, however, routing inspections have continued and required maintenance has been performed to insure all bridges are safe for traffic. Construction activities are well underway and will either fully preserve or replace all existing bridge structures, restoring the asset’s conditions to above goal levels. During construction routine inspections and condition assessments have continued and required maintenance has been performed to insure all bridges are safe for traffic. Once construction is completed, the Authority will work with the Cabinet to adopt bridge condition goals for the LSIORBP assets. The Authority received the title to the bridges during the year ended June 30, 2015 and as such historical condition assessments are not reported by the Authority.

**Estimated and Actual Costs to Maintain**

The following table presents the Authority’s estimate of spending necessary to preserve and maintain the pavements, bridges, and maintenance condition at, or above, the “Established Condition Levels” cited above and the actual amount spent during the past fiscal years (thousands):

(Expressed in Thousands):

	<u>Roadways</u>	<u>Bridges</u>	<u>Total</u>
<u>Fiscal Year 2017:</u>			
Estimated	\$ 132	\$ 250	\$ 382
<u>Fiscal Year 2016:</u>			
Estimated	\$	\$	\$
Actual	\$ 42,253	\$ 17,464	\$ 59,717
<u>Fiscal Year 2015:</u>			
Estimated	\$	\$	\$
Actual	\$ 4,913	\$	\$ 4,913

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

**State Workers' Compensation Program**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Earned Premiums	\$ 23,395	\$ 24,293	\$ 21,764	\$ 23,666	\$ 22,094	\$ 22,993	\$ 24,500	\$ 24,497	\$ 23,017	\$ 21,074
Administrative Expense	1,127	1,070	1,094	936	1,031	1,013	955	1,038	1,007	976
Incurred Claims as Originally Estimated	18,161	16,765	21,006	19,084	20,372	21,269	23,043	25,619	24,847	22,185
Claims Paid (Cumulative) as of:										
End of Fiscal Year	4,898	4,078	4,907	4,613	5,497	5,245	5,076	7,314	6,221	5,386
One Year Later	8,716	7,585	8,252	8,675	9,233	9,568	7,927	10,235	9,131	
Two Years Later	10,947	9,316	9,328	10,433	11,153	11,806	9,695	12,258		
Three Years Later	12,259	10,364	10,065	11,489	12,309	13,296	10,720			
Four Years Later	12,981	11,115	10,319	12,067	13,390	13,903				
Five Years Later	13,899	11,592	10,514	12,506	14,036					
Six Years Later	14,407	12,052	10,716	12,859						
Seven Years Later	14,966	12,473	10,852							
Eight Years Later	15,460	12,911								
Nine Years Later	15,829									
Re-estimation of Incurred Claims:										
End of Fiscal Year	18,161	16,765	21,006	19,084	20,372	21,269	23,043	25,619	24,847	22,185
One Year Later	19,152	17,770	19,270	20,373	21,613	22,466	20,463	23,517	22,001	
Two Years Later	20,192	17,851	18,313	20,170	21,966	23,455	19,660	23,422		
Three Years Later	20,618	18,483	18,183	21,106	22,550	23,631	19,505			
Four Years Later	21,460	19,849	17,847	21,236	23,060	23,124				
Five Years Later	22,379	20,188	17,579	21,148	22,780					
Six Years Later	22,906	19,975	17,289	20,856						
Seven Years Later	23,144	19,751	17,225							
Eight Years Later	22,997	19,680								
Nine Years Later	22,462									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	4,301	2,914	(3,781)	1,772	2,408	1,855	(3,538)	(2,197)	(2,846)	

SOURCE: Compilation Report

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

**Kentucky Public Employees Health Plan**

	2007	2008	2009	2010	2011 as restated	2012	2013	2014	2015	2016
Earned Premiums	\$ 1,091,702	\$ 1,191,248	\$ 1,310,553	\$ 1,466,303	\$ 1,571,312	\$ 1,600,787	\$ 1,597,599	\$ 1,606,992	\$ 1,612,540	\$ 1,624,815
Administrative Expense	57,782	68,883	72,836	77,104	81,048	82,088	81,459	87,108	83,049	73,177
Incurring Claims as										
Originally Estimated	1,042,931	1,164,712	1,292,059	1,391,340	1,475,301	1,531,838	1,530,199	1,460,930	1,347,112	1,336,819
Claims Paid (Cumulative) as of:										
End of Fiscal Year	970,764	1,089,989	1,264,866	1,318,824	1,391,375	1,445,035	1,434,661	1,367,500	1,275,354	1,230,810
One Year Later	1,035,700	1,173,449	1,290,727	1,399,923	1,477,129	1,533,569	1,539,862	1,477,144	1,349,674	
Two Years Later	1,043,837	1,173,366	1,289,633	1,396,976	1,466,785	1,532,732	1,537,204	1,476,869		
Three Years Later	1,043,442	1,169,819	1,289,628	1,396,631	1,466,629	1,532,538	1,537,204			
Four Years Later	1,043,442	1,169,814	1,289,628	1,396,631	1,466,785	1,532,538				
Five Years Later	1,043,442	1,169,814	1,289,628	1,396,631	1,466,785					
Six Years Later	1,043,442	1,169,814	1,289,628	1,396,631						
Seven Years Later	1,043,442	1,169,814	1,289,628							
Eight Years Later	1,043,442	1,169,814								
Nine Years Later	1,043,442									
Re-estimation of Incurred Claims:										
End of Fiscal Year	1,042,931	1,164,712	1,292,059	1,391,340	1,475,301	1,531,838	1,530,199	1,460,930	1,347,112	1,348,429
One Year Later	1,035,976	1,173,890	1,289,389	1,398,877	1,474,723	1,532,352	1,537,907	1,474,433	1,351,082	
Two Years Later	1,043,923	1,173,323	1,289,628	1,396,631	1,466,629	1,532,537	1,536,507	1,476,210		
Three Years Later	1,043,442	1,169,814	1,289,628	1,396,631	1,466,629	1,532,537	1,536,507			
Four Years Later	1,043,442	1,169,814	1,289,628	1,396,631	1,466,629	1,532,537				
Five Years Later	1,043,442	1,169,814	1,289,628	1,396,631	1,466,629					
Six Years Later	1,043,442	1,169,814	1,289,628	1,396,631						
Seven Years Later	1,043,442	1,169,814	1,289,628							
Eight Years Later	1,043,442	1,169,814								
Nine Years Later	1,043,442									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	511	5,101	(2,431)	5,291	(8,673)	699	6,308	15,281	3,970	

SOURCE: Audited Financial Statements

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE LAST TEN FISCAL YEARS  
(Expressed in Thousands)**

**Kentucky Judicial Retirement Plan**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 15,100	\$ 15,220	\$ 15,220	\$ 15,220
Contributions in relation to the actuarially determined contribution	15,100	10,805	10,805	10,399
Contribution deficiency (excess)	<u>\$ 4,415</u>	<u>\$ 4,415</u>	<u>\$ 4,415</u>	<u>\$ 4,821</u>
Covered-employee payroll	\$ 30,000	\$ 32,930	\$ 32,930	\$ 32,930
Contributions as a percentage of covered-employee payroll	50.00%	32.81%	32.81%	31.58%

**Notes to Schedule**

Valuation date	July 1, 2015	July 1, 2014	July 1, 2014	July 1, 2013
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**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Interest + 1% Unfunded Past Liability			
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Investment Return	6.41%	6.15%	6.15%	7.00%
Inflation	3.00%	3.00%	3.00%	
Projected Salary Increase	1% for next 5 years 3.5% thereafter	1% for next 5 years 3.5% thereafter	1% for next 5 years 3.5% thereafter	1% for next year 1% the following year 3.5% thereafter

**Mortality Rates FY 2016**

Mortality rates were based on RP-2000 Mortality Tables with white-collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projected Scale AA (male and female scales).

**Mortality Rates FY 2015 and Prior**

Mortality rates were based on IRS2008 Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after 2000 under Projection Scale AA (male and female scales). Prior to July 1, 2011, RP-2000 Mortality Tables projected 2009 without collar adjustment for male and female lives was used.

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

2012	2011	2010	2009	2008	2007
\$ 10,302	\$ 10,302	\$ 4,512	\$ 4,512	\$ 2,375	\$ 2,835
4,946	4,534	4,470	4,470	2,375	2,788
<u>\$ 5,356</u>	<u>\$ 5,768</u>	<u>\$ 42</u>	<u>\$ 42</u>	<u>\$</u>	<u>\$ 47</u>
\$ 33,175	\$ 33,175	\$ 29,887	\$ 29,887	\$ 31,224	\$ 31,941
14.91%	13.67%	14.96%	14.96%	7.61%	8.73%
July 1, 2012	July 1, 2011	June 30,2009	June 30,2009	June 30,2008	June 30,2007
Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost
Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Market Value	Market Value	Market Value	Market Value	Market Value	Market Value
7.00%	7.00%	7.00%	7.00%	7.50%	7.50%
1% for next year 1% the following year 3.5% thereafter	1% for next year 2% the following year 4% thereafter	1% for next year 2% the following year 4% thereafter	1% for next year 2% the following year 4% thereafter	4%	4%

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE LAST TEN FISCAL YEARS  
(Expressed in Thousands)**

**Kentucky Legislators' Retirement Plan**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 3,400	\$ 3,215	\$ 3,215	\$ 3,215
Contributions in relation to the actuarially determined contribution	3,400	1,825	1,825	1,696
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		1,390	1,390	1,519
Covered-employee payroll	\$ 4,500	\$ 4,988	\$ 4,988	\$ 4,988
Contributions as a percentage of covered-employee payroll	76%	36.59%	36.59%	34.00%

**Notes to Schedule**

Valuation date	July 1, 2015	July 1, 2014	July 1, 2014	July 1, 2013
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**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Interest + 1% Unfunded Past Liability Open			
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Investment Return	6.85%	6.50%	6.50%	7.00%
Inflation	3.00%	3.00%	3.00%	
Projected Salary Increase	1% for next 5 years 3.5% thereafter	1% for next 5 years 3.5% thereafter	1% for next 5 years 3.5% thereafter	1% for next year 1% the following year 3.5% thereafter

**Mortality Rates FY 2016**

Mortality rates were based on RP-2000 Mortality Tables with white-collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projected Scale AA (male and female scales).

**Mortality Rates FY 2015 and Prior**

Mortality rates were based on IRS2008 Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after 2000 under Projection Scale AA (male and female scales). Prior to July 1, 2011, RP-2000 Mortality Tables projected 2009 without collar adjustment for male and female lives was used.

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

2012	2011	2010	2009	2008	2007
\$ 2,140	\$ 2,140	\$ 320	\$ 320	\$ 429	\$ 714
1,027	942	320	320	429	748
<u>\$ 1,113</u>	<u>\$ 1,198</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>(34)</u>
\$ 5,193	\$ 5,193	\$ 4,917	\$ 4,917	\$ 4,755	\$ 4,764
19.78%	18.14%	6.51%	6.51%	9.02%	15.70%
July 1, 2012	July 1, 2011	June 30, 2009	June 30, 2009	June 30, 2008	June 30, 2007
Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost	Projected Unit Credit cost
Interest + 1% Unfunded Past Liability Open	Interest + 1% Unfunded Past Liability Open	Interest + 1% Unfunded Past Liability Open	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Market Value	Market Value	Market Value	Market Value	Market Value	Market Value
7.00%	7.00%	7.00%	7.50%	7.50%	7.50%
1% for next year 1% the following year 3.5% thereafter	1% for next year 2% the following year 4% thereafter	1% for next year 2% the following year 4% thereafter	1% for next year 2% the following year 4% thereafter	4.00%	4.00%

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE LAST TEN FISCALS YEARS  
(Expressed in Thousands)**

**State Police Retirement System**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 31,444	\$ 25,808	\$ 25,808	\$ 23,117
Contributions in relation to the actuarially determined contribution	31,990	20,279	20,279	18,501
Contribution deficiency (excess)	<u>\$ (546)</u>	<u>\$ 5,529</u>	<u>\$ 5,529</u>	<u>\$ 4,616</u>
Covered-employee payroll	\$ 45,765	\$ 44,616	\$ 44,616	\$ 45,256
Contributions as a percentage of covered-employee payroll	69.90%	45.45%	45.45%	40.88%

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2014	June 30, 2014	June 30, 2013
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**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level percentage of payroll closed			
Asset Valuation Method	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market	Five-year smoothed market
Investment Return	7.50%	7.75%	7.75%	7.75%
Inflation	3.25%	3.50%	3.50%	3.50%
Projected Salary Increase	4.00%	4.50%	4.50%	4.5%-21%

**Mortality**

The rate of mortality used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

2012	2011	2010	2009	2008	2007
\$ 20,498	\$ 18,463	\$ 18,765	\$ 15,952	\$ 13,823	\$ 9,024
15,362	12,657	9,489	8,186	7,443	6,142
<u>\$ 5,136</u>	<u>\$ 5,806</u>	<u>\$ 9,276</u>	<u>\$ 7,766</u>	<u>\$ 6,380</u>	<u>\$ 2,882</u>
\$ 48,373	\$ 48,693	\$ 51,507	\$ 51,660	\$ 53,269	\$ 49,248
31.76%	25.99%	18.42%	15.85%	13.97%	12.47%
June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007
Entry age normal					
Level percentage of payroll closed					
Five-year smoothed market					
7.75%	7.75%	7.75%	7.75%	7.75%	7.75%
3.50%	3.50%	3.50%	4.50%	3.50%	3.50%
4.5%-21%	4.5%-21%	5%-21%	4.5%-21%	4%-14.5%	4%-14.5%

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE CURRENT FISCAL YEAR  
(Expressed in Thousands)**

<b>Kentucky Employees Retirement Plan Non-Hazardous</b>	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 362,122	\$ 355,949
Contributions in relation to the actuarially determined contribution	362,639	202,891
Contribution deficiency (excess)	<u>\$ (516)</u>	<u>\$ 153,058</u>
Covered-employee payroll	\$ 1,073,430	\$ 1,078,236
Contributions as a percentage of covered-employee payroll	33.78%	18.82%

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2014
----------------	---------------	---------------

**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level percentage of payroll closed	Level percentage of payroll closed
Asset Valuation Method	Five-year smoothed market	Five-year smoothed market
Investment Return	7.50%	7.75%
Inflation	3.25%	3.50%
Projected Salary Increase	4.0%, average, including inflation	4.5% per annum

**Mortality**

The rate of mortality used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE CURRENT FISCAL YEAR  
(Expressed in Thousands)**

<b>Kentucky Employees Retirement Plan Hazardous</b>	<b>2016</b>	<b>2015</b>
Actuarially determined contribution	\$ 27,770	\$ 13,289
Contributions in relation to the actuarially determined contribution	27,929	11,428
Contribution deficiency (excess)	<u>\$ (159)</u>	<u>\$ 1,861</u>
Covered-employee payroll	\$ 125,942	\$ 126,402
Contributions as a percentage of covered-employee payroll	22.18%	9.04%

**Notes to Schedule**

Valuation date	June 30, 2015	June 30, 2014
----------------	---------------	---------------

**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level percentage of payroll closed	Level percentage of payroll closed
Asset Valuation Method	Five-year smoothed market	Five-year smoothed market
Investment Return	7.50%	7.75%
Inflation	3.25%	3.50%
Projected Salary Increase	4.0%, average, including inflation	1% per annum

**Mortality**

The rate of mortality used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table is the RP-2000 Combined Mortality Table projected with scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS - PENSION  
FOR THE CURRENT FISCAL YEAR  
(Expressed in Thousands)**

**Kentucky Teachers Retirement System**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$	\$
Employer	15,776	14,018
Nonemployer special funding	852,845	768,088
Contributions in relation to the actuarially determined contribution		
Employer	9,662	9,590
Nonemployer special funding	522,336	525,455
Contribution deficiency (excess)	<u>\$ 336,623</u>	<u>\$ 247,061</u>
Covered-employee payroll	\$ 3,284,714	\$ 3,150,875 *
Contributions as a percentage of covered-employee payroll	16.20%	16.98%

**Notes to Schedule**

Valuation date	June 30, 2014	June 30, 2014
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**Methods and assumptions used to determine contributions :**

Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level percentage of pay, open	Level percentage of payroll, open
Asset Valuation Method	Five-year smoothed market	Five-year smoothed market
Investment Return	7.5%, net of pension plan investment expense, including inflation	7.5%, net of pension plan investment expense, including inflation
Inflation	3.50%	3.50%
Projected Salary Increase	4.0% - 8.20%	4.0% - 8.20%

**Mortality**

The rate of mortality is based on the RP-2000 Combined Mortality Table projected to 2020 using scale AA (set back one year for females) for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality table (set back seven years for males and set forward five years for females) is used for death after disability retirement.

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

\* Revised from previous year to reflect actual covered-employee payroll.



