Semi-Annual Report of the Kentucky Asset/Liability Commission

26TH EDITION

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Commonwealth of Kentucky

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For the period ending December 31, 2009

This report may be viewed at:

http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/AlcoSemiAnnualRpt.htm

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INTRODUCTION

This is the Kentucky Asset/Liability Commission's ("ALCo") twenty-sixth semi-annual report pursuant to KRS 56.863 (11) for the period beginning July 1, 2009, through December 31, 2009. Several factors on both the state and national level had an impact on activity during the reporting period. The most significant factors were:

On the national level

- While the National Bureau of Economic Research has not officially declared an end to the recession, the economy seems to have turned the corner as growth in Real Gross Domestic Product has begun.

- Due in part to extraordinary measures by the federal government, the housing market appears to have bottomed as prices have begun to increase on a month over month basis although still well below year ago levels.

- Both Chrysler and General Motors have emerged from bankruptcy due in large part to significant monetary infusions and ownership by the United States.

- The Federal Reserve continues to target Federal Funds in the range of 0.00 to 0.25 percent. Their focus has shifted to the gradual elimination of quantitative easing, non-monetary policy support for the economy.

- Most of the large financial institutions have repaid TARP money to the U.S. Treasury but significant exceptions remain including AIG, FNMA, FHLMC, and Citibank.

- The Dow Jones Industrial Average finishes the year at 9,938, up 1,162 points from December 31, 2008.

On the state level

- Subsequent to June 2009 when the General Assembly met in Special Session and adopted House Bill 4, the Governor signed General Fund and Road Fund Budget Reduction Orders in September 2009 to implement the Budget Reduction Plan and balance the Fiscal Year 2010 budget. The Budget Reduction Orders addressed a projected deficit of over $1 billion for the General Fund through a combination of spending reductions, Federal Stimulus Funds, debt restructuring, and enhanced revenue collections and addressed a projected deficit of $239 million for the Road Fund through similar measures.

- In December 2009, the Consensus Forecasting Group (CFG) revised for the second time the official fiscal year 2010 General Fund revenue estimate downward by an additional $99.9 million to $8.196 billion. As a result, in January 2010, the Governor signed an additional General Fund Budget Reduction Order including fund transfers, additional budget cuts, and use of stimulus funds to balance the fiscal year 2010 budget.

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MARKET OVERVIEW

During 2008 and the first half of 2009, the world experienced the worst financial crisis since the Great Depression. The second half of 2009 has shown significant improvement but serious problems still exist. The strongest sign of improvement has been the rebound in growth of Real Gross Domestic Product. From a low of -6.4% in the first quarter of 2009, growth has increased to 5.6% during the fourth quarter of this year.

The economic rebound, while not universal, has shown up in a number of indicators. Although the economy is not creating new jobs, the unemployment rate has at least temporarily peaked at 10.1% in October with minor improvement since then. Several related statistics including average weekly hours and initial unemployment claims have also shown improvement; although, both are still significantly worse than the long term averages.

The housing market appears to be creating a bottom. Existing home sales have come off the lows of an annual rate of roughly 4.5 million earlier this year to an average of roughly 6 million annually during the fourth quarter. Various indicators show housing prices have either stopped falling or in some cases have begun showing month over month increases. Average delinquencies have even fallen slightly from highs reached earlier this year. These are the first steps in recovery of this sector. Now that prices have apparently bottomed, the excess supply of houses for sale should begin declining in a more normal range. Once the supply has been decreased, new construction activity should increase providing support for economic growth.

A variety of other indicators also are showing improvements in the economy. The S&P 500 has rebounded from a low of 677 in March to close the year at 1,115. Total U.S. auto sales have bounced from a low of 9.11 million on an annualized basis in February to 11.23 million in December. There was a substantial spike during the Fall driven by the federal Cash for Clunkers program.

Consumer spending has shown both the depth of the recession and the recent turn around. Since 1992, nominal consumption has grown at roughly 3.5% per year. This peaked in 2007 and fell 8% below the trend line by the end of 2008. In 2009, consumption began to grow again although at a lower 2% annual rate.

Contrasting with the improving news are two headwinds working against further improvements. First, the Federal Reserve provided enormous support to the economy through “quantitative easing”. This action by the Federal Reserve is an attempt to create money and stimulate the economy through means other than the adjustment of short-term interest rates. The Federal Reserve will be gradually winding down the extraordinary measures over the next several months. In March, the Federal Reserve will quit purchasing Mortgage-Backed Securities followed by the expiration of the first-time home buyers tax credit in April. The question is whether or not the housing market is strong enough to withstand the loss of support.

The second issue involves the financial difficulties of several countries in Europe. The PIIGS (Portugal, Italy, Ireland, Greece and Spain) all are experiencing large fiscal deficits partially from a history of excessive borrowing and partially from the global recession. The markets are beginning to question the ability for these countries, especially Greece, to repay existing debt. Each of these countries uses the Euro as their common currency. The possibility of payment defaults has led to a trend of the Euro weakening when compared to the U.S. dollar. Many commodities, especially oil, are priced in U.S. dollars. If the current trend continues, further strengthening of the U.S. dollar could lead to commodity inflation in the U.S. which harms both the manufacturing and export sectors of the economy. This is an emerging story that bears watching in the future.

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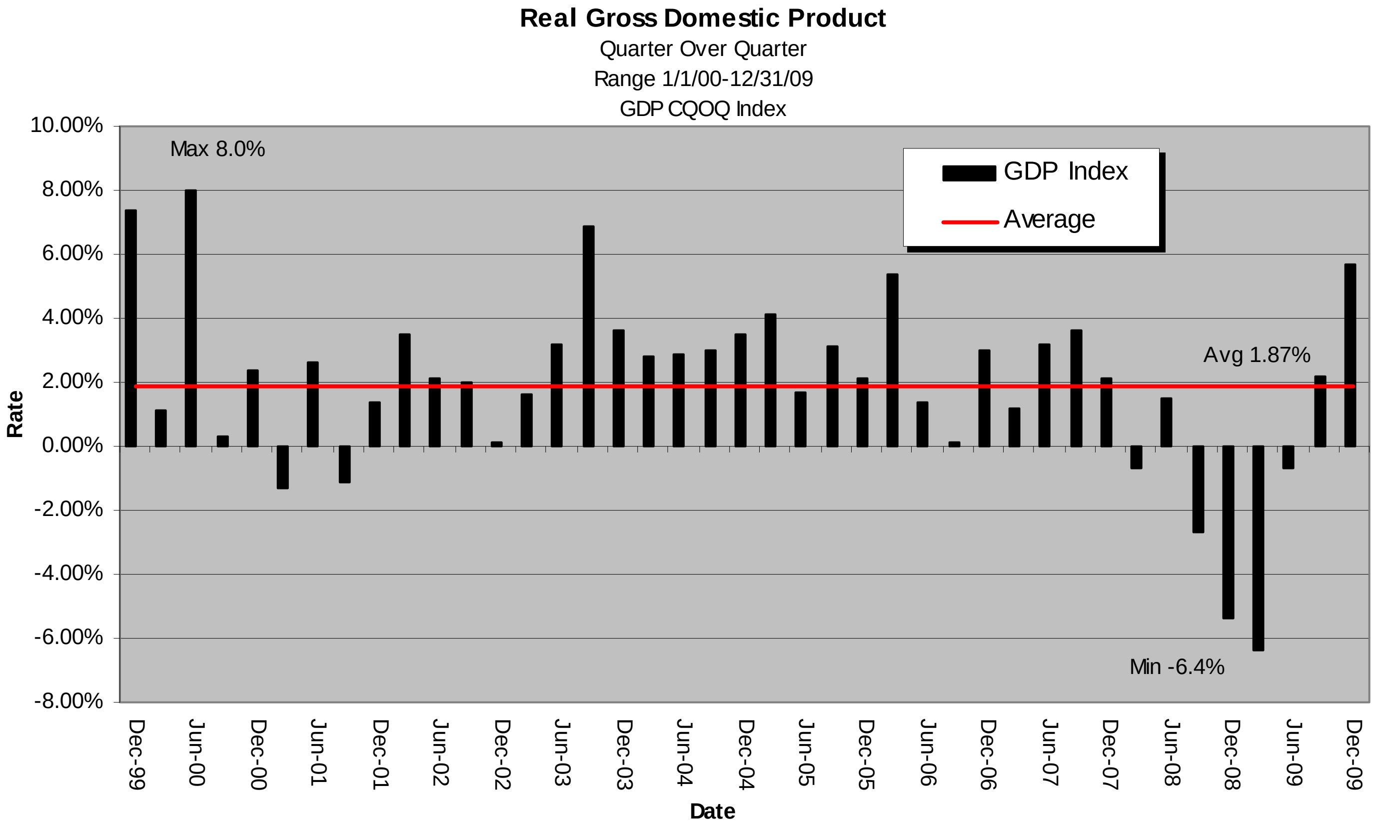
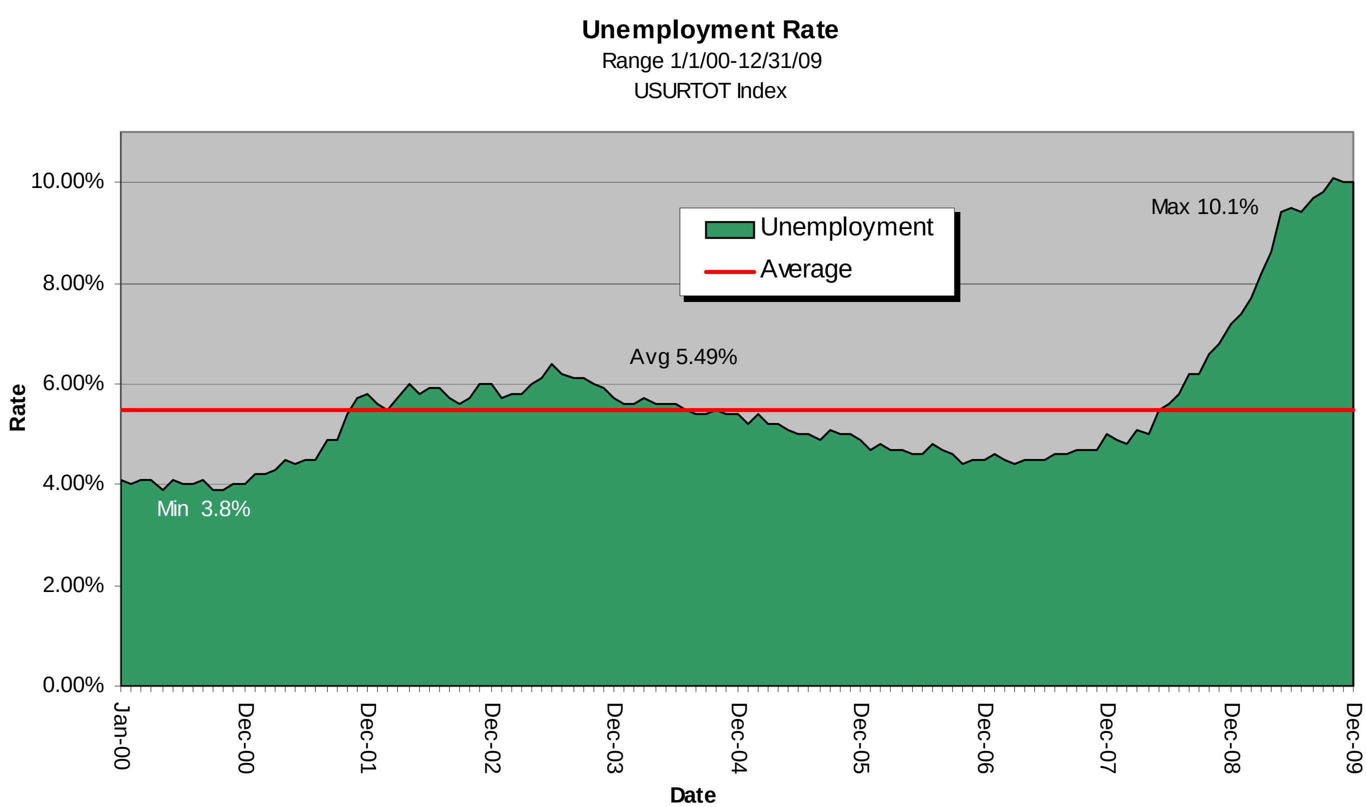
Real Gross Domestic Product & Unemployment