**COMMONWEALTH OF KENTUCKY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**FOR TWO FISCAL YEARS**  
**(Expressed in Thousands)**

**Schedule of Changes in Net Pension Liability and Related Ratios**

	<b>Fiscal Year 2016</b>		
	<b>Kentucky Legislators' Retirement Plan</b>	<b>Kentucky Judicial Retirement Plan</b>	<b>State Police Retirement System</b>
Total Pension Liability			
Service Costs	\$ 1,046	\$ 4,952	\$ 7,696
Interest	5,077	22,205	50,660
Differences between expected and actual experience	(3,421)	4,401	9,331
Changes in assumptions	(1,547)	(4,401)	40,202
Benefit payments/refunds	(3,690)	(22,243)	(54,851)
Net change in total pension liability	(2,535)	4,914	53,038
Total pension liability at July 1	78,748	366,291	681,119
Total pension liability at June 30	<u>\$ 76,213</u>	<u>\$ 371,205</u>	<u>\$ 734,157</u>
Pension Plan Fiduciary Net Position			
Contributions - employer	\$ 3,367	\$ 15,362	\$ 31,990
Contributions - member	217	1,863	5,244
Net investment income	5,550	25,614	3,427
Benefit payments/refunds	(3,690)	(22,243)	(54,851)
Administrative expenses			(201)
Other			646
Net change in plan fiduciary net position	5,444	20,596	(13,745)
Pension plan fiduciary net position at July 1	54,645	243,870	260,974
Pension plan fiduciary net position at June 30	<u>\$ 60,089</u>	<u>\$ 264,466</u>	<u>\$ 247,229</u>
Net pension liability at June 30	<u>\$ 16,124</u>	<u>\$ 106,739</u>	<u>\$ 486,928</u>
Pension plan fiduciary net position as a % of the total pension liability	78.8%	71.2%	33.68%
Covered-employee payroll	\$ 4,500	\$ 30,000	\$ 45,765
Net Pension liability as a % of covered employee payroll	358.3%	355.8%	1,063.97%

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Fiscal Year 2015**

<b>Kentucky Legislators' Retirement Plan</b>	<b>Kentucky Judicial Retirement Plan</b>	<b>State Police Retirement System</b>
\$ 1,046	\$ 4,952	\$ 7,142
4,923	21,906	50,391
3,722	29,116	
(3,544)	(21,808)	(53,239)
6,147	34,166	4,294
72,601	332,126	676,825
<b>\$ 78,748</b>	<b>\$ 366,292</b>	<b>\$ 681,119</b>
\$ 1,825	\$ 12,404	\$ 20,279
273	2,759	5,076
7,934	33,174	40,374
(3,544)	(21,808)	(53,239)
		(214)
6,488	26,529	12,276
48,157	217,341	248,698
<b>\$ 54,645</b>	<b>\$ 243,870</b>	<b>\$ 260,974</b>
<b>\$ 24,103</b>	<b>\$ 122,422</b>	<b>\$ 420,145</b>
69.38%	66.58%	38.32%
\$ 4,988	\$ 32,930	\$ 44,616
483.16%	371.76%	941.69%

**COMMONWEALTH OF KENTUCKY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF COMMONWEALTH'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE CURRENT FISCAL YEAR  
(Expressed in Thousands)**

**Schedule of Commonwealth's Proportionate Share of the Net Pension Liability**

	Fiscal Year			
	2016		2015	
	Kentucky Employees' Retirement System		Kentucky Employees' Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Commonwealth's proportionate share of the net pension liability (asset)	69.512%	97.870%	68.351%	97.928%
Commonwealth's proportionate share of the collective net pension liability (asset)	\$ 6,973,383	\$ 335,667	\$ 6,132,338	\$ 250,075
Other employers' proportionate share of the collective net pension liability (asset)	3,058,508	7,298	2,839,482	5,291
Total collective net pension liability	<u>\$ 10,031,891</u>	<u>\$ 342,965</u>	<u>\$ 8,971,820</u>	<u>\$ 255,366</u>
Commonwealth's covered-employee payroll	\$ 1,073,428	\$ 125,939	\$ 1,078,236	\$ 126,402
Commonwealth's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	649.64%	266.53%	568.74%	197.84%
Pension plan fiduciary net position as a percentage of the total pension liability	18.83%	61.70%	22.32%	68.74%

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

	Fiscal Year	
	2016	2015 *
	Kentucky Teachers' Retirement System	Kentucky Teachers' Retirement System
Commonwealth's proportionate share of the net pension liability (asset)	95.071%	94.980%
Commonwealth's proportionate share of the collective net pension liability (asset)	\$ 23,223,555	\$ 20,508,196
Other employers' proportionate share of the collective net pension liability (asset)	\$ 1,204,013	\$ 1,084,009
Total collective net pension liability	<u>\$ 24,427,568</u>	<u>\$ 21,592,205</u>
Commonwealth's covered-employee payroll	\$ 3,284,714	\$ 3,150,875
Commonwealth's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	707.02%	650.87%
Pension plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

\* Revised from previous year to reflect actual covered employee payroll

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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 Funds

**Turnpike Authority of Kentucky** - accounts for and reports financial resources that 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 that 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 **KentuckyWired Infrastructure Company, Inc.** - accounts for and reports specific resources that are restricted, committed, or assigned. The company was formed to finance the "Next Generation Kentucky Information Highway" project which will provide reliable, high-speed internet across Kentucky.

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, 2016**  
(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	\$ 3,473	\$	\$
Investments, net of amortization			101,711
Invested security collateral			
Receivables, net			74,047
Notes receivable			1,938
Interfund receivables	117,874		1,942
Interfund loan receivable			13,148
Inventories			22
<b>Total Assets</b>	<b>\$ 121,347</b>	<b>\$</b>	<b>\$ 192,808</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$	\$	\$ 5,611
Interfund payables			2,923
Interfund loan payable			32,525
Obligations under securities lending			
Unearned revenue	1,680		13
<b>Total Liabilities</b>	<b>1,680</b>		<b>41,072</b>
Deferred inflows of resources			
Unavailable			47,618
<b>Fund Balances:</b>			
Nonspendable			
Inventories			22
Long-term receivables			1,938
Restricted for:			
General government			15,650
Legislative and judicial			
Commerce			1,474
Education and humanities			13,500
Human resources			52,221
Natural resources and environmental protection			
Public protection and regulation			
Transportation			1,016
Debt service	119,667		
Committed to:			
General government			14,467
Education and humanities			71
Human resources			220
Justice			
Natural resources and environmental protection			
Assigned to:			
General government			3,539
<b>Total Fund Balances</b>	<b>119,667</b>		<b>104,118</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 121,347</b>	<b>\$</b>	<b>\$ 192,808</b>

<b>Special Revenue Funds</b>				
<b>Turnpike Authority of Kentucky</b>	<b>Kentucky School Facilities Construction Commission</b>	<b>KentuckyWired Infrastructure Company, Inc.</b>	<b>Special Benefits</b>	<b>Total Non-Major Governmental Funds</b>
\$ 126,290	\$ 11,757	\$ 126	\$ 108,789	\$ 250,435
72,806	6,081	175,189	78,750	434,537
		2,371	53,802	53,802
			41,235	117,653
	6,187		2,577	1,938
				128,580
				13,148
				22
<b>\$ 199,096</b>	<b>\$ 24,025</b>	<b>\$ 177,686</b>	<b>\$ 285,153</b>	<b>\$ 1,000,115</b>
\$ 16	\$ 19	\$ 2,084	\$ 1,243	\$ 8,973
117,874	665		1,324	122,786
			53,802	32,525
				53,802
				1,693
<b>117,890</b>	<b>684</b>	<b>2,084</b>	<b>56,369</b>	<b>219,779</b>
			36,374	83,992
				22
				1,938
		175,602	31,423	222,675
			1	1
				1,474
	23,341		2,087	38,928
			14,902	67,123
			50,678	50,678
			1,110	1,110
81,206				82,222
				119,667
			56,885	71,352
			7,977	71
			276	8,197
				276
			27,071	27,071
				3,539
<b>81,206</b>	<b>23,341</b>	<b>175,602</b>	<b>192,410</b>	<b>696,344</b>
<b>\$ 199,096</b>	<b>\$ 24,025</b>	<b>\$ 177,686</b>	<b>\$ 285,153</b>	<b>\$ 1,000,115</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(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>Revenues</b>			
Taxes	\$	\$	\$ 14,702
Licenses, fees, and permits			309
Intergovernmental			1,498
Charges for services			79,862
Fines and forfeits			16,969
Interest and other investment income	3		688
Increase (decrease) in fair value of investments			(61)
Other revenues	3,684	109	14,485
<b>Total Revenues</b>	<b>3,687</b>	<b>109</b>	<b>128,452</b>
<b>Expenditures</b>			
Current:			
General government		185,545	95,651
Commerce			263
Education and humanities			44,944
Human resources			6,466
Justice			
Natural resources and environmental protection			73
Public protection and regulation			
Transportation			
Debt service:			
Principal retirement	82,935	75,240	
Interest and fiscal charges	69,034	26,857	
Other expenditures		8,105	
Securities lending expense			
<b>Total Expenditures</b>	<b>151,969</b>	<b>295,747</b>	<b>147,397</b>
Excess (Deficiency) of Revenues over (under) Expenditures	(148,282)	(295,638)	(18,945)
<b>Other Financing Sources (Uses)</b>			
Transfers in	150,067	102,054	314,717
Transfers out	(224)		(291,095)
Issuance of bonds:			
New issues		187,537	
Refunding issues		71,281	
Premiums		1,748	
Discounts		(2,420)	
Payments to refunded bond escrow agent		(64,562)	
<b>Total Other Financing Sources (Uses)</b>	<b>149,843</b>	<b>295,638</b>	<b>23,622</b>
Net Change in Fund Balances	1,561		4,677
Fund Balances at July 1, As Restated	118,106		99,457
Increase (Decrease) in Inventory			(16)
<b>Fund Balances at June 30</b>	<b>\$ 119,667</b>	<b>\$</b>	<b>\$ 104,118</b>

Special Revenue Funds				
Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	KentuckyWired Infrastructure Company, Inc.	Special Benefits	Total Non-Major Governmental Funds
\$	\$	\$	\$	\$
			6,712	21,414
			825	1,134
			4	1,502
			175,141	255,003
			1,859	18,828
999	38	1,294	4,405	7,427
			(1,015)	(1,076)
41	7,872	3,892	96,882	126,965
1,040	7,910	5,186	284,813	431,197
		105,380	68,119	454,695
			41	304
	17,203		12,687	74,834
			19,029	25,495
			1,472	1,472
			5,441	5,514
108,454			1,882	1,882
			106,390	214,844
				158,175
				95,891
				8,105
			223	223
108,454	17,203	105,380	215,284	1,041,434
(107,414)	(9,293)	(100,194)	69,529	(610,237)
150,046	22,926		12,826	752,636
(150,067)	(10,937)		(104,897)	(557,220)
68,880		267,494		523,911
344,675				415,956
66,361		8,302		76,411
(369,580)				(2,420)
110,315	11,989	275,796	(92,071)	(434,142)
				775,132
2,901	2,696	175,602	(22,542)	164,895
78,305	20,645		214,952	531,465
				(16)
\$ 81,206	\$ 23,341	\$ 175,602	\$ 192,410	\$ 696,344

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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, 2016**  
(Expressed In Thousands)

Revenues by Source	June 30, 2016
Taxes:	
Sales and gross receipts	\$ 4,259,263
Income:	
Individual	4,340,635
Corporations	494,112
Property	690,453
Coal severance	140,036
Licenses and privileges	559
Inheritance and estate	48,646
Miscellaneous	3,048
Total Taxes	<u>9,976,752</u>
Licenses, fees, and permits	32,243
Intergovernmental	10,627
Charges for services	254,814
Fines and forfeits	34,541
Interest and other investment income	799
Increase (decrease) in fair value of investments	(354)
Securities lending income	1,194
Other revenues	46,258
Total Revenues by Source	<u>\$ 10,356,874</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed In Thousands)

	<b>June 30, 2016</b>
<b>General Government:</b>	
Personal services	\$ 275,311
Utilities, rentals, and other services	39,157
Commodities and supplies	27,759
Grants and subsidies	1,159,974
Capital outlay	144
Travel	1,256
Other	2,564
Total General Government	<u>1,506,165</u>
<b>Legislative and Judicial:</b>	
Personal services	225,337
Utilities, rentals, and other services	118,671
Commodities and supplies	22,088
Grants and subsidies	20,469
Capital outlay	691
Claims	32
Travel	3,885
Principal retirement	7,359
Other	49
Total Legislative and Judicial	<u>398,581</u>
<b>Commerce:</b>	
Personal services	11,489
Utilities, rentals, and other services	1,606
Commodities and supplies	1,477
Grants and subsidies	21,235
Capital Outlay	45
Travel	152
Total Commerce	<u>36,004</u>
<b>Education and Humanities:</b>	
Personal services	93,587
Utilities, rentals, and other services	25,492
Commodities and supplies	5,867
Grants and subsidies	4,306,785
Capital outlay	147
Claims	1
Travel	1,907
Judgments and contingent liabilities	88
Total Education and Humanities	<u>4,433,874</u>
<b>Human Resources:</b>	
Personal services	205,980
Utilities, rentals, and other services	11,019
Commodities and supplies	4,116
Grants and subsidies	2,094,121
Capital Outlay	295
Claims	3
Travel	6,099
Judgments and contingent liabilities	56,512
Total Human Resources	<u>2,378,145</u>
<b>Justice:</b>	
Personal services	419,662
Utilities, rentals, and other services	49,233
Commodities and supplies	23,156
Grants and subsidies	245,098
Capital outlay	230
Claims	21
Travel	2,975
Judgments and contingent liabilities	877
Total Justice	<u>741,252</u>

	<b>June 30, 2016</b>
<b>Natural Resources and Environmental Protection:</b>	
Personal services	\$ 55,308
Utilities, rentals, and other services	5,945
Commodities and supplies	2,497
Grants and subsidies	1,454
Capital outlay	225
Travel	291
Total Natural Resources and Environmental Protection	<u>65,720</u>
<b>Public Protection and Regulation:</b>	
Personal services	15,480
Utilities, rentals, and other services	1,443
Commodities and supplies	162
Grants and subsidies	257
Travel	81
Total Public Protection and Regulation	<u>17,423</u>
<b>Transportation:</b>	
Personal services	378
Utilities, rentals, and other services	90
Commodities and supplies	5,814
Travel	3
Total Transportation	<u>6,285</u>
Securities lending	756
Total Expenditures	<u>\$ 9,584,205</u>

**SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE**  
**TRANSPORTATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed In Thousands)

	<b>June 30, 2016</b>
<b>Revenues:</b>	
Taxes	\$ 1,314,771
Licenses, fees and permits	149,270
Charges for services	8,847
Fines and forfeits	31
Interest and other investment income	3,824
Increase (decrease) in fair value of investments	(929)
Securities lending income	595
Other revenues	3,524
Total Revenues	<u>1,479,933</u>
<b>Expenditures:</b>	
Transportation:	
General administration and support	66,260
Motor vehicle regulation	60,499
Justice - state police	96,321
Highways	1,191,073
Aviation	1,021
Securities lending	377
Other	687
Total Expenditures	<u>\$ 1,416,238</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 Graphic Design and 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 POSITION**  
**INTERNAL SERVICE FUNDS**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Fleet Management</u>	<u>Computer Services</u>	<u>Prison Industries</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 13,890	\$ 11,418	\$ 1,261
Receivables, net		103	620
Interfund receivables	2	1,878	284
Inventories	19	438	1,873
Total Current Assets	<u>13,911</u>	<u>13,837</u>	<u>4,038</u>
Noncurrent assets:			
Investments, net		657	
Receivables, net			
Land			657
Improvements other than buildings			
Buildings		9,523	5,816
Machinery and equipment	76,485	46,373	6,383
Easements and other intangibles		1,674	
Less: Accumulated depreciation	(56,366)	(47,042)	(6,424)
Construction in progress			
Total Capital Assets	<u>20,119</u>	<u>10,528</u>	<u>6,432</u>
Total Noncurrent Assets, Net	<u>20,119</u>	<u>11,185</u>	<u>6,432</u>
Total Assets	<u>34,030</u>	<u>25,022</u>	<u>10,470</u>
Deferred outflows of resources	<u>595</u>	<u>16,630</u>	<u>157</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	308	5,398	434
Interfund payables	7	353	38
Interfund loans payable			
Claims liability			
Claims adjustment liability			
Capital lease obligations	5,226	1,582	141
Compensated absences	62	2,899	212
Unearned revenue		20	
Total Current Liabilities	<u>5,603</u>	<u>10,252</u>	<u>825</u>
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations	5,307	2,218	510
Compensated absences	40	2,057	322
Net pension liability	5,720	161,631	1,321
Total Noncurrent Liabilities	<u>11,067</u>	<u>165,906</u>	<u>2,153</u>
Total Liabilities	<u>16,670</u>	<u>176,158</u>	<u>2,978</u>
Deferred inflows of resources	<u>145</u>	<u>2,756</u>	
<b>Net Position</b>			
Net investment in capital assets	9,586	6,728	5,781
Unrestricted	8,224	(143,990)	1,868
Total Net Position	<u>\$ 17,810</u>	<u>\$ (137,262)</u>	<u>\$ 7,649</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2016
\$ 1	\$ 14,886	\$ 12,705	\$ 54,161
	52	400	1,175
	117	13	2,294
36			2,366
37	15,055	13,118	59,996
	15,741	1	16,399
		188	188
	17,104		17,761
	3,133		3,133
	323,129		338,468
972	2,124		132,337
			1,674
(916)	(176,773)		(287,521)
	78,365		78,365
56	247,082		284,217
56	262,823	189	300,804
93	277,878	13,307	360,800
470	5,449	696	23,997
92	7,282	1,006	14,520
5	79	47	529
803	1,762	1,365	3,930
		24,015	24,015
		784	784
11	777		7,737
83	1,601	118	4,975
	139		159
994	11,640	27,335	56,649
		184,607	184,607
		4,573	4,573
	7,071		15,106
78	84	48	2,629
3,867	45,242	6,243	224,024
3,945	52,397	195,471	430,939
4,939	64,037	222,806	487,588
		3	2,904
45	239,234		261,374
(4,421)	(19,944)	(208,806)	(367,069)
\$ (4,376)	\$ 219,290	\$ (208,806)	\$ (105,695)

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 29,145	\$ 117,735	\$ 10,883
Other revenues	215		4
Total Operating Revenues	<u>29,360</u>	<u>117,735</u>	<u>10,887</u>
<b>Operating Expenses:</b>			
Personal services	2,072	78,351	3,958
Utilities, rentals, and other services	3,199	18,201	1,157
Commodities and supplies	9,440	29,484	5,502
Grants and subsidies		5	597
Depreciation and amortization	7,827	3,651	470
Travel		86	33
Reinsurance expense			
Claims expense		(2)	
Claims adjustment expense			
Total Operating Expenses	<u>22,538</u>	<u>129,776</u>	<u>11,717</u>
Operating Income (Loss)	<u>6,822</u>	<u>(12,041)</u>	<u>(830)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of capital assets	928	(1,029)	(109)
Interest and other investment income		1	
Interest expense	(221)	(325)	(7)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	<u>707</u>	<u>(1,353)</u>	<u>(116)</u>
Income (Loss) before Transfers	7,529	(13,394)	(946)
Capital contributions	156		
Transfers in			80
Transfers out		(3,273)	(80)
Change in Net Position	7,685	(16,667)	(946)
Net Position at July 1, As Restated	10,125	(120,595)	8,595
Net Position at June 30	<u>\$ 17,810</u>	<u>\$ (137,262)</u>	<u>\$ 7,649</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2016
\$ 1,335	\$ 35,109	\$ 30,072	\$ 224,279
	223	17,687	18,129
1,335	35,332	47,759	242,408
1,391	17,740	3,541	107,053
241	15,228	1,586	39,612
258	13,556	89	58,329
			602
79	5,349		17,376
1	15	8	143
		10,601	10,601
	3	32,152	32,153
		1,145	1,145
1,970	51,891	49,122	267,014
(635)	(16,559)	(1,363)	(24,606)
	(59)		(269)
	7	(4)	4
(1)	(306)		(860)
		73	73
(1)	(358)	69	(1,052)
(636)	(16,917)	(1,294)	(25,658)
	12,659		156
	(949)	(73)	12,739
			(4,375)
(636)	(5,207)	(1,367)	(17,138)
(3,740)	224,497	(207,439)	(88,557)
\$ (4,376)	\$ 219,290	\$ (208,806)	\$ (105,695)