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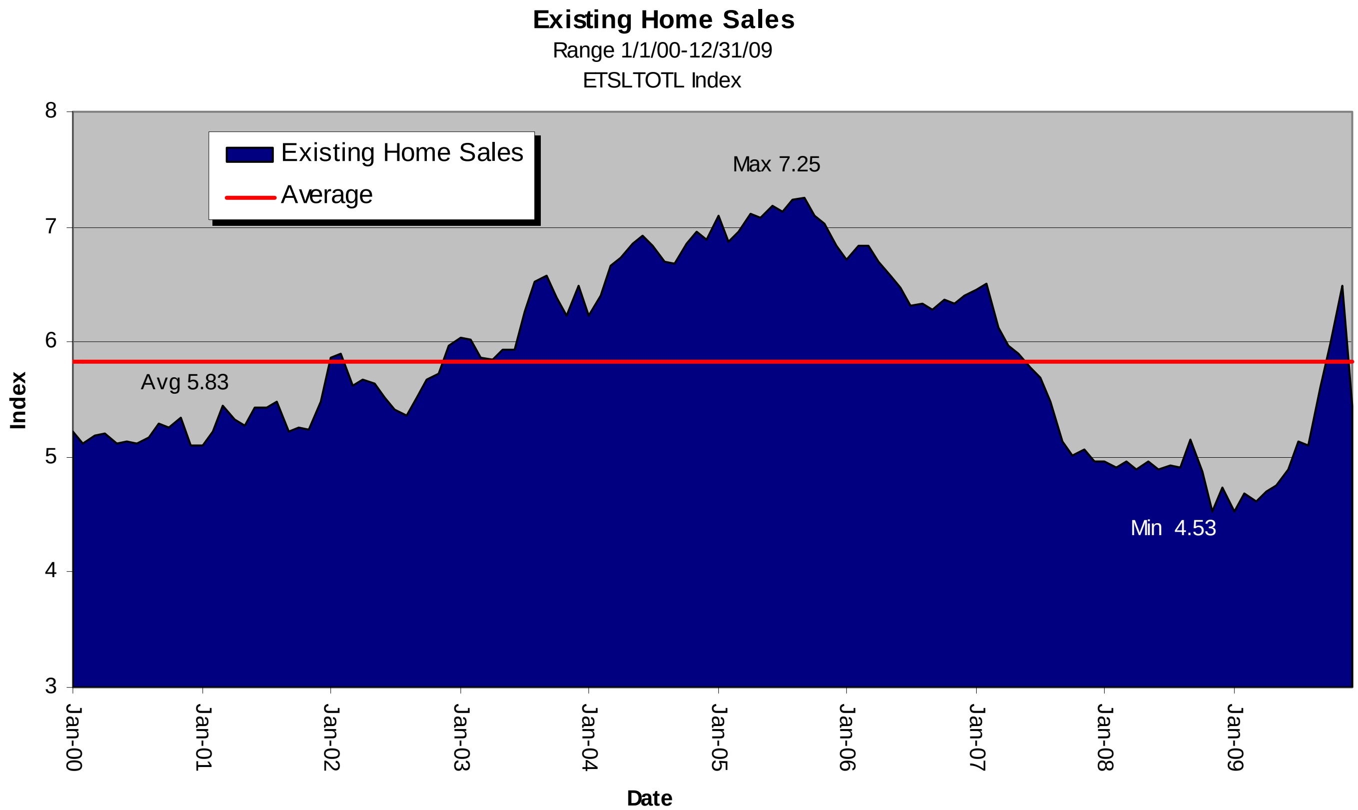