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$	\$ 2,407	\$
Cash received from customers - state	29,146	117,730	10,634
Cash payments to suppliers for goods and services	(13,483)	(50,045)	(6,778)
Cash payments for employee salaries and benefits	(1,467)	(71,344)	(3,276)
Cash payments for claims expense		2	
Cash payments from other sources	215		4
Cash payments to other sources			(597)
Net Cash Provided (Used) by Operating Activities	<u>14,411</u>	<u>(1,250)</u>	<u>(13)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds			80
Transfers to other funds		(3,273)	(80)
Net Cash Provided (Used) by Noncapital Financing Activities		<u>(3,273)</u>	
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(401)	(1,718)	(137)
Principal paid on revenue bond maturities and equipment contracts	(7,703)	(1,900)	(76)
Interest paid on revenue bonds and equipment contracts	(221)	(325)	(7)
Proceeds from the sale of capital assets	928		28
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(7,397)</u>	<u>(3,943)</u>	<u>(192)</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from the sale of investment securities		4,338	
Interest and dividends on investments		2	
Net Cash Provided (Used) in Investing Activities		<u>4,340</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	7,014	(4,126)	(205)
Cash and Cash Equivalents at July 1	6,876	15,544	1,466
Cash and Cash Equivalents at June 30	<u>\$ 13,890</u>	<u>\$ 11,418</u>	<u>\$ 1,261</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ 6,822	\$ (12,041)	\$ (830)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,827	3,651	470
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	2	8	(153)
Interfund receivables	(2)	2,399	(96)
Inventories	(2)	30	81
Prepaid expenses			
(Increase) decrease in deferred outflows	(313)	(8,099)	626
Increase (decrease) in liabilities:			
Accounts payable	(840)	(834)	(203)
Interfund payables		(1,550)	5
Claims liability			
Claims adjustment liability			
Compensated absences	(28)	(390)	40
Unearned revenue		(6)	
Pension liability	863	14,715	220
Increase (decrease) in deferred inflows	82	867	(173)
Net Cash Provided by Operating Activities	<u>\$ 14,411</u>	<u>\$ (1,250)</u>	<u>\$ (13)</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Contributions of capital assets	\$ 156	\$	\$
Capital assets acquired through leases			(651)
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 156</u>	<u>\$</u>	<u>\$ (651)</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2016
\$	\$	\$	\$
	1,011	20,951	24,369
1,340	34,257	29,488	222,595
(1,089)	(24,597)	(13,514)	(109,506)
(178)	(18,845)	(3,336)	(98,446)
	(2)	(36,247)	(36,247)
	223	73	515
		(1,400)	(1,997)
73	(7,953)	(3,985)	1,283
	12,659		12,739
	(949)	(73)	(4,375)
	11,710	(73)	8,364
(29)	(53)		(2,338)
(43)	(749)		(10,471)
	(305)		(858)
			956
(72)	(1,107)		(12,711)
	(3,385)	335	1,288
		(4)	(2)
	(3,385)	331	1,286
1	(735)	(3,727)	(1,778)
	15,621	16,432	55,939
\$ 1	\$ 14,886	\$ 12,705	\$ 54,161
\$ (635)	\$ (16,559)	\$ (1,363)	\$ (24,606)
79	5,349	73	17,376
			73
5	127	398	387
	(108)	(409)	1,784
7			116
		5	5
(281)	(2,965)	(362)	(11,394)
(30)	4,545	(97)	2,541
344	(358)	(1,337)	(2,896)
		(1,451)	(1,451)
		(31)	(31)
19	(40)	19	(380)
	143		137
607	2,463	639	19,507
(42)	(550)	(69)	115
\$ 73	\$ (7,953)	\$ (3,985)	\$ 1,283
\$	\$	\$	\$
			156
			(651)
\$	\$	\$	\$
			(495)

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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, 2016**  
(Expressed In Thousands)

	<b>June 30, 2016</b>
<b>Governmental Funds Capital Assets</b>	
Land	\$ 219,478
Improvements other than buildings	27,331
Buildings	1,188,988
Machinery and equipment	533,032
Software/other intangibles	91,816
Easements	96,117
Construction in progress	2,274,200
Infrastructure	20,294,040
Total Governmental Funds Capital Assets	<u>\$ 24,725,002</u>
<b>Investments in Governmental Funds Capital Assets by Source</b>	
General Fund	\$ 115,586
Special Revenue Funds	149,018
Donations	149,993
Other	67,300
Capital Projects Fund:	
State appropriations	51,482
Revenue bonds	545,391
Federal grants	354,302
Other	308,359
Infrastructure (A)	22,797,986
Capital assets acquired prior to July 1, 1984 (A)	144,559
Capital assets acquired after July 1, 1984 (A)	41,026
Total Governmental Funds Capital Assets by Source	<u>\$ 24,725,002</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 Position.  
(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, 2016**  
(Expressed in Thousands)

	<u>Land</u>	<u>Improvements Other Than Buildings</u>	<u>Buildings</u>
General Government	\$ 34,033	\$ 12,402	\$ 318,298
Legislative & Judicial	2,032		10,453
Commerce	119,663	6,473	20,868
Education & Humanities	1,266	664	44,992
Human Resources	1,762	2,112	88,295
Justice	4,535	5,579	499,247
Natural Resources and Environmental Protection	38,404	101	1,685
Public Protection and Regulation			
Transportation	17,783		205,150
Total Governmental Funds Capital Assets by Function	<u>\$ 219,478</u>	<u>\$ 27,331</u>	<u>\$ 1,188,988</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 Position.

<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, 2016</u>
\$ 28,149	\$ 36,605	\$ 60,224	\$ 65,360	\$	\$ 555,071
14,806			2,347		29,638
30,116			232		177,352
29,973		12,474	471		89,840
18,885	49,984		175,600		336,638
87,908	5,227		30,609		633,105
38,748		18,296	53		97,287
5,060					5,060
279,387		5,123	1,999,528	20,294,040	22,801,011
<u>\$ 533,032</u>	<u>\$ 91,816</u>	<u>\$ 96,117</u>	<u>\$ 2,274,200</u>	<u>\$ 20,294,040</u>	<u>\$ 24,725,002</u>

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>
General Government	\$ 539,171	\$ 55,933	\$ (40,033)	\$ 555,071
Legislative & Judicial	26,132	4,681	(1,175)	29,638
Commerce	158,562	25,636	(6,846)	177,352
Education & Humanities	90,038	692	(890)	89,840
Human Resources	320,734	74,729	(58,825)	336,638
Justice	625,734	15,765	(8,394)	633,105
Natural Resources and Environmental Protection	93,115	6,445	(2,273)	97,287
Public Protection and Regulation	4,858	502	(300)	5,060
Transportation	22,224,743	839,823	(263,555)	22,801,011
Total Governmental Funds Capital Assets by Function	<u>\$ 24,083,087</u>	<u>\$ 1,024,206</u>	<u>\$ (382,291)</u>	<u>\$ 24,725,002</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 Position.

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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 POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Pension Funds</u>	<u>Insurance Funds</u>	<u>Totals June 30, 2016</u>
<b>Assets</b>			
Cash and Short-Term Investments:			
Cash	\$ 18,586	\$ 60,034	\$ 78,620
Short-term investments	824,612	142,501	967,113
Total Cash and Short-Term Investments	<u>843,198</u>	<u>202,535</u>	<u>1,045,733</u>
Receivables:			
Investments - accounts receivable	373,831	142,532	516,363
Interest receivable	1,182	387	1,569
Accounts receivable	229,068	88,101	317,169
Total Receivables	<u>604,081</u>	<u>231,020</u>	<u>835,101</u>
Investments at Fair Value:			
Corporate and government bonds	4,449,744	545,876	4,995,620
Common stocks	20,213,135	3,582,407	23,795,542
Mortgages	176,247	3,858	180,105
Alternatives	932,813	23,931	956,744
Derivatives	12,268	4,660	16,928
Real estate	1,457,128	234,338	1,691,466
Other	2,223,531	484,517	2,708,048
Total Investments at Fair Value	<u>29,464,866</u>	<u>4,879,587</u>	<u>34,344,453</u>
Invested security collateral	1,095,065	198,279	1,293,344
Capital assets, net	25,204		25,204
Prepaid expenses	89		89
Total Assets	<u>32,032,503</u>	<u>5,511,421</u>	<u>37,543,924</u>
<b>Liabilities</b>			
Investments - accounts payable	344,771	144,379	489,150
Accounts payable	16,486	4,530	21,016
Obligations under securities lending	1,095,065	198,279	1,293,344
Total Liabilities	<u>1,456,322</u>	<u>347,188</u>	<u>1,803,510</u>
<b>Net Position Restricted for Pensions and Other Post Employment Benefits</b>	<u>\$ 30,576,181</u>	<u>\$ 5,164,233</u>	<u>\$ 35,740,414</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Pension Funds</u>	<u>Insurance Funds</u>	<u>Totals June 30, 2016</u>
<b>Additions</b>			
Contributions:			
Employer	\$ 1,028,372	\$ 514,083	\$ 1,542,455
Member	777,040	184,528	961,568
Non-Employer	484,987		484,987
Total Contributions	<u>2,290,399</u>	<u>698,611</u>	<u>2,989,010</u>
Other Contributions:			
Recovery Income		53,383	53,383
Participant fees	8,058		8,058
Other receipts	17,949		17,949
Total Other Contributions	<u>26,007</u>	<u>53,383</u>	<u>79,390</u>
Investment Income:			
Net increase (decrease) in fair value of investments	(782,492)	(65,052)	(847,544)
Interest	385,452	90,992	476,444
Dividends	200,262	3,019	203,281
Real estate operating income, net	28,040		28,040
Securities lending income, net	7,405	1,560	8,965
Total Investment Income	<u>(161,333)</u>	<u>30,519</u>	<u>(130,814)</u>
Less: Investment expense	141,551	36,431	177,982
Less: Securities lending expense	1,611	299	1,910
Net Investment Income	<u>(304,495)</u>	<u>(6,211)</u>	<u>(310,706)</u>
Total Additions	<u>2,011,911</u>	<u>745,783</u>	<u>2,757,694</u>
<b>Deductions</b>			
Benefit payments	3,968,296	4,595	3,972,891
Refunds	58,733		58,733
Administrative expenses	50,194	3,900	54,094
Capital project expense	533		533
Self funding insurance cost		6,418	6,418
Healthcare premium subsidies		347,556	347,556
Other deductions, net		288,512	288,512
Total Deductions	<u>4,077,756</u>	<u>650,981</u>	<u>4,728,737</u>
Change in Net Position	(2,065,845)	94,802	(1,971,043)
Net Position at July 1	32,642,026	5,069,431	37,711,457
Net Position at June 30	<u>\$ 30,576,181</u>	<u>\$ 5,164,233</u>	<u>\$ 35,740,414</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**JUNE 30, 2016**  
(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	\$ 386	\$ 65	\$ 483	\$ 138
Short-term investments	85,979	15,248	143,880	55,234
Total Cash and Short-Term Investments	<u>86,365</u>	<u>15,313</u>	<u>144,363</u>	<u>55,372</u>
Receivables:				
Investments - accounts receivable	60,891	16,083	176,388	56,297
Interest receivable				
Contributions/Accounts receivable	57,461	3,674	40,414	14,307
Total Receivables	<u>118,352</u>	<u>19,757</u>	<u>216,802</u>	<u>70,604</u>
Investments at Fair Value:				
Corporate and government bonds	311,226	47,855	559,524	183,583
Common stocks	1,286,778	389,927	4,575,249	1,491,878
Mortgages				
Alternatives				
Derivatives	1,791	619	7,262	2,384
Real estate	75,469	28,444	303,771	97,147
Other	160,678	43,930	512,690	167,379
Total Investments at Fair Value	<u>1,835,942</u>	<u>510,775</u>	<u>5,958,496</u>	<u>1,942,371</u>
Invested security collateral	118,742	31,861	369,572	120,755
Capital assets, net	2,790	243	4,767	393
Prepaid expenses				
Total Assets	<u>2,162,191</u>	<u>577,949</u>	<u>6,694,000</u>	<u>2,189,495</u>
<b>Liabilities</b>				
Investments - accounts payable	60,142	16,222	177,422	57,062
Accounts payable	3,015	1,986	5,612	1,502
Obligations under securities lending	118,742	31,861	369,572	120,755
Total Liabilities	<u>181,899</u>	<u>50,069</u>	<u>552,606</u>	<u>179,319</u>
<b>Net Position Restricted for Pensions and Other Post Employment Benefits</b>				
	<u>\$ 1,980,292</u>	<u>\$ 527,880</u>	<u>\$ 6,141,394</u>	<u>\$ 2,010,176</u>

<u>State Police Retirement System</u>	<u>Kentucky Teachers' Retirement System</u>	<u>Judicial Retirement Plan</u>	<u>Legislators' Retirement Plan</u>	<u>Kentucky Public Employees' Deferred Compensation Authority</u>	<u>Totals June 30, 2016</u>
\$ 49	\$ 15,157	\$ 101	\$ 18	\$ 2,189	\$ 18,586
5,903	508,136			10,232	824,612
<u>5,952</u>	<u>523,293</u>	<u>101</u>	<u>18</u>	<u>12,421</u>	<u>843,198</u>
6,367	57,805				373,831
		960	222		1,182
10,582	61,711	108	18	40,793	229,068
<u>16,949</u>	<u>119,516</u>	<u>1,068</u>	<u>240</u>	<u>40,793</u>	<u>604,081</u>
28,408	2,558,518	68,053	16,197	676,380	4,449,744
144,225	10,267,308	198,232	45,476	1,814,062	20,213,135
	176,247				176,247
	932,813				932,813
212					12,268
11,437	940,860				1,457,128
17,600	1,309,513	55	57	11,629	2,223,531
<u>201,882</u>	<u>16,185,259</u>	<u>266,340</u>	<u>61,730</u>	<u>2,502,071</u>	<u>29,464,866</u>
12,754	441,381				1,095,065
37	16,974				25,204
	89				89
<u>237,574</u>	<u>17,286,512</u>	<u>267,509</u>	<u>61,988</u>	<u>2,555,285</u>	<u>32,032,503</u>
6,423	27,500				344,771
384	3,854			133	16,486
12,754	441,381				1,095,065
<u>19,561</u>	<u>472,735</u>			<u>133</u>	<u>1,456,322</u>
<u>\$ 218,013</u>	<u>\$ 16,813,777</u>	<u>\$ 267,509</u>	<u>\$ 61,988</u>	<u>\$ 2,555,152</u>	<u>\$ 30,576,181</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(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	\$ 512,670	\$ 23,690	\$ 282,767	\$ 104,952
Member	101,677	15,055	133,987	51,554
Non-Employer				
Total Contributions	<u>614,347</u>	<u>38,745</u>	<u>416,754</u>	<u>156,506</u>
Other Contributions:				
Participant fees				
Other receipts	5,231	754	9,026	2,180
Total Other Contributions	<u>5,231</u>	<u>754</u>	<u>9,026</u>	<u>2,180</u>
Investment Income:				
Net increase (decrease) in fair value of investments	(45,200)	(7,502)	(111,343)	(31,313)
Interest	40,149	10,079	117,432	38,076
Dividends				
Real estate operating income, net				
Securities lending income, net	865	216	2,620	845
Total Investment Income	<u>(4,186)</u>	<u>2,793</u>	<u>8,709</u>	<u>7,608</u>
Less: Investment expense	16,270	4,413	49,107	16,501
Less: Securities lending expense	206	32	401	128
Net Investment Income	<u>(20,662)</u>	<u>(1,652)</u>	<u>(40,799)</u>	<u>(9,021)</u>
Total Additions	<u>598,916</u>	<u>37,847</u>	<u>384,981</u>	<u>149,665</u>
<b>Deductions</b>				
Benefit payments	923,288	59,306	651,247	213,448
Refunds	12,130	2,211	13,754	2,879
Administrative expenses	10,807	903	19,079	1,338
Capital project expense	181	15	307	26
Total Deductions	<u>946,406</u>	<u>62,435</u>	<u>684,387</u>	<u>217,691</u>
Change in Net Position	(347,490)	(24,588)	(299,406)	(68,026)
Net Position at July 1	2,327,782	552,468	6,440,800	2,078,202
Net Position at June 30	<u>\$ 1,980,292</u>	<u>\$ 527,880</u>	<u>\$ 6,141,394</u>	<u>\$ 2,010,176</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, 2016</b>
\$ 5,149	\$ 80,468	\$ 15,295	\$ 3,381	\$	\$ 1,028,372
25,723	313,044	1,737	335	133,928	777,040
	484,987				484,987
<u>30,872</u>	<u>878,499</u>	<u>17,032</u>	<u>3,716</u>	<u>133,928</u>	<u>2,290,399</u>
				8,058	8,058
212		424	122		17,949
<u>212</u>		<u>424</u>	<u>122</u>	<u>8,058</u>	<u>26,007</u>
(6,487)	(584,269)	2,523	688	411	(782,492)
4,276	162,350	1,656	384	11,050	385,452
	194,575	4,590	1,097		200,262
	28,040				28,040
90	2,769				7,405
<u>(2,121)</u>	<u>(196,535)</u>	<u>8,769</u>	<u>2,169</u>	<u>11,461</u>	<u>(161,333)</u>
1,707	47,792	201		5,560	141,551
13	831				1,611
<u>(3,841)</u>	<u>(245,158)</u>	<u>8,568</u>	<u>2,169</u>	<u>5,901</u>	<u>(304,495)</u>
<u>27,243</u>	<u>633,341</u>	<u>26,024</u>	<u>6,007</u>	<u>147,887</u>	<u>2,011,911</u>
56,268	1,833,293	22,857	3,997	204,592	3,968,296
11	27,748				58,733
176	8,636	215	130	8,910	50,194
4					533
<u>56,459</u>	<u>1,869,677</u>	<u>23,072</u>	<u>4,127</u>	<u>213,502</u>	<u>4,077,756</u>
(29,216)	(1,236,336)	2,952	1,880	(65,615)	(2,065,845)
247,229	18,050,113	264,557	60,108	2,620,767	32,642,026
<u>\$ 218,013</u>	<u>\$ 16,813,777</u>	<u>\$ 267,509</u>	<u>\$ 61,988</u>	<u>\$ 2,555,152</u>	<u>\$ 30,576,181</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**JUNE 30, 2016**  
(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	\$ 57	\$ 24	\$ 55	\$ 11
Short-term investments	24,155	14,571	49,840	30,256
Total Cash and Short-Term Investments	<u>24,212</u>	<u>14,595</u>	<u>49,895</u>	<u>30,267</u>
Receivables:				
Investments - accounts receivable	21,631	14,518	63,134	34,850
Interest receivable				
Contributions/Accounts receivable	12,440	1,574	10,960	5,733
Total Receivables	<u>34,071</u>	<u>16,092</u>	<u>74,094</u>	<u>40,583</u>
Investments at Fair Value:				
Corporate and government bonds	57,822	38,411	167,370	92,619
Common stocks	490,033	324,552	1,426,194	787,468
Mortgages				
Alternatives				
Derivatives	728	482	2,105	1,169
Real estate	29,424	22,176	96,158	52,708
Other	54,252	35,905	157,216	86,894
Total Investments at Fair Value	<u>632,259</u>	<u>421,526</u>	<u>1,849,043</u>	<u>1,020,858</u>
Invested security collateral	31,468	20,908	88,990	49,470
Total Assets	<u>722,010</u>	<u>473,121</u>	<u>2,062,022</u>	<u>1,141,178</u>
<b>Liabilities</b>				
Investments - accounts payable	22,083	14,800	64,360	35,547
Accounts payable	141	16	122	64
Obligations under securities lending	31,468	20,908	88,990	49,470
Total Liabilities	<u>53,692</u>	<u>35,724</u>	<u>153,472</u>	<u>85,081</u>
<b>Net Position Restricted for Pensions and Other Post Employment Benefits</b>	<u>\$ 668,318</u>	<u>\$ 437,397</u>	<u>\$ 1,908,550</u>	<u>\$ 1,056,097</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, 2016</b>
\$ 5	\$ 59,844	\$ 27	\$ 11	\$ 60,034
4,579	19,100			142,501
<u>4,584</u>	<u>78,944</u>	<u>27</u>	<u>11</u>	<u>202,535</u>
5,341	3,058			142,532
		252	135	387
852	56,516	26		88,101
<u>6,193</u>	<u>59,574</u>	<u>278</u>	<u>135</u>	<u>231,020</u>
13,980	147,897	17,887	9,890	545,876
119,918	354,370	52,104	27,768	3,582,407
	3,858			3,858
	23,931			23,931
176				4,660
8,439	25,433			234,338
13,124	137,076	15	35	484,517
<u>155,637</u>	<u>692,565</u>	<u>70,006</u>	<u>37,693</u>	<u>4,879,587</u>
7,443				198,279
<u>173,857</u>	<u>831,083</u>	<u>70,311</u>	<u>37,839</u>	<u>5,511,421</u>
5,454	2,135			144,379
11	4,176			4,530
7,443				198,279
<u>12,908</u>	<u>6,311</u>			<u>347,188</u>
<u>\$ 160,949</u>	<u>\$ 824,772</u>	<u>\$ 70,311</u>	<u>\$ 37,839</u>	<u>\$ 5,164,233</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	Kentucky Employees' Retirement System		County Employees' Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Additions</b>				
Contributions:				
Employer	\$ 131,935	\$ 15,929	\$ 108,269	\$ 66,757
Member				
Total Contributions	131,935	15,929	108,269	66,757
Other Contributions:				
Recovery Income	4,120	824	4,196	756
Total Other Contributions	4,120	824	4,196	756
Investment Income:				
Net increase (decrease) in fair value of investments	(12,720)	(5,911)	(21,498)	(9,667)
Interest	12,142	8,187	36,102	19,746
Dividends				
Securities lending income, net	248	164	702	384
Total Investment Income	(330)	2,440	15,306	10,463
Less: Investment expense	3,528	3,290	16,592	9,287
Less: Securities lending expense	46	32	136	74
Net Investment Income	(3,904)	(882)	(1,422)	1,102
Total Additions	132,151	15,871	111,043	68,615
<b>Deductions</b>				
Benefit payments				
Administrative expenses	820	98	715	343
Self funding insurance cost	2,096	50	4,110	137
Healthcare Premiums Subsidies	126,550	17,439	118,603	68,518
Other deductions, net	6		11	
Total Deductions	129,472	17,587	123,439	68,998
Change in Net Position	2,679	(1,716)	(12,396)	(383)
Net Position at July 1	665,639	439,113	1,920,946	1,056,480
Net Position at June 30	\$ 668,318	\$ 437,397	\$ 1,908,550	\$ 1,056,097

<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, 2016</b>
\$ 10,228	\$ 179,676	\$ 1,284	\$ 5	\$ 514,083
	184,365	158	5	184,528
<u>10,228</u>	<u>364,041</u>	<u>1,442</u>	<u>10</u>	<u>698,611</u>
(20)	43,328	112	67	53,383
<u>(20)</u>	<u>43,328</u>	<u>112</u>	<u>67</u>	<u>53,383</u>
(1,747)	(14,550)	666	375	(65,052)
3,043	11,125	438	209	90,992
	1,208	1,213	598	3,019
58	4			1,560
<u>1,354</u>	<u>(2,213)</u>	<u>2,317</u>	<u>1,182</u>	<u>30,519</u>
1,392	2,289	53		36,431
10	1			299
<u>(48)</u>	<u>(4,503)</u>	<u>2,264</u>	<u>1,182</u>	<u>(6,211)</u>
<u>10,160</u>	<u>402,866</u>	<u>3,818</u>	<u>1,259</u>	<u>745,783</u>
	4,595			4,595
64	1,732	57	71	3,900
25				6,418
13,836		1,949	661	347,556
	288,495			288,512
<u>13,925</u>	<u>294,822</u>	<u>2,006</u>	<u>732</u>	<u>650,981</u>
(3,765)	108,044	1,812	527	94,802
164,714	716,728	68,499	37,312	5,069,431
<u>\$ 160,949</u>	<u>\$ 824,772</u>	<u>\$ 70,311</u>	<u>\$ 37,839</u>	<u>\$ 5,164,233</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 that are marked for specific purposes such as employee withholdings.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**AGENCY FUNDS**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Commonwealth Choice Program</u>	<u>County Fees Trust Fund</u>	<u>Special Deposit Trust Fund</u>	<u>Totals June 30, 2016</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 236	\$ 415	\$ 284,569	\$ 285,220
Investments, net of amortization			26,516	26,516
Invested security collateral			520,076	520,076
Receivables, net	3,454	27,797	13,457	44,708
Total Assets	<u>\$ 3,690</u>	<u>\$ 28,212</u>	<u>\$ 844,618</u>	<u>\$ 876,520</u>
<b>Liabilities</b>				
Accounts payable	\$ 3,690		\$ 153,503	\$ 157,193
Amounts held in custody for others		28,212	171,039	199,251
Obligations under securities lending			520,076	520,076
Total Liabilities	<u>\$ 3,690</u>	<u>\$ 28,212</u>	<u>\$ 844,618</u>	<u>\$ 876,520</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Balances</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2016</u>
<b><u>COMMONWEALTH CHOICE PROGRAM</u></b>				
<u>Assets</u>				
Cash & cash equivalents-restricted	\$ 845	\$	\$ 609	\$ 236
Accounts receivable	2,526	928		3,454
Total Assets	<u>\$ 3,371</u>	<u>\$ 928</u>	<u>\$ 609</u>	<u>\$ 3,690</u>
<u>Liabilities</u>				
Accounts payable	\$ 3,371	\$ 319	\$	\$ 3,690
Total Liabilities	<u>\$ 3,371</u>	<u>\$ 319</u>	<u>\$</u>	<u>\$ 3,690</u>
<b><u>COUNTY FEES TRUST FUND</u></b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 415	\$	\$	\$ 415
Accounts receivable	26,443	132,635	131,281	27,797
Total Assets	<u>\$ 26,858</u>	<u>\$ 132,635</u>	<u>\$ 131,281</u>	<u>\$ 28,212</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 26,858	\$ 132,635	\$ 131,281	\$ 28,212
Total Liabilities	<u>\$ 26,858</u>	<u>\$ 132,635</u>	<u>\$ 131,281</u>	<u>\$ 28,212</u>
<b><u>SPECIAL DEPOSIT TRUST FUND</u></b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 244,750	\$ 882,537	\$ 842,718	\$ 284,569
Investments	33,099	28,373	34,956	26,516
Invested security collateral	552,146		32,070	520,076
Accounts receivable	11,873	12,881	11,297	13,457
Total Assets	<u>\$ 841,868</u>	<u>\$ 923,791</u>	<u>\$ 921,041</u>	<u>\$ 844,618</u>
<u>Liabilities</u>				
Accounts payable	\$ 181,666	\$ 831,023	\$ 859,186	\$ 153,503
Amounts held in custody for others	108,056	103,226	40,243	171,039
Obligations under securities lending	552,146		32,070	520,076
Total Liabilities	<u>\$ 841,868</u>	<u>\$ 934,249</u>	<u>\$ 931,499</u>	<u>\$ 844,618</u>
<b><u>ALL AGENCY FUNDS</u></b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 246,010	\$ 882,537	\$ 843,327	\$ 285,220
Investments	33,099	28,373	34,956	26,516
Invested security collateral	552,146		32,070	520,076
Accounts receivable	40,842	146,444	142,578	44,708
Total Assets	<u>\$ 872,097</u>	<u>\$ 1,057,354</u>	<u>\$ 1,052,931</u>	<u>\$ 876,520</u>
<u>Liabilities</u>				
Accounts payable	\$ 185,037	\$ 831,342	\$ 859,186	\$ 157,193
Amounts held in custody for others	134,914	235,861	171,524	199,251
Obligations under securities lending	552,146		32,070	520,076
Total Liabilities	<u>\$ 872,097</u>	<u>\$ 1,067,203</u>	<u>\$ 1,062,780</u>	<u>\$ 876,520</u>

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**NON-MAJOR COMPONENT UNITS - COMBINING**

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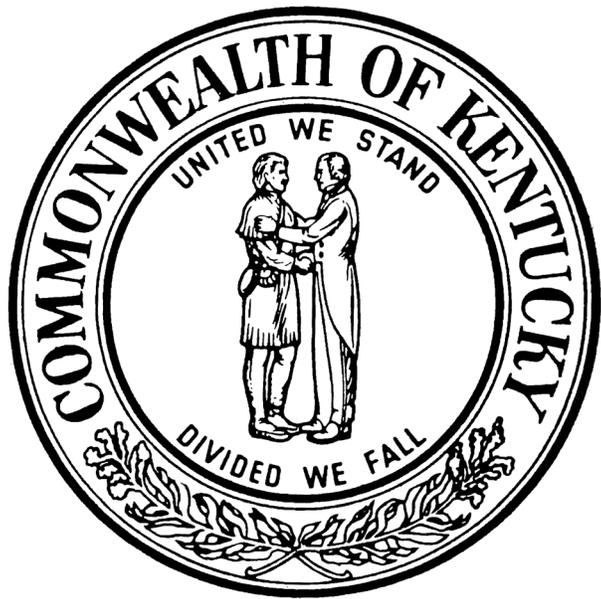
**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF NET POSITION  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2016**

(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2016
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 76,302	\$ 335,325	\$ 411,627
Restricted cash	10,522	31,415	41,937
Investments, net of amortization	378,054		378,054
Accounts receivable, net	120,220	97,791	218,011
Interest receivable	1,767	6,122	7,889
Inventories	404	7,283	7,687
Prepaid expenses	2,628	12,018	14,646
Other current assets	737	3,012	3,749
Total Current Assets	<u>590,634</u>	<u>492,966</u>	<u>1,083,600</u>
Noncurrent assets:			
Restricted cash	70,557	124,650	195,207
Long-term investments	30,255	184,092	214,347
Restricted long-term investments	13,620	276,486	290,106
Long-term receivables, net	950,527	24,067	974,594
Land	29,753	74,210	103,963
Improvements other than buildings	65,285	185,436	250,721
Buildings	461,172	2,300,255	2,761,427
Machinery and equipment	106,100	341,972	448,072
Other capital assets	7,774	132,305	140,079
Less: Accumulated depreciation and amortization	(321,961)	(1,401,198)	(1,723,159)
Construction in progress	33,369	216,119	249,488
Total Capital Assets	<u>381,492</u>	<u>1,849,099</u>	<u>2,230,591</u>
Other assets	4,707	11,027	15,734
Total Noncurrent Assets	<u>1,451,158</u>	<u>2,469,421</u>	<u>3,920,579</u>
Total Assets	<u>2,041,792</u>	<u>2,962,387</u>	<u>5,004,179</u>
Deferred outflows of resources	<u>21,032</u>	<u>202,974</u>	<u>224,006</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	27,325	74,022	101,347
Current portion of long-term debt:			
Notes payable	308	3,925	4,233
Bonds payable	23,740	33,473	57,213
Capital lease obligations	7,694	5,520	13,214
Compensated absences	1,949	23,154	25,103
Claims liability		627	627
Unearned revenues	7,179	34,488	41,667
Payable from restricted assets		6,200	6,200
Other current liabilities	62	13,134	13,196
Total Current Liabilities	<u>68,257</u>	<u>194,543</u>	<u>262,800</u>
Noncurrent liabilities:			
Notes payable	3,386	14,338	17,724
Bonds payable	263,677	538,803	802,480
Capital lease obligations	65,592	63,499	129,091
Compensated absences	632	229	861
Net pension liability	129,562	1,741,572	1,871,134
Other long-term liabilities		82,151	82,151
Total Noncurrent Liabilities	<u>462,849</u>	<u>2,440,592</u>	<u>2,903,441</u>
Total Liabilities	<u>531,106</u>	<u>2,635,135</u>	<u>3,166,241</u>
Deferred inflows of resources	<u>7,620</u>	<u>80,375</u>	<u>87,995</u>
<b>Net Position</b>			
Net investment in capital assets	301,146	1,161,177	1,462,323
Restricted for:			
Debt service		404	404
Capital projects	7,513	21,558	29,071
Other purposes	1,179,906	489,899	1,669,895
Unrestricted	35,533	(1,223,277)	(1,187,744)
Total Net Position	<u>\$ 1,524,098</u>	<u>\$ 449,851</u>	<u>\$ 1,973,949</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2016  
(Expressed in Thousands)**

	<b>Non-Major Component Units - Authorities</b>	<b>Non-Major Component Units - Universities</b>	<b>Totals June 30, 2016</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 410,942	\$ 1,433,309	\$ 1,844,251
Total expenses	<u>410,942</u>	<u>1,433,309</u>	<u>1,844,251</u>
<b>Program Revenues:</b>			
Charges for services	106,452	676,673	783,125
Operating grants and contributions	23,085	129,050	152,135
Capital grants and contributions	7,051	25,655	32,706
Total Program Revenues	<u>136,588</u>	<u>831,378</u>	<u>967,966</u>
<b>Net Program (Expense) Revenue</b>	<u>(274,354)</u>	<u>(601,931)</u>	<u>(876,285)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	29,440	188,763	218,203
Unrestricted investment earnings	508	(4,067)	(3,559)
Gain on sale of capital assets	7	641	648
Miscellaneous general	287,626	447,852	735,478
Total General Revenues	<u>317,581</u>	<u>633,189</u>	<u>950,770</u>
Change in Net Position	<u>43,227</u>	<u>31,258</u>	<u>74,485</u>
Net Position at July 1, As Restated	1,480,871	418,593	1,899,464
Net Position at June 30	<u>\$ 1,524,098</u>	<u>\$ 449,851</u>	<u>\$ 1,973,949</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 Authority for Educational Television** - 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 Horse Park 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.

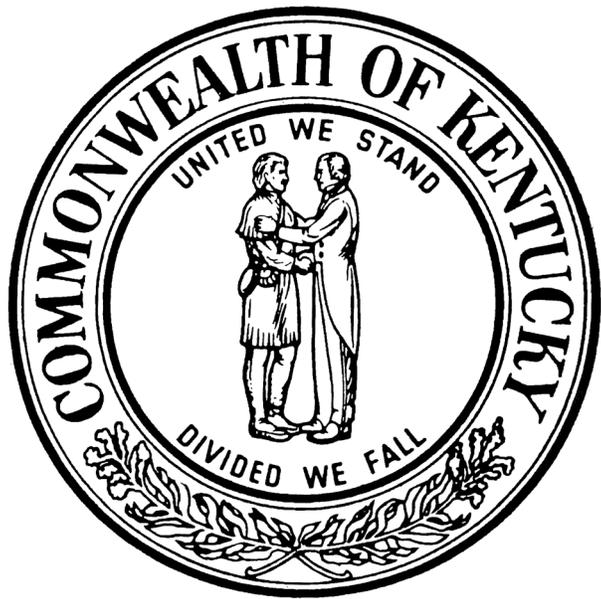
**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET POSITION**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	<u>Kentucky River Authority</u>	<u>Kentucky Higher Education Assistance Authority</u>	<u>Bluegrass State Skills Corporation</u>	<u>Kentucky State Fair Board</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 854	\$ 24,805	\$	\$ 10,061
Restricted cash	6,845	3,677		
Investments, net of amortization				
Accounts receivable, net	1,080	2,348	2,506	3,378
Interest receivable		265		
Inventories				
Prepaid expenses				825
Other current assets		450		
Total Current Assets	<u>8,779</u>	<u>31,545</u>	<u>2,506</u>	<u>14,264</u>
Noncurrent assets:				
Restricted cash		69,132		668
Long-term investments				
Restricted long-term investments				
Long-term receivables, net		11,113		
Land	546			27,835
Improvements other than buildings	51,936			13,349
Buildings	432	12,075		393,038
Machinery and equipment	317	3,771		30,936
Other capital assets				7,051
Less: Accumulated depreciation and amortization	(12,447)	(8,086)		(203,925)
Construction in progress	17,427			15,942
Total Capital Assets	<u>58,211</u>	<u>7,760</u>		<u>284,226</u>
Other assets				
Total Noncurrent Assets, Net	<u>58,211</u>	<u>88,005</u>		<u>284,894</u>
Total Assets	<u>66,990</u>	<u>119,550</u>	<u>2,506</u>	<u>299,158</u>
Deferred outflows of resources	<u>242</u>	<u>983</u>	<u>34</u>	<u>5,648</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	354	2,855	2,498	12,044
Current portion of long-term debt:				
Notes payable				
Bonds payable				
Capital lease obligations	1,239	610		5,794
Compensated absences	80	617	8	
Unearned revenues				4,298
Other current liabilities				
Total Current Liabilities	<u>1,673</u>	<u>4,082</u>	<u>2,506</u>	<u>22,136</u>
Noncurrent liabilities:				
Notes payable				
Bonds payable				
Capital lease obligations	24,430	2,020		39,079
Compensated absences	21		7	
Net pension liability	2,409	9,750	577	54,164
Total Noncurrent Liabilities	<u>26,860</u>	<u>11,770</u>	<u>584</u>	<u>93,243</u>
Total Liabilities	<u>28,533</u>	<u>15,852</u>	<u>3,090</u>	<u>115,379</u>
Deferred inflows of resources	<u>182</u>	<u>262</u>		<u>4,082</u>
<b>Net Position</b>				
Net investment in capital assets	32,347	5,129		235,857
Restricted for:				
Capital projects	6,845			668
Other purposes		99,290		
Unrestricted	(675)		(550)	(51,180)
Total Net Position	<u>\$ 38,517</u>	<u>\$ 104,419</u>	<u>\$ (550)</u>	<u>\$ 185,345</u>

Kentucky Center for the Arts Corporation	Kentucky Authority for Educational Television	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation
\$ 1,564	\$ 4,874	\$ 21,078	\$ 27	\$ 2,135	\$ 6,876
	12,096		151	365,807	
199	541	5,933	13	59,770	44,420
11	25	29		1,437	
77			327		
183	1,616				
	128	159			
<u>2,034</u>	<u>19,280</u>	<u>27,199</u>	<u>518</u>	<u>429,149</u>	<u>51,296</u>
	757				
16,211		230		7,148	4,241
	6,227			2,481	
100	485	18,437		920,392	
129	76		1,167		
31,571	16,870		6,706		
35,483	34,607		963	23	
	723				
(51,248)	(44,432)		(1,823)		
<u>15,935</u>	<u>7,844</u>		<u>7,013</u>	<u>23</u>	
<u>4,665</u>	<u>42</u>				
<u>36,911</u>	<u>15,355</u>	<u>18,667</u>	<u>7,013</u>	<u>930,044</u>	<u>4,241</u>
<u>38,945</u>	<u>34,635</u>	<u>45,866</u>	<u>7,531</u>	<u>1,359,193</u>	<u>55,537</u>
	<u>5,050</u>	<u>443</u>	<u>368</u>	<u>8,218</u>	<u>46</u>
1,178	1,149	142	103	7,002	
100	121			23,740	
51					
218	842	113	68		3
511	2,347				
59		3			
<u>2,117</u>	<u>4,459</u>	<u>258</u>	<u>171</u>	<u>30,742</u>	<u>3</u>
2,220	1,166			263,677	
63					
	492	101	11		
	45,788	7,492	3,572	5,180	630
<u>2,283</u>	<u>47,446</u>	<u>7,593</u>	<u>3,583</u>	<u>268,857</u>	<u>630</u>
<u>4,400</u>	<u>51,905</u>	<u>7,851</u>	<u>3,754</u>	<u>299,599</u>	<u>633</u>
	<u>2,886</u>		<u>8</u>	<u>197</u>	<u>3</u>
13,294	6,556		7,012		
2,859	7,470	4,399	(2,875)	1,067,615	
18,392	(29,132)	34,059			54,947
<u>\$ 34,545</u>	<u>\$ (15,106)</u>	<u>\$ 38,458</u>	<u>\$ 4,137</u>	<u>\$ 1,067,615</u>	<u>\$ 54,947</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET POSITION**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Kentucky Grain Insurance Corporation</b>	<b>The Kentucky Horse Park Foundation, Inc.</b>	<b>Totals June 30, 2016</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,990	\$ 1,038	\$ 76,302
Restricted cash			10,522
Investments, net of amortization			378,054
Accounts receivable, net		32	120,220
Interest receivable			1,767
Inventories			404
Prepaid expenses		4	2,628
Other current assets			737
Total Current Assets	<u>2,990</u>	<u>1,074</u>	<u>590,634</u>
Noncurrent assets:			
Restricted cash			70,557
Long-term investments	1,814	611	30,255
Restricted long-term investments		4,912	13,620
Long-term receivables, net			950,527
Land			29,753
Improvements other than buildings			65,285
Buildings		480	461,172
Machinery and equipment			106,100
Other capital assets			7,774
Less: Accumulated depreciation and amortization			(321,961)
Construction in progress			33,369
Total Capital Assets		<u>480</u>	<u>381,492</u>
Other assets			4,707
Total Noncurrent Assets, Net	<u>1,814</u>	<u>6,003</u>	<u>1,451,158</u>
Total Assets	<u>4,804</u>	<u>7,077</u>	<u>2,041,792</u>
Deferred outflows of resources			<u>21,032</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals			27,325
Current portion of long-term debt:			
Notes payable		87	308
Bonds payable			23,740
Capital lease obligations			7,694
Compensated absences			1,949
Unearned revenues		23	7,179
Other current liabilities			62
Total Current Liabilities		<u>110</u>	<u>68,257</u>
Noncurrent liabilities:			
Notes payable			3,386
Bonds payable			263,677
Capital lease obligations			65,592
Compensated absences			632
Net pension liability			129,562
Total Noncurrent Liabilities			<u>462,849</u>
Total Liabilities		<u>110</u>	<u>531,106</u>
Deferred inflows of resources			<u>7,620</u>
<b>Net Position</b>			
Net investment in capital assets		951	301,146
Restricted for:			
Capital projects			7,513
Other purposes		1,148	1,179,906
Unrestricted	4,804	4,868	35,533
Total Net Position	<u>\$ 4,804</u>	<u>\$ 6,967</u>	<u>\$ 1,524,098</u>



**COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF ACTIVITIES  
 NON-MAJOR COMPONENT UNITS - AUTHORITIES  
 FOR THE YEAR ENDED JUNE 30, 2016**

(Expressed in Thousands)

	<b>Kentucky River Authority</b>	<b>Kentucky Higher Education Assistance Authority</b>	<b>Bluegrass State Skills Corporation</b>	<b>Kentucky State Fair Board</b>
<b>Expenses:</b>				
Operating and other expenses	\$ 4,280	\$ 242,827	\$ 8,090	\$ 64,049
Total expenses	<u>4,280</u>	<u>242,827</u>	<u>8,090</u>	<u>64,049</u>
<b>Program Revenues:</b>				
Charges for services	4,187	22,041		46,146
Operating grants and contributions		2,370		
Capital grants and contributions				7,051
Total Program Revenues	<u>4,187</u>	<u>24,411</u>	<u></u>	<u>53,197</u>
<b>Net Program (Expense) Revenue</b>	<u>(93)</u>	<u>(218,416)</u>	<u>(8,090)</u>	<u>(10,852)</u>
<b>General Revenues:</b>				
Unrestricted grants and contributions		46		
Unrestricted investment earnings	20	744		(1,263)
Gain on sale of capital assets				
Miscellaneous general	254	214,701	7,949	21,844
Total General Revenues	<u>274</u>	<u>215,491</u>	<u>7,949</u>	<u>20,581</u>
Change in Net Position	<u>181</u>	<u>(2,925)</u>	<u>(141)</u>	<u>9,729</u>
Net Position at July 1, As Restated	38,336	107,344	(409)	175,616
Net Position at June 30	<u>\$ 38,517</u>	<u>\$ 104,419</u>	<u>\$ (550)</u>	<u>\$ 185,345</u>

Kentucky Center for the Arts Corporation	Kentucky Authority for Educational Television	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation
\$ 16,332	\$ 28,712	\$ 4,847	\$ 2,678	\$ 37,564	\$ 168
16,332	28,712	4,847	2,678	37,564	168
8,377	2,207	758	1,649	20,256	
1,858	11,054		799		6,122
10,235	13,261	758	2,448	20,256	6,122
(6,097)	(15,451)	(4,089)	(230)	(17,308)	5,954
436				28,958	
(28)	157			1,058	
7					
4,935	12,949	3,870		21,086	38
5,350	13,106	3,870		51,102	38
(747)	(2,345)	(219)	(230)	33,794	5,992
35,292	(12,761)	38,677	4,367	1,033,821	48,955
\$ 34,545	\$ (15,106)	\$ 38,458	\$ 4,137	\$ 1,067,615	\$ 54,947

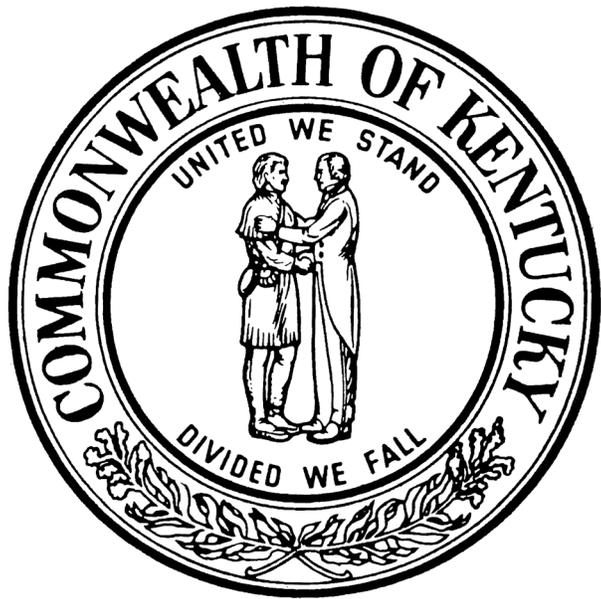
**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

(Expressed in Thousands)

	<b>Kentucky Grain Insurance Corporation</b>	<b>The Kentucky Horse Park Foundation, Inc.</b>	<b>Totals June 30, 2016</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 1	\$ 1,394	\$ 410,942
Total expenses	<u>1</u>	<u>1,394</u>	<u>410,942</u>
<b>Program Revenues:</b>			
Charges for services		831	106,452
Operating grants and contributions		882	23,085
Capital grants and contributions			7,051
Total Program Revenues		<u>1,713</u>	<u>136,588</u>
<b>Net Program (Expense) Revenue</b>	<u>(1)</u>	<u>319</u>	<u>(274,354)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions			29,440
Unrestricted investment earnings	11	(191)	508
Gain on sale of capital assets			7
Miscellaneous general			287,626
Total General Revenues	<u>11</u>	<u>(191)</u>	<u>317,581</u>
Change in Net Position	<u>10</u>	<u>128</u>	<u>43,227</u>
Net Position at July 1, As Restated	4,794	6,839	1,480,871
Net Position at June 30	<u>\$ 4,804</u>	<u>\$ 6,967</u>	<u>\$ 1,524,098</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
NON-MAJOR COMPONENT UNITS-AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(Expressed in Thousands)**

	<b>Kentucky Agricultural Finance Corporation</b>	<b>Kentucky Grain Insurance Corporation</b>	<b>Totals June 30, 2016</b>
<b>Cash Flows from Operating Activities</b>			
Cash payments to suppliers for goods and services	\$ (102)	\$ (1)	\$ (103)
Cash payments for employee salaries and benefits	(71)		(71)
Cash payments to other sources	(7,323)		(7,323)
Cash payments from other sources	6,160		6,160
Net Cash Provided (Used) by Operating Activities	<u>(1,336)</u>	<u>(1)</u>	<u>(1,337)</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from the sale of investment securities	754	109	863
Interest and dividends on investments		11	11
Net Cash Provided (Used) in Investing Activities	<u>754</u>	<u>120</u>	<u>874</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(582)	119	(463)
Cash and Cash Equivalents at July 1	7,458	2,871	10,329
Cash and Cash Equivalents at June 30	<u>\$ 6,876</u>	<u>\$ 2,990</u>	<u>\$ 9,866</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 5,954	\$ (1)	\$ 5,953
Adjustments to reconcile operating income to net cash provided by operating activities:			
Miscellaneous nonoperating income (expense)	39		39
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(7,323)		(7,323)
(Increase) Decrease in deferred outflow	(12)		(12)
Increase (decrease) in liabilities:			
Accounts payable	(15)		(15)
Compensated absences	(26)		(26)
Pension liabilities	52		52
Increase (decrease) in deferred inflow	(5)		(5)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,336)</u>	<u>\$ (1)</u>	<u>\$ (1,337)</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 POSITION**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**JUNE 30, 2016**

(Expressed in Thousands)

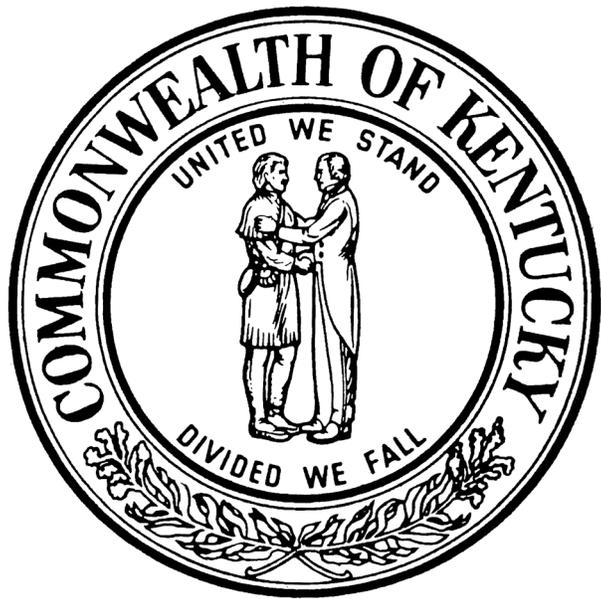
	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 49,062	\$ 86,745	\$ 19,705
Restricted cash			24,499
Accounts receivable, net	26,365	19,670	8,794
Interest receivable		51	2
Inventories	468	1,499	1,445
Prepaid expenses	1,453	5,318	16
Other current assets	209	356	712
Total Current Assets	<u>77,557</u>	<u>113,639</u>	<u>55,173</u>
Noncurrent assets:			
Restricted cash	26,115	1,607	
Long-term investments	75,690	44,544	42,704
Restricted long-term investments		87,735	
Long-term receivables, net	6,050	8,773	3,717
Land	8,338	17,835	23,470
Improvements other than buildings	59,563	68,236	
Buildings	441,554	693,673	280,934
Machinery and equipment	27,089	147,422	24,682
Other capital assets	44,981		34,494
Less: Accumulated depreciation and amortization	(254,952)	(375,829)	(176,086)
Construction in progress	62,733	17,213	41,389
Total Capital Assets	<u>389,306</u>	<u>568,550</u>	<u>228,883</u>
Other assets		6,381	2,717
Total Noncurrent Assets, Net	<u>497,161</u>	<u>717,590</u>	<u>278,021</u>
Total Assets	<u>574,718</u>	<u>831,229</u>	<u>333,194</u>
Deferred outflows of resources	<u>60,457</u>	<u>49,658</u>	<u>23,948</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	15,312	12,328	5,350
Current portion of long-term debt:			
Notes payable	849	1,738	
Bonds payable	5,610	13,088	3,737
Capital lease obligations	1,778	526	2,070
Compensated absences	5,841	3,076	3,301
Claims liability			
Unearned revenues	8,397	9,718	4,885
Payable from restricted assets			191
Other current liabilities		7,778	1,245
Total Current Liabilities	<u>37,787</u>	<u>48,252</u>	<u>20,779</u>
Noncurrent liabilities:			
Notes payable		6,103	
Bonds payable	61,696	204,748	76,852
Capital lease obligations	31,755	16,228	15,421
Compensated absences			
Net pension liability	446,496	449,729	219,469
Other long-term liabilities	17,184	37,675	4,585
Total Noncurrent Liabilities	<u>557,131</u>	<u>714,483</u>	<u>316,327</u>
Total Liabilities	<u>594,918</u>	<u>762,735</u>	<u>337,106</u>
Deferred inflows of resources	<u>34,559</u>	<u>13,845</u>	<u>9,884</u>
<b>Net Position</b>			
Net investment in capital assets	288,469	295,426	128,029
Restricted for:			
Debt service			
Capital projects	2,555	10,408	
Other purposes	65,028	135,632	68,929
Unrestricted	(350,354)	(337,159)	(186,806)
Total Net Position	<u>\$ 5,698</u>	<u>\$ 104,307</u>	<u>\$ 10,152</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, 2016</b>
\$ 62,006	\$ 95,772	\$ 21,904	\$ 131	\$ 335,325
	3,909		3,007	31,415
7,438	21,762	9,488	4,274	97,791
	1	6,068		6,122
3,520	351			7,283
1,530	2,363	140	1,198	12,018
1,735				3,012
<u>76,229</u>	<u>124,158</u>	<u>37,600</u>	<u>8,610</u>	<u>492,966</u>
77,147	19,781			124,650
	2,158	15,374	3,622	184,092
99,181	89,067		503	276,486
3,065	1,369	1,093		24,067
12,507	9,772	2,288		74,210
16,465	37,185	3,987		185,436
281,236	448,050	154,808		2,300,255
32,367	87,968	21,852	592	341,972
32,916	4,206	15,708		132,305
(211,490)	(257,811)	(124,628)	(402)	(1,401,198)
76,632	17,008	1,144		216,119
<u>240,633</u>	<u>346,378</u>	<u>75,159</u>	<u>190</u>	<u>1,849,099</u>
1,743	150	36		11,027
<u>421,769</u>	<u>458,903</u>	<u>91,662</u>	<u>4,315</u>	<u>2,469,421</u>
<u>497,998</u>	<u>583,061</u>	<u>129,262</u>	<u>12,925</u>	<u>2,962,387</u>
<u>28,685</u>	<u>28,160</u>	<u>9,057</u>	<u>3,009</u>	<u>202,974</u>
15,748	15,196	5,327	4,761	74,022
1,266	22	50		3,925
3,795	7,018	225		33,473
57	1,089			5,520
6,444	2,871	1,003	618	23,154
627				627
3,705	6,564	1,219		34,488
	6,009			6,200
3,088	184	839		13,134
<u>34,730</u>	<u>38,953</u>	<u>8,663</u>	<u>5,379</u>	<u>194,543</u>
8,112	23	100		14,338
74,169	118,583	2,755		538,803
95				63,499
			229	229
263,528	247,081	93,364	21,905	1,741,572
5,592	14,382	2,733		82,151
<u>351,496</u>	<u>380,069</u>	<u>98,952</u>	<u>22,134</u>	<u>2,440,592</u>
<u>386,226</u>	<u>419,022</u>	<u>107,615</u>	<u>27,513</u>	<u>2,635,135</u>
<u>6,236</u>	<u>4,636</u>	<u>10,884</u>	<u>331</u>	<u>80,375</u>
157,390	222,408	69,265	190	1,161,177
199	205			404
	8,595			21,558
94,869	98,340	22,977	4,214	489,989
(118,237)	(141,985)	(72,422)	(16,314)	(1,223,277)
<u>\$ 134,221</u>	<u>\$ 187,563</u>	<u>\$ 19,820</u>	<u>\$ (11,910)</u>	<u>\$ 449,851</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(Expressed in Thousands)

	<b>Eastern Kentucky University</b>	<b>Western Kentucky University</b>	<b>Morehead State University</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 321,917	\$ 363,806	\$ 161,392
Total Expenses	<u>321,917</u>	<u>363,806</u>	<u>161,392</u>
<b>Program Revenues:</b>			
Charges for services	141,941	207,802	63,171
Operating grants and contributions	50,868	12,727	17,911
Capital grants and contributions			
Total Program Revenues	<u>192,809</u>	<u>220,529</u>	<u>81,082</u>
<b>Net Program (Expense) Revenue</b>	<u>(129,108)</u>	<u>(143,277)</u>	<u>(80,310)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	50,092	58,775	26,026
Unrestricted investment earnings	(323)	(6,399)	230
Gain on sale of capital assets		641	
Miscellaneous general	90,014	88,440	49,629
Total General Revenues	<u>139,783</u>	<u>141,457</u>	<u>75,885</u>
Change in Net Position	<u>10,675</u>	<u>(1,820)</u>	<u>(4,425)</u>
Net Position at July 1, As Restated	(4,977)	106,127	14,577
Net Position at June 30	<u>\$ 5,698</u>	<u>\$ 104,307</u>	<u>\$ 10,152</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, 2016</b>
<b>\$</b> 194,243	<b>\$</b> 240,381	<b>\$</b> 61,982	<b>\$</b> 89,588	<b>\$</b> 1,433,309
194,243	240,381	61,982	89,588	1,433,309
115,793	129,355	13,867	4,744	676,673
6,030	11,086	17,814	12,614	129,050
	25,003		652	25,655
121,823	165,444	31,681	18,010	831,378
(72,420)	(74,937)	(30,301)	(71,578)	(601,931)
20,997	29,088	3,785		188,763
2,074	351			(4,067)
				641
81,656	46,261	23,430	68,422	447,852
104,727	75,700	27,215	68,422	633,189
32,307	763	(3,086)	(3,156)	31,258
101,914	186,800	22,906	(8,754)	418,593
<b>\$</b> 134,221	<b>\$</b> 187,563	<b>\$</b> 19,820	<b>\$</b> (11,910)	<b>\$</b> 449,851



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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. 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)

	2016	2015	2014	2013
<b>General Fund</b>				
Nonspendable:				
Inventories	\$ 5,465	\$ 6,230	\$ 6,505	\$ 7,299
Assigned	30,765	27,069		34,700
Unassigned	318,790	71,060	(137,295)	159,198
Total General Fund	<u>355,020</u>	<u>104,359</u>	<u>(130,790)</u>	<u>201,197</u>
<b>All Other Governmental Funds</b>				
Nonspendable:				
Inventories	75,254	74,105	54,006	81,264
Cash with Fiscal Agents	16,136	18,954	13,503	17,918
Restricted	1,822,185	1,706,764	2,068,293	2,373,349
Committed	133,075	160,804	188,706	175,676
Assigned	18,014	15,033	13,054	7,019
Unassigned	(98,045)	(56,950)	(2,582)	(596,756)
Total All Other Governmental Funds	<u>1,966,619</u>	<u>1,918,710</u>	<u>2,334,980</u>	<u>2,058,470</u>
 Total Fund Balances - Governmental Funds	 <u>\$ 2,321,639</u>	 <u>\$ 2,023,069</u>	 <u>\$ 2,204,190</u>	 <u>\$ 2,259,667</u>

**Note:** In FY 2010, the fund balance categories were reclassified as a result of implementing GASB 54.

**General Fund:**

  Reserved  
  Unreserved  
Total General Fund

**All Other Governmental Funds:**

  Reserved  
  Unreserved, reported in:  
    Debt Service Fund  
    Special Revenue Funds  
    Capital Projects Funds  
Total All Other Governmental Funds

**Note:** Information is presented on the modified accrual basis of accounting.

2012	2011	2010
\$ 5,515	\$ 6,099	\$ 5,079
35,563	57,456	71,975
54,035	249,482	9,150
<u>95,113</u>	<u>313,037</u>	<u>86,204</u>
86,240	49,078	54,290
29,045	67,469	80,576
2,452,952	2,165,308	1,833,356
183,414	148,636	161,548
13,157	27,034	15,641
(420,183)	(120,235)	(65,628)
<u>2,344,625</u>	<u>2,337,290</u>	<u>2,079,783</u>
<u>\$ 2,439,738</u>	<u>\$ 2,650,327</u>	<u>\$ 2,165,987</u>

2009	2008	2007
\$ 80,135	\$ 290,108	\$ 295,917
(49,698)	(1,937)	517,277
<u>\$ 30,437</u>	<u>\$ 288,171</u>	<u>\$ 813,194</u>
\$ 882,654	\$ 919,085	\$ 704,496
309,234	369,603	381,313
719,767	786,125	1,031,387
45,585	72,094	(66,785)
<u>\$ 1,957,240</u>	<u>\$ 2,146,907</u>	<u>\$ 2,050,411</u>

**COMMONWEALTH OF KENTUCKY**  
**CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2016	2015	2014	2013
<b>Revenues</b>				
Taxes	\$ 11,730,500	\$ 11,492,919	\$ 10,954,839	\$ 10,813,909
Licenses, fees, and permits	380,075	386,757	350,454	337,431
Intergovernmental	10,824,674	10,135,711	9,008,083	7,143,403
Charges for services	1,302,541	1,173,174	1,276,821	1,175,388
Fines and forfeits	61,660	64,755	69,531	80,227
Interest and other investment income	31,501	30,590	26,785	13,403
Increase (decrease) in fair value of investments	(6,140)	(13,544)	(9,410)	(7,661)
Securities lending income	3,470	2,664	2,696	4,198
Other revenues	584,782	520,001	627,647	678,358
Total Revenues	<u>24,913,063</u>	<u>23,793,027</u>	<u>22,307,446</u>	<u>20,238,656</u>
<b>Expenditures</b>				
Current:				
General government	2,263,041	2,107,483	2,067,170	2,282,198
Legislative and judicial	444,087	437,109	419,461	406,800
Commerce	110,490	98,826	97,811	92,312
Education and humanities	5,558,814	5,347,187	5,317,501	5,384,681
Human resources	12,095,613	11,437,873	10,399,966	7,963,372
Justice	874,867	839,455	804,747	825,194
Natural resources and environmental protection	182,296	186,641	185,547	201,048
Public protection and regulation	101,590	103,448	92,600	158,617
Transportation	2,566,675	2,661,224	2,566,382	2,263,175
Debt Service:				
Principal retirement	616,543	571,281	547,610	534,078
Interest and fiscal charges	336,567	352,558	355,438	354,688
Other expenditures	14,683	20,431	9,858	12,763
Securities lending expense	2,421	1,190	1,058	2,362
Capital outlay:				
Buildings	477,916	231,483	203,514	330,795
Total Expenditures	<u>25,645,603</u>	<u>24,396,189</u>	<u>23,068,663</u>	<u>20,812,083</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(732,540)</u>	<u>(603,162)</u>	<u>(761,217)</u>	<u>(573,427)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,922,969	2,058,253	2,021,428	1,810,448
Transfers out	(1,907,707)	(2,009,118)	(2,013,769)	(1,833,096)
Capitalized leases	2,634	17,070	27	10,007
Issuance of bonds:				
New issues	826,325	222,922	256,887	221,310
Refunding issues	988,677	373,712	141,631	127,644
Premiums	231,610	76,777	80,769	27,295
Discounts	(2,420)	(972)	(689)	(408)
Certificates of participation Premiums		68,575		1,621
Issuance of notes:				
New issues	106,850		383,000	163,290
Refunding issues			39,765	
Payments to refunded bond escrow agent	(1,116,316)	(409,405)	(189,883)	(127,035)
Total Other Financing Sources (Uses)	<u>1,052,622</u>	<u>399,435</u>	<u>719,166</u>	<u>399,455</u>
<b>Net Change in Fund Balances</b>	<u>\$ 320,082</u>	<u>\$ (203,727)</u>	<u>\$ (42,051)</u>	<u>\$ (173,972)</u>
<b>Debt service as a percentage of noncapital expenditures</b>	<u>3.71%</u>	<u>3.78%</u>	<u>3.91%</u>	<u>4.29%</u>

Note: Information is presented on the modified accrual basis of accounting.

	2012	2011	2010	2009	2008	2007
\$	10,403,782	\$ 10,113,502	\$ 9,366,175	\$ 9,560,283	\$ 9,871,590	\$ 9,668,573
	339,642	330,263	330,387	323,012	309,413	303,849
	7,098,675	8,016,458	8,381,546	7,055,624	6,169,116	5,810,270
	1,117,177	911,202	803,961	774,553	758,805	752,532
	80,132	82,856	86,980	90,812	97,898	80,741
	30,822	29,092	45,214	67,076	149,833	163,833
	(18,705)	795	(150)	(4)	6,529	11,241
	3,121	1,966	1,711	11,060	31,576	36,673
	562,394	822,936	492,508	461,824	474,555	517,266
	<u>19,617,040</u>	<u>20,309,070</u>	<u>19,508,332</u>	<u>18,344,240</u>	<u>17,869,315</u>	<u>17,344,978</u>
	2,390,204	2,302,228	2,592,283	2,472,452	2,702,730	2,591,176
	409,685	392,791	378,475	359,666	338,839	303,799
	112,139	86,506	92,437	94,989	100,535	96,572
	5,322,439	6,125,603	5,104,048	4,860,442	4,800,460	4,554,565
	7,984,895	8,088,667	8,124,836	7,919,632	7,301,114	6,764,174
	802,108	789,602	782,443	737,997	767,270	727,178
	213,283	200,899	193,111	188,039	192,957	195,980
	157,846	163,438	115,857	120,406	97,482	98,517
	2,109,125	1,959,030	2,014,490	1,977,924	2,090,584	1,825,318
	306,504	308,484	386,212	299,940	341,733	285,809
	367,966	351,539	306,139	252,466	210,331	200,297
	55,983	8,002	27,335	25,036	21,025	15,960
	1,593	1,163	933	6,080	26,774	35,318
	253,894	466,335	609,309	442,315	582,550	583,302
	<u>20,487,664</u>	<u>21,244,287</u>	<u>20,727,908</u>	<u>19,757,384</u>	<u>19,574,384</u>	<u>18,277,965</u>
	<u>(870,624)</u>	<u>(935,217)</u>	<u>(1,219,576)</u>	<u>(1,413,144)</u>	<u>(1,705,069)</u>	<u>(932,987)</u>
	1,539,696	1,852,945	1,955,274	2,157,662	2,357,766	2,216,889
	(1,530,423)	(1,675,200)	(1,776,171)	(1,880,360)	(2,258,283)	(2,041,824)
	9,546	6,864	10,182	4,456	3,280	7,364
	419,700	472,123	873,326	655,350	372,135	159,140
	527,118	240,590	347,835	508,520	100,000	105,085
	74,049	34,035	37,442	35,905	46,322	16,610
	(927)	(2,022)	(2,619)	(4,193)		
	82,717	737,370	89,710		750,085	520,354
	(455,473)	(233,642)	(186,602)	(508,320)	(100,000)	(330,193)
	<u>666,003</u>	<u>1,433,063</u>	<u>1,358,253</u>	<u>969,020</u>	<u>1,271,305</u>	<u>653,425</u>
\$	<u>(204,621)</u>	<u>\$ 497,846</u>	<u>\$ 138,677</u>	<u>\$ (444,124)</u>	<u>\$ (433,764)</u>	<u>\$ (279,562)</u>
	<u>3.31%</u>	<u>3.11%</u>	<u>3.34%</u>	<u>2.89%</u>	<u>2.94%</u>	<u>2.57%</u>

**COMMONWEALTH OF KENTUCKY**  
**NET POSITION BY COMPONENT**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2016	2015	2014	2013
<b>Governmental Activities:</b>				
Invested in capital assets, net of related debt	\$ 21,955,878	\$ 21,288,572	\$ 20,986,040	\$ 20,195,976
Restricted	847,543	984,229	1,099,649	1,167,435
Unrestricted	(37,867,160)	(36,414,312)	(11,812,580)	(10,315,863)
Total Governmental Activities Net Position	<u>(15,063,739)</u>	<u>(14,141,511)</u>	<u>10,273,109</u>	<u>11,047,548</u>
<b>Business-type Activities:</b>				
Invested in Capital Assets, net of related debt	293,958	303,571	315,131	328,382
Restricted	369,431	212,629	63,847	913
Unrestricted	(190,882)	(403,957)	(594,125)	(876,277)
Total Business-Type Activities Net Position	<u>472,507</u>	<u>112,243</u>	<u>(215,147)</u>	<u>(546,982)</u>
<b>Primary Government:</b>				
Invested in capital assets, net of related debt	22,249,836	21,592,143	21,301,171	20,524,358
Restricted	1,216,974	1,196,858	1,163,496	1,168,348
Unrestricted	(38,058,042)	(36,818,269)	(12,406,705)	(11,192,140)
Total Primary Government Net Position	<u>\$ (14,591,232)</u>	<u>\$ (14,029,268)</u>	<u>\$ 10,057,962</u>	<u>\$ 10,500,566</u>

**NOTE:** This schedule is presented on the accrual basis of accounting.

2012	2011	2010	2009	2008	2007
\$ 19,616,044	\$ 19,153,511	\$ 18,418,874	\$ 19,547,435	\$ 19,911,942	\$ 17,947,656
1,480,299	1,286,431	1,206,293	1,094,433	1,139,727	1,237,151
(9,731,379)	(8,071,118)	(6,803,987)	(5,861,735)	(4,816,142)	(1,807,615)
<u>11,364,964</u>	<u>12,368,824</u>	<u>12,821,180</u>	<u>14,780,133</u>	<u>16,235,527</u>	<u>17,377,192</u>
334,611	350,505	341,172	330,078	290,365	267,144
729	326	9,646	5,615	310,216	359,605
(1,014,186)	(1,199,294)	(1,151,091)	(859,772)	(553,995)	(634,297)
<u>(678,846)</u>	<u>(848,463)</u>	<u>(800,273)</u>	<u>(524,079)</u>	<u>46,586</u>	<u>(7,548)</u>
19,950,655	19,504,016	18,760,046	19,877,513	20,202,307	18,214,800
1,481,028	1,286,757	1,215,939	1,100,048	1,449,943	1,596,756
(10,745,565)	(9,270,412)	(7,955,078)	(6,721,507)	(5,370,137)	(2,441,912)
<u>\$ 10,686,118</u>	<u>\$ 11,520,361</u>	<u>\$ 12,020,907</u>	<u>\$ 14,256,054</u>	<u>\$ 16,282,113</u>	<u>\$ 17,369,644</u>

**COMMONWEALTH OF KENTUCKY**  
**GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2016	2015	2014	2013
<b>Function/Program Revenues</b>				
<b>Primary Government:</b>				
Governmental Activities:				
Charges for Services:				
General government	\$ 818,313	\$ 626,337	\$ 699,518	\$ 681,819
Legislative and judicial	27,802	25,866	25,584	25,676
Commerce	51,991	58,617	44,538	41,337
Education and humanities	59,712	64,776	43,192	67,290
Human Resources	208,967	164,793	230,057	
Justice	30,880	22,755	23,434	27,369
Natural resources and environmental protection	41,941	17,014	45,334	308,890
Public protection and regulation	92,908	87,134	83,516	93,172
Transportation	288,126	299,446	269,701	238,296
Operating Grants and Contributions	9,956,639	9,270,753	8,211,316	6,294,292
Capital Grants and Contributions	872,127	865,320	801,353	806,675
Total Governmental Activities	<u>12,449,406</u>	<u>11,502,811</u>	<u>10,477,543</u>	<u>8,584,816</u>
Business-Type Activities:				
Charges for Services:				
State Parks	51,424	47,931	49,016	48,774
Kentucky Lottery Corporation				
Kentucky Horse Park	12,930	12,407	10,679	9,981
Insurance Administration	130,825	124,106	113,248	112,177
Kentucky Public Employees' Health Plan	1,739,913	1,712,136	1,692,801	1,680,011
Unemployment Compensation	598,144	743,369	561,692	532,298
Operating Grants and Contributions	954		174,235	408,125
Capital Grants and Contributions		149	378	155
Total Business-Type Activities	<u>2,534,190</u>	<u>2,640,098</u>	<u>2,602,049</u>	<u>2,791,521</u>
Total Primary Government	<u>\$ 14,983,596</u>	<u>\$ 14,142,909</u>	<u>\$ 13,079,592</u>	<u>\$ 11,376,337</u>
<b>Expenses</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 4,544,453	\$ 2,557,827	\$ 2,840,370	\$ 3,333,535
Legislative and judicial	446,233	433,354	420,929	406,949
Commerce	122,430	110,041	112,067	112,296
Education and humanities	4,970,560	5,822,980	5,539,119	5,214,551
Human Resources	12,088,721	11,098,078	10,000,356	7,618,717
Justice	1,006,195	952,071	933,126	936,118
Natural resources and environmental protection	190,919	190,532	192,059	229,245
Public protection and regulation	97,921	107,258	92,798	160,071
Transportation	1,602,621	1,819,570	2,127,851	1,720,513
Interest expense	372,787	341,922	355,842	369,773
Total Governmental Activities	<u>25,442,840</u>	<u>23,433,633</u>	<u>22,614,517</u>	<u>20,101,768</u>
Business-Type Activities:				
State Parks	113,679	110,220	96,587	92,724
Kentucky Lottery Corporation				
Kentucky Horse Park	21,049	19,278	19,511	15,856
Insurance Administration	189,476	116,723	86,063	93,876
Kentucky Public Employees' Health Plan	1,498,925	1,420,292	1,642,048	1,677,143
Unemployment Compensation	343,857	340,223	1,092,231	1,287,408
Total Business-Type Activities	<u>2,166,986</u>	<u>2,006,736</u>	<u>2,936,440</u>	<u>3,167,007</u>
Total Primary Government	<u>\$ 27,609,826</u>	<u>\$ 25,440,369</u>	<u>\$ 25,550,957</u>	<u>\$ 23,268,775</u>
<b>Net (Expense)/Revenue</b>				
Governmental Activities	\$ (12,993,434)	\$ (11,930,822)	\$ (12,136,974)	\$ (11,516,952)
Business-Type Activities	367,204	633,362	(334,391)	(375,486)
Total Primary Government Net Expense	<u>\$ (12,626,230)</u>	<u>\$ (11,297,460)</u>	<u>\$ (12,471,365)</u>	<u>\$ (11,892,438)</u>

	2012	2011	2010	2009	2008	2007
\$	668,709	\$ 438,993	\$ 384,050	\$ 366,634	\$ 494,587	\$ 375,662
	21,750	21,177	20,226	28,561	15,225	14,558
	53,375	36,774	40,657	47,770	41,821	42,267
	66,246	78,996	55,926	50,988	68,609	85,538
	16,593	484,958	103,025	121,752	200,913	197,556
	21,500	22,121	21,641	20,611	24,096	22,189
	12,451	43,338	41,123	35,959	42,511	39,412
	92,806	83,816	73,066	71,078	66,495	64,260
	249,231	218,846	230,918	238,110	16,849	215,869
	6,381,991	7,071,327	7,621,275	6,575,144	5,554,089	5,261,989
	836,370	697,927	773,661	550,416	750,184	658,132
	<u>8,421,022</u>	<u>9,198,273</u>	<u>9,365,568</u>	<u>8,107,023</u>	<u>7,275,379</u>	<u>6,977,432</u>
	50,064	49,437	50,802	52,439	57,605	56,208
		772,349	772,497	810,544	778,211	744,222
	9,161	7,798	6,880	6,423	6,763	6,632
	122,962	110,829	121,445	93,438	129,870	130,994
	1,681,642	1,752,908	1,548,458	1,392,971	1,270,899	1,158,078
	521,893	471,876	1,556,290	412,430	381,410	357,396
	705,465	953,112	3,849	363,028	53,838	46,798
	1,032	2,326		4,633	1,735	476
	<u>3,092,219</u>	<u>4,120,635</u>	<u>4,060,221</u>	<u>3,135,906</u>	<u>2,680,331</u>	<u>2,500,804</u>
\$	<u>11,513,241</u>	<u>\$ 13,318,908</u>	<u>\$ 13,425,789</u>	<u>\$ 11,242,929</u>	<u>\$ 9,955,710</u>	<u>\$ 9,478,236</u>
\$	3,002,882	\$ 3,212,093	\$ 4,377,373	\$ 3,837,639	\$ 4,370,883	\$ 3,708,700
	411,579	400,786	376,743	360,872	335,635	313,010
	132,078	113,156	124,263	112,825	107,774	96,486
	5,818,383	6,036,864	5,148,482	4,887,919	4,852,742	4,608,914
	7,623,348	7,652,130	7,725,161	7,611,725	6,904,568	6,468,225
	923,628	887,611	876,065	822,301	845,153	803,120
	221,822	198,067	192,518	197,086	197,265	191,052
	156,755	164,052	113,558	121,952	97,360	116,770
	1,496,753	1,340,012	1,175,210	1,331,764	1,170,102	1,123,493
	403,534	377,725	332,639	265,984	254,488	266,388
	<u>20,190,762</u>	<u>20,382,496</u>	<u>20,442,012</u>	<u>19,550,067</u>	<u>19,135,970</u>	<u>17,696,158</u>
	93,925	92,777	101,861	98,795	104,672	111,973
		566,117	568,183	619,902	599,490	563,549
	13,970	14,804	13,521	11,411	12,799	10,624
	38,081	232,100	107,286	(18,953)	117,817	176,338
	1,687,322	1,624,444	1,497,656	1,434,951	1,288,981	1,152,794
	1,193,572	1,521,994	1,958,414	1,317,067	493,397	450,629
	<u>3,026,870</u>	<u>4,052,236</u>	<u>4,246,921</u>	<u>3,463,173</u>	<u>2,617,156</u>	<u>2,465,907</u>
\$	<u>23,217,632</u>	<u>\$ 24,434,732</u>	<u>\$ 24,688,933</u>	<u>\$ 23,013,240</u>	<u>\$ 21,753,126</u>	<u>\$ 20,162,065</u>
\$	(11,769,740)	\$ (11,184,223)	\$ (11,076,444)	\$ (11,443,044)	\$ (11,860,591)	\$ (10,718,726)
	65,349	68,399	(186,700)	(327,267)	63,175	34,897
\$	<u>(11,704,391)</u>	<u>\$ (11,115,824)</u>	<u>\$ (11,263,144)</u>	<u>\$ (11,770,311)</u>	<u>\$ (11,797,416)</u>	<u>\$ (10,683,829)</u>

**COMMONWEALTH OF KENTUCKY**  
**GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands)

	2016	2015	2014	2013
<b>General Revenues and Other Changes in Net Position</b>				
Governmental Activities:				
Taxes:				
Sales and gross receipt	\$ 5,787,853	\$ 5,714,300	\$ 5,575,312	\$ 5,292,465
Individual income	4,311,015	4,064,705	3,752,868	3,748,008
Corporate income	490,033	540,132	456,601	423,093
Property	584,823	570,998	553,339	556,986
License and privilege	39,563	13,742	21,170	21,091
Severance	156,245	235,068	251,231	461,866
Inheritance and estate	48,789	52,616	51,513	20,503
Miscellaneous taxes	196,941	190,700	184,605	203,467
Unrestricted grants and contributions	10,403	10,348	12,663	16,332
Unrestricted investment earnings	1,650	4,264	(37)	2,179
Gain on sale of capital assets	7,689	7,259	10,969	8,885
Miscellaneous general	403,065	413,140	496,504	544,186
Transfers	41,497	108,470	(4,214)	(22,093)
Total General Revenues and Transfers	<u>12,079,566</u>	<u>11,925,742</u>	<u>11,362,524</u>	<u>11,276,968</u>
Change in Net Position	(913,868)	(5,080)	(774,450)	(239,984)
Net Position at July 1, as Restated	(14,149,871)	(14,136,431)	11,047,559	11,287,532
Net Position at June 30	<u>\$ (15,063,739)</u>	<u>\$ (14,141,511)</u>	<u>\$ 10,273,109</u>	<u>\$ 11,047,548</u>
Business-Type Activities:				
Unrestricted grants and contributions	\$	\$	\$	\$
Unrestricted investment earnings	29,381	14,971	13,546	(16,154)
Gain on sale of capital assets			32	
Miscellaneous general	5,176	5,693	648,434	501,411
Transfers	(41,497)	(108,470)	4,214	22,093
Total General Revenues and Transfers	<u>(6,940)</u>	<u>(87,806)</u>	<u>666,226</u>	<u>507,350</u>
Change in Net Position	360,264	545,556	331,835	131,864
Net Position at July 1, as Restated	112,243	(433,313)	(546,982)	(678,846)
Net Position at June 30	<u>\$ 472,507</u>	<u>\$ 112,243</u>	<u>\$ (215,147)</u>	<u>\$ (546,982)</u>
<b>Change in Net Position</b>				
Governmental Activities	\$ (913,868)	\$ (5,080)	\$ (774,450)	\$ (239,984)
Business-Type Activities	<u>360,264</u>	<u>545,556</u>	<u>331,835</u>	<u>131,864</u>
Total Primary Government Changes in Net Position	<u>\$ (553,604)</u>	<u>\$ 540,476</u>	<u>\$ (442,615)</u>	<u>\$ (108,120)</u>

**NOTE:** This schedule is presented on the accrual basis of accounting.

	2012	2011	2010	2009	2008	2007
\$	5,505,336	\$ 5,152,345	\$ 4,880,831	\$ 4,777,321	\$ 4,828,223	\$ 4,623,126
	3,474,027	3,451,268	3,125,824	3,359,471	3,512,908	2,975,875
	370,485	317,578	235,654	278,103	397,842	961,204
	534,189	509,961	504,189	534,441	497,326	503,853
	26,792	29,690	29,198	37,442	33,049	42,738
	170,980	366,633	325,077	362,965	310,294	279,924
	68,119	45,144	38,058	43,237	51,423	49,574
	148,305	168,847	152,016	146,977	163,842	164,715
	14,640	14,071	9,365	10,263	11,923	731
	(21,439)	7,146	9,531	(9,977)	31,335	57,070
	10,363	9,727	22,682	12,730	10,123	3,288
	493,133	444,309	388,144	319,408	596,079	421,772
	(12,293)	206,078	172,007	264,032	126,716	169,150
	<u>10,782,637</u>	<u>10,722,797</u>	<u>9,892,576</u>	<u>10,136,413</u>	<u>10,571,083</u>	<u>10,253,020</u>
	(987,103)	(461,426)	(1,183,868)	(1,306,631)	(1,289,508)	(465,706)
	12,352,067	12,830,250	14,005,048	16,086,764	17,525,035	17,842,898
\$	<u><u>11,364,964</u></u>	<u><u>12,368,824</u></u>	<u><u>12,821,180</u></u>	<u><u>14,780,133</u></u>	<u><u>16,235,527</u></u>	<u><u>17,377,192</u></u>
\$		\$ 208	\$	\$	\$	\$
		56,203	47,657	(28,261)	16,531	83,846
	55,123	597	1,844	38	59	72
		21,902	35,792	48,894	18,746	8,628
		(206,078)	(172,007)	(264,032)	(126,716)	(169,150)
	<u>55,123</u>	<u>(127,168)</u>	<u>(86,714)</u>	<u>(243,361)</u>	<u>(91,380)</u>	<u>(76,604)</u>
	192,756	(58,769)	(273,414)	(570,628)	(28,205)	(41,707)
	(871,602)	(789,694)	(526,859)	46,549	74,791	34,159
\$	<u><u>(678,846)</u></u>	<u><u>(848,463)</u></u>	<u><u>(800,273)</u></u>	<u><u>(524,079)</u></u>	<u><u>46,586</u></u>	<u><u>(7,548)</u></u>
\$	(987,103)	(461,426)	(1,183,868)	(1,306,631)	(1,289,508)	(465,706)
	<u>192,756</u>	<u>(58,769)</u>	<u>(273,414)</u>	<u>(570,628)</u>	<u>(28,205)</u>	<u>(41,707)</u>
\$	<u><u>(794,347)</u></u>	<u><u>(520,195)</u></u>	<u><u>(1,457,282)</u></u>	<u><u>(1,877,259)</u></u>	<u><u>(1,317,713)</u></u>	<u><u>(507,413)</u></u>

**COMMONWEALTH OF KENTUCKY  
PERSONAL INCOME TAX INFORMATION  
CALENDAR YEARS 2005 and 2014**

**Personal Income Tax Filers and Liability by Income Level ( C )**

Ky Federal AGI ( from Ky form 740) Income Level	Calendar Year 2014			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
<b>Resident Taxpayer</b>				
less than \$25,001	725,541	41.17%	\$ 233,285,168	6.32%
\$25,001-\$50,000	424,863	24.11%	561,045,031	15.20%
\$50,001-\$100,000	395,896	22.47%	1,039,555,499	28.17%
\$100,001-\$200,000	171,672	9.74%	916,822,870	24.84%
\$200,001-\$500,000	36,327	2.06%	495,435,614	13.42%
Greater than \$500,000	7,670	0.44%	444,796,906	12.05%
<b>Total Resident</b>	<b>1,761,969</b>	<b>100.00%</b>	<b>3,690,941,088</b>	<b>100.00%</b>
<b>Non-Resident Taxpayer</b>				
less than \$25,001	63,356	36.71%	7,238,197	2.74%
\$25,001-\$50,000	30,555	17.71%	15,926,688	6.02%
\$50,001-\$100,000	32,377	18.76%	29,958,715	11.33%
\$100,001-\$200,000	21,267	12.32%	33,285,137	12.59%
\$200,001-\$500,000	12,492	7.24%	30,776,361	11.64%
Greater than \$500,000	12,519	7.25%	147,274,411	55.69%
<b>Total Non-Resident</b>	<b>172,566</b>	<b>100.00%</b>	<b>264,459,509</b>	<b>100.00%</b>
<b>Totals</b>	<b>1,934,535</b>		<b>\$ 3,955,400,597</b>	

**Personal Income Tax Rates**

**Tax Years 2005 - 2014**

Tax Rate	2%	3%	4%	5%
Income Bracket	\$0-3,000	\$3,001-4,000	\$4,001-5,000	\$5,001-8,000

	2014		2005	
Personal Income Tax Revenue	\$ 3,955,400,597	(A)	\$ 2,775,624,586	
Personal Income	115,513,000,000	(B)	90,881,750,000	
Average Effective Rate	2.9%		3.1%	

**Source of Tax Information:**

(A) Kentucky Department of Revenue

(B) See Schedule of Personal Income

(C) This information is presented on a cash basis.

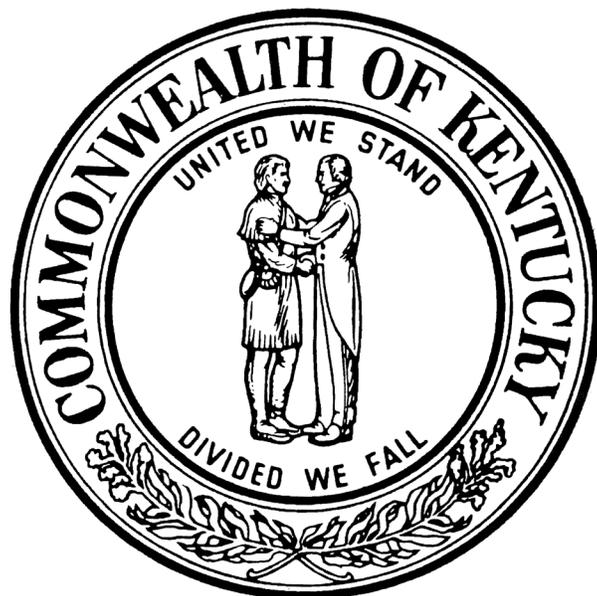
**Calendar Year 2005**

<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
749,994	45.67%	\$ 232,287,614	8.67%
413,637	25.19%	528,464,061	19.72%
355,529	21.65%	926,496,934	34.57%
96,439	5.87%	497,857,454	18.58%
21,064	1.28%	247,660,357	9.24%
5,498	0.33%	246,984,919	9.22%
<b>1,642,161</b>	<b>100.00%</b>	<b>2,679,751,339</b>	<b>100.00%</b>

<u>Number of Filers</u>	<u>Percentage of Total</u>	<u>Personal Income Tax Liability</u>	<u>Percentage of Total</u>
47,274	38.17%	4,912,253	5.12%
22,338	18.04%	11,609,928	12.11%
21,123	17.06%	19,770,381	20.62%
12,408	10.02%	18,555,599	19.35%
8,539	6.90%	12,826,111	13.38%
12,157	9.82%	28,198,975	29.41%
<b>123,839</b>	<b>100.00%</b>	<b>95,873,247</b>	<b>100.00%</b>
<b>1,766,000</b>		<b>\$ 2,775,624,586</b>	

5.8%  
\$8,001 -75,000

6.0%  
\$75,001 and UP



**COMMONWEALTH OF KENTUCKY**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**FOR CALENDAR YEARS 2006-2015**  
(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 Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
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	394,381,957	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%
2011	229,344,568	243,983,583	169,933,206	169,933,206	399,277,774	413,916,789	96.5%
2012	232,286,735	247,113,548	176,724,331	176,724,331	409,011,066	423,837,879	96.5%
2013	233,534,113	248,440,546	173,138,368	173,138,368	406,672,481	421,578,914	96.5%
2014	237,120,455	252,255,803	174,481,430	174,481,430	411,601,885	426,737,233	96.5%
2015	243,570,236	259,117,272	182,300,234	182,300,234	425,870,470	441,417,506	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 2006-2015**  
(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 **
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
2011	545,501	512,879	94.0%	16,688	529,567	97.1%	66.27
2012	561,041	531,406	94.7%	26,972	558,378	99.5%	66.01
2013	566,500	541,152	95.5%	21,277	562,429	99.3%	64.98
2014	575,958	547,198	95.0%	16,237	563,435	97.8%	64.37
2015	600,161	565,557	94.2%	11,991	577,548	96.2%	64.32

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)

	2016	2015	2014	2013
<b>Governmental Activities Debt</b>				
Revenue Bonds (2)	\$ 6,227,678	\$ 6,154,942	\$ 6,291,646	\$ 6,427,591
Notes (2)	1,399,140	1,467,573	1,868,377	1,648,642
Capital Leases (2)	58,064	71,493	55,444	211,963
Total Government Activities Debt	<u>7,684,882</u>	<u>7,694,008</u>	<u>8,215,467</u>	<u>8,288,196</u>
<b>Business-Type Activities Debt</b>				
Notes (2)				
Capital Leases (2)	7,730	12,262	13,065	1,153,410
Total Business-Type Activities Debt	<u>7,730</u>	<u>12,262</u>	<u>13,065</u>	<u>1,153,410</u>
<b>Total Primary Government Debt</b>	<u>\$ 7,692,612</u>	<u>\$ 7,706,270</u>	<u>\$ 8,228,532</u>	<u>\$ 9,441,606</u>
<b>Total Debt Ratios</b>				
Ratio of Total Debt to Personal Income	<u>6.43%</u>	<u>6.67%</u>	<u>7.35%</u>	<u>8.74%</u>
Total Debt Per Capita (1)	<u>\$ 1,738.21</u>	<u>\$ 1,753.30</u>	<u>\$ 1,872.12</u>	<u>\$ 2,160.87</u>
<b>Net Bonded Debt</b>				
Gross Bonded Debt	\$ 6,227,678	\$ 6,154,942	\$ 6,291,646	\$ 6,427,591
Less: Debt Service Funds	136,673	138,192	125,732	124,951
Net Bonded Debt	<u>\$ 6,091,005</u>	<u>\$ 6,016,750</u>	<u>\$ 6,165,914</u>	<u>\$ 6,302,640</u>
<b>Net Bonded Debt Ratios</b>				
Ratio of Net Bonded Debt to Governmental Funds Revenues	<u>27.30%</u>	<u>26.97%</u>	<u>27.64%</u>	<u>31.14%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 1,376.31</u>	<u>\$ 1,373.56</u>	<u>\$ 1,407.61</u>	<u>\$ 1,438.82</u>

(1) Per Capita calculations are based on the population figures for the prior year. (See Demographics Schedule on page 256)

(2) See Note 15 for Debt Amounts

2012	2011	2010	2009	2008	2007
\$ 6,555,730	\$ 6,241,628	\$ 5,959,846	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634
1,669,372	1,715,915	1,089,740	1,059,520	1,516,350	910,310
46,069	30,877	32,341	26,638	30,968	39,079
<u>8,271,171</u>	<u>7,988,420</u>	<u>7,081,927</u>	<u>5,515,678</u>	<u>5,164,398</u>	<u>4,392,023</u>
1,172					
14,119	3,542	127	211	212	197
<u>15,291</u>	<u>3,542</u>	<u>127</u>	<u>211</u>	<u>212</u>	<u>197</u>
<u>\$ 8,286,462</u>	<u>\$ 7,991,962</u>	<u>\$ 7,082,054</u>	<u>\$ 5,515,889</u>	<u>\$ 5,164,610</u>	<u>\$ 4,392,220</u>
<u>7.97%</u>	<u>7.81%</u>	<u>7.09%</u>	<u>5.45%</u>	<u>5.21%</u>	<u>4.64%</u>
<u>\$ 1,896.50</u>	<u>\$ 1,838.81</u>	<u>\$ 1,641.60</u>	<u>\$ 1,292.01</u>	<u>\$ 1,217.65</u>	<u>\$ 1,044.26</u>
\$ 6,555,730	\$ 6,241,628	\$ 5,959,846	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634
120,304	137,921	197,802	353,391	405,028	415,386
<u>\$ 6,435,426</u>	<u>\$ 6,103,707</u>	<u>\$ 5,762,044</u>	<u>\$ 4,076,129</u>	<u>\$ 3,212,052</u>	<u>\$ 3,027,248</u>
<u>32.81%</u>	<u>31.11%</u>	<u>29.54%</u>	<u>22.22%</u>	<u>17.97%</u>	<u>17.77%</u>
<u>\$ 1,472.85</u>	<u>\$ 1,404.36</u>	<u>\$ 1,335.63</u>	<u>\$ 954.77</u>	<u>\$ 757.30</u>	<u>\$ 719.73</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>Revenue Stream Available For Debt Service</b>	<b>Debt Service Requirement</b>	<b>Coverage Ratio</b>
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
2012	3,930,749 **	1,531,031	2.57
2013	4,031,429 **	1,485,309	2.71
2014	4,235,184 **	1,777,303	2.38
2015	4,598,823 **	1,958,552	2.35
2016	4,793,559 **	2,020,476	2.37

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Reports; State universities' audited financial statements  
\* Calculated using net operating revenue and short-term bond liability  
\*\* Calculated using Gross revenue stream, state appropriation, current and long term bond liability

**TOP 10 MANUFACTURERS/SUPPORTIVE SERVICE FIRMS  
(Ranked by Number of Employees)  
CURRENT YEAR AND NINE YEARS AGO**

<b>Company</b>	<b>2015</b>			<b>2006</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.	12,961	1	0.69%	10,788	1	0.56%
Humana Inc.	11,464	2	0.61%	7,304	4	0.38%
Toyota Motor Corp	11,078	3	0.59%	8,731	3	0.46%
Ford Motor Co.	8,491	4	0.45%	9,500	2	0.50%
Amazon.com	7,232	5	0.39%			
General Electric Co	6,843	6	0.36%	6,968	5	0.36%
FMR LLC	3,900	7	0.21%			
Xerox Coporation	3,837	8	0.20%			
Citigroup	3,099	9	0.17%	3,700	9	0.19%
Berkshire Hathaway Inc.	2,620	10	0.14%			
Delta Air Lines, Inc				4,900	6	0.26%
Dana Corp.				4,676	7	0.24%
Johnson Controls, Inc.				4,198	8	0.22%
Lexmark International, Inc				3,450	10	0.18%
	<u>71,525</u>		<u>3.81%</u>	<u>64,215</u>		<u>3.36%</u>

SOURCE: <http://www.thinkkentucky.com>

**DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 2006-2015**

<b>For the Year Ended December 31</b>	<b>Estimated Population</b>	<b>Per Capita Income</b>	<b>Unemployment Rate</b>
2006	4,206,074	\$ 29,352	5.7%
2007	4,241,474	31,111	5.4%
2008	4,269,245	31,826	6.4%
2009	4,314,113	32,306	10.3%
2010	4,346,266	32,376	10.2%
2011	4,369,356	33,667	9.4%
2012	4,380,415	35,041	8.2%
2013	4,395,295	36,214	8.0%
2014	4,413,457	37,654	6.5%
2015	4,425,592	39,181	5.4%

SOURCE: <http://www.bea.gov>  
<https://kylmi.ky.gov>

**COMMONWEALTH OF KENTUCKY**  
**SOURCES OF PERSONAL INCOME**  
**FOR CALENDAR YEARS 2006-2015**  
(Expressed in Thousands, Except Percent Data)

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	11.8%	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	30.4%	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%
<b>Earnings by Place of Work</b>	<b>\$ 94,581,000</b>	<b>100.0%</b>	<b>\$ 99,204,750</b>	<b>100.0%</b>	<b>\$ 101,288,250</b>	<b>100.0%</b>	<b>\$ 99,850,000</b>	<b>100.0%</b>	<b>\$ 102,391,000</b>	<b>100.0%</b>

Source	2011**		2012**		2013**		2014**		2015***	
	Amount	Percent								
Farm	\$ 811,000	0.8%	\$ 1,062,000	1.0%	\$ 1,954,000	1.7%	\$ 1,790,000	1.5%	\$ 1,490,000	1.2%
Agriculture services, forestry, fisheries and others	280,000	0.3%	330,000	0.3%	346,000	0.3%	399,000	0.3%	397,000	0.3%
Mining	2,256,000	2.2%	2,224,000	2.1%	1,853,000	1.7%	1,809,000	1.6%	1,570,000	1.3%
Manufacturing	12,563,000	12.1%	15,736,000	14.6%	15,937,000	14.2%	16,682,000	14.4%	17,371,000	14.5%
Construction	5,101,000	4.9%	5,568,000	5.2%	5,938,000	5.3%	6,662,000	5.8%	6,864,000	5.7%
Wholesale and retail trade	12,021,000	11.6%	12,306,000	11.4%	12,328,000	11.0%	12,727,000	11.0%	13,181,000	11.0%
Finance, insurance and real estate	6,507,000	6.3%	6,931,000	6.4%	7,269,000	6.5%	7,567,000	6.6%	10,020,000	8.4%
Transportation and public utilities	6,199,000	6.0%	6,529,000	6.0%	6,402,000	5.7%	6,745,000	5.8%	7,220,000	6.0%
Services	34,521,000	33.2%	34,471,000	31.9%	36,784,000	32.8%	38,138,000	33.0%	38,121,000	31.9%
Government and government enterprises	23,727,000	22.8%	22,879,000	21.1%	23,180,000	20.7%	22,994,000	19.9%	23,432,000	19.6%
<b>Earnings by Place of Work</b>	<b>\$ 103,986,000</b>	<b>100.0%</b>	<b>\$ 108,036,000</b>	<b>100.0%</b>	<b>\$ 111,991,000</b>	<b>100.0%</b>	<b>\$ 115,513,000</b>	<b>100.0%</b>	<b>\$ 119,666,000</b>	<b>100.0%</b>

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov>)

NOTE: Percentages may not add to 100% due to rounding.

\*\* Annual estimates computed with BEA table SQ5 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.

\*\*\* Starting in 2015 Annual estimates computed with BEA table SA5N.

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  
LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Personnel</b>										
Number of Full Time Employees- Executive Branch	31,977	32,547	31,819	31,961	32,270	32,365	32,309	31,334	33,851	33,204
Health Insurance Expenditures - Percentage Increase/(decrease)	2.0%	2.5%	2.0%	7.4%	(3.5%)	4.5%	18.7%	(1.3%)	6.1%	(1.8%)
<b>Education</b>										
K-12 Enrollment	679,686	680,519	678,884	677,394	647,827	644,963	636,188	671,147	671,542	668,337
K-12 Attendance Rate	94.50%	94.50%	94.60%	94.52%	94.05%	94.05%	94.18%	94.17%	94.18%	94.60%
K-12 Graduation Rate	88.60%	87.90%	87.40%	86.10%	76.68%	80.5%***	83.91%	84.52%	83.72%	83.26%
Statewide Academic Index	*	*	*	*	*	*	*	*	82.20%	81.80%
Average ACT Score	20	20	19.9	19.6	19.8	19.6	19.4	19.4**	20.9	20.7
GED Graduates	3,091	1,663	7,083	8,890	9,469	10,294	9,357	9,382	10,307	9,757
College Going Rate for 9th Graders	NA	NA	47%	39%	42%	42%	42%	44%	38%	38%
Postsecondary Education Enrollment	208,251	215,509	220,963	225,415	235,833	232,318	223,893	211,179	212,994	206,419
Bachelor's and Higher Degrees Awarded	34,110	32,706	32,374	32,237	30,034	29,911	28,798	27,983	27,246	27,042
<b>Justice and Public Safety</b>										
Incarcerated Population-Daily Average	22,676	21,576	20,814	21,785	21,471	20,785	20,798	21,470	22,219	20,772
Probation and Parole Population - Daily Average	45,956	46,008	45,755	43,196	41,790	41,534	39,364	38,933	39,206	33,642
<b>Health and Family Services</b>										
Medicaid Enrollment-Average	1,375,071	1,243,432	997,556	829,826	825,648	815,460	788,236	748,296	722,559	710,000
Food Stamp Recipients-Monthly Average	686,773	788,485	843,164	869,035	843,939	814,176	761,654	680,087	623,997	595,366
Temporary Assistance for Needy Families (TANF)-Monthly Average	38,823	42,995	47,996	49,148	48,817	50,583	48,894	48,368	48,743	68,260
Children with substantiated incidences	20,031	19,858	15,193	17,884	15,699	15,721	15,092	14,475	15,196	15,500
<b>Environmental and Public Protection</b>										
Air Pollution Source Inspections	3,652	3,448	3,939	3,919	3,355	3,390	5,910	3,085	4,310	4,000
Waste Management Inspections	6,761	6,866	6,484	6,239	6,062	6,155	7,060	6,731	6,443	7,500
Acres of Land Reforested	2,626	5,472	3,573	8,309	10,396	4,827	4,520	5,580	5,105	2,000
Mine Permits Issued	381	446	515	606	719	691	608	688	848	954
Mine Reclamation and Enforcement Inspections	18,551	20,011	21,450	23,003	26,942	25,392	25,686	24,890	26,062	22,898
Mine Safety-Completed Inspections	1,529	2,651	3,023	3,546	3,203	3,102	4,611	2,888	2,718	2,364
<b>Transportation</b>										
Percentage of Total Road System Needing Improvement	17%	17%	19%	19%	19%	15%	18%	14%	15%	15%
Statewide Road Maintainance Rating (Target Score = 80)	84	83.7	82.5	80.5	80.1	81.5	79.7	80.9	81.7	80.1
Daily Miles Traveled-Percentage Changed (as compared to 2005 Data)	1.52%	(0.31%)	(2.09%)	(1.98%)	0.17%	0.20%	(0.1%)	0.0%	(0.5%)	0.1%
State-Maintained Lane Miles- Annual Percent Change	0.08%	0.13%	0.33%	0.03%	0.10%	0.30%	0.10%	1.6%	0.6%	0.2%
Kentucky Road Construction Cost Index-Percent Increase (1987 Base Year)	49.5%	45.4%	43.6%	34.9%	10.7%	35.2%	13.9%	22.7%	28.0%	32.0%

\* 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

NA Information is not available

**COMMONWEALTH OF KENTUCKY  
CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b><u>General Government</u></b>										
Number of Buildings	324	312	312	313	310	292	326	309	558	566
Number of Vehicles	341	299	303	305	377	394	365	356	411	487
Land (Acres)	15,307	15,264	15,263	15,251	15,041	14,968	14,614	14,293	13,352	14,108
<b><u>Commerce</u></b>										
Number of Resort Parks	17	17	17	17	17	17	17	17	17	17
Number of Recreation Parks	23	23	21	21	21	23	23	24	24	24
Number of Historic Sites	11	11	11	11	9	10	10	11	11	11
Area of State Parks (Acres)	45,409	45,409	45,180	45,180	45,180	42,397	42,035	42,597	42,428	42,428
<b><u>Education and Humanities</u></b>										
Number of Buildings	64	65	65	65	65	66	73	72	70	69
Number of Vehicles	65	64	68	83	89	105	101	113	123	134
Land (Acres)	385	385	387	387	387	388	388	388	372	388
<b><u>Human Resources</u></b>										
Number of Buildings	167	160	182	182	182	182	200	196	196	193
Number of Vehicles	17	19	18	24	23	45	46	40	150	165
Land (Acres)	1,206	1,206	1,206	1,206	1,206	1,206	1,206	1,206	1,007	1,206
<b><u>Justice</u></b>										
Number of Buildings	455	447	449	452	459	465	508	479	482	449
Number of Vehicles	1,803	1,720	1,715	1,753	2,043	2,102	1,863	1,861	1,696	1,668
Land (Acres)	8,735	8,735	8,735	8,735	8,685	8,865	8,867	8,903	6,166	5,314
<b><u>Natural Resources and Environmental Protection</u></b>										
Number of Buildings	30	22	20	20	20	21	26	26	26	27
Number of Vehicles	832	807	797	793	847	827	916	815	847	1319
Land (Acres)	66,187	66,187	65,609	64,585	62,661	60,003	59,149	58,325	51,175	50,983
<b><u>Public Protection and Regulation</u></b>										
Number of Vehicles	157	146	140	149	132	118	121	90	76	86
<b><u>Transportation</u></b>										
Number of Lane Miles -State Maintained Highways	63,586	64,187	63,407	63,196	63,175	63,135	62,913	62,823	62,419	62,071
Number of State maintained Bridges	9,016	9,011	9,000	8,976	8,972	8,957	8,933	8,870	8,842	8,974
Land (Acres)	1,656	1,656	1,700	1,653	1,653	1,653	1,981	1,981	1,977	1,977

**COMMONWEALTH OF KENTUCKY  
OPERATING INFORMATION  
STATE GOVERNMENT EMPLOYEES BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS**

	2016	2015	2014	2013
<b><u>FULL-TIME EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	4,570	4,671	4,775	5,089
Legislative and judicial	3,553	3,578	3,540	4,159
Commerce	1,696	1,633	1,699	1,520
Education and humanities	2,363	2,613	2,671	2,671
Human resources	7,176	7,466	7,523	7,470
Justice	7,735	7,832	7,896	8,054
Natural resources and environmental protection	1,383	1,387	1,445	1,608
Public protection and regulation	1,005	1,124	1,120	1,034
Transportation	4,551	4,629	4,650	4,690
<b>Total full-time employees</b>	<b>34,032</b>	<b>34,933</b>	<b>35,319</b>	<b>36,295</b>
<b><u>PART-TIME and TEMPORARY EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	665	650	662	649
Legislative and judicial	404	421	445	426
Commerce	538	479	494	488
Education and humanities	156	200	212	211
Human resources	197	123	137	126
Justice	13	16	19	21
Natural resources and environmental protection	14	13	13	18
Public protection and regulation	16	17	14	18
Transportation	138	77	68	88
<b>Total part-time and temporary employees</b>	<b>2,141</b>	<b>1,996</b>	<b>2,064</b>	<b>2,045</b>
 <b>Total Employees</b>	 <b>36,173</b>	 <b>36,929</b>	 <b>37,383</b>	 <b>38,340</b>

2012	2011	2010	2009	2008	2007
4,669	4,738	4,841	4,706	4,855	4,984
3,503	3,502	3,597	3,759	3,730	3,626
1,914	1,972	2,023	2,038	2,141	2,155
2,701	2,696	2,712	2,760	2,967	2,984
7,481	7,517	7,482	7,182	7,387	7,751
8,070	8,016	7,938	7,955	8,090	7,967
1,614	1,648	1,675	1,649	1,601	1,673
1,097	1,113	1,127	1,102	1,208	1,194
4,682	4,670	4,713	4,467	4,549	4,711
<u>35,731</u>	<u>35,872</u>	<u>36,108</u>	<u>35,618</u>	<u>36,528</u>	<u>37,045</u>
663	657	662	659	649	757
484	476	483	539	574	554
498	384	1,376	1,496	1,506	1,548
227	198	306	219	228	281
119	108	124	91	71	165
24	26	39	27	58	33
26	31	56	31	27	67
20	30	31	14	15	54
40	138	133	129	156	202
<u>2,101</u>	<u>2,048</u>	<u>3,210</u>	<u>3,205</u>	<u>3,284</u>	<u>3,661</u>
<u>37,832</u>	<u>37,920</u>	<u>39,318</u>	<u>38,823</u>	<u>39,812</u>	<u>40,706</u>

## ACKNOWLEDGMENTS

The Commonwealth of Kentucky's Comprehensive Annual Financial Report was prepared by the Finance and Administration Cabinet, Office of the Controller, Office of Statewide Accounting Services, Financial Reporting Branch and the Fixed Assets Branch:

*John Bailey*  
*Jackie Green*  
*Dee Dee McCrosky*  
*Joe McDaniel*  
*Jason Mach*  
*Kimberly Moore*  
*Anthony Murray*  
*Phil Nally*  
*Tommy Richie*  
*Donald Sweasy*

Special acknowledgment goes to:

All fiscal and accounting personnel throughout Kentucky State Government, along with the Auditor of Public Accounts' staff, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.

The Kentucky Transportation Cabinet's Division of Graphic Design and Printing staff provided printing services.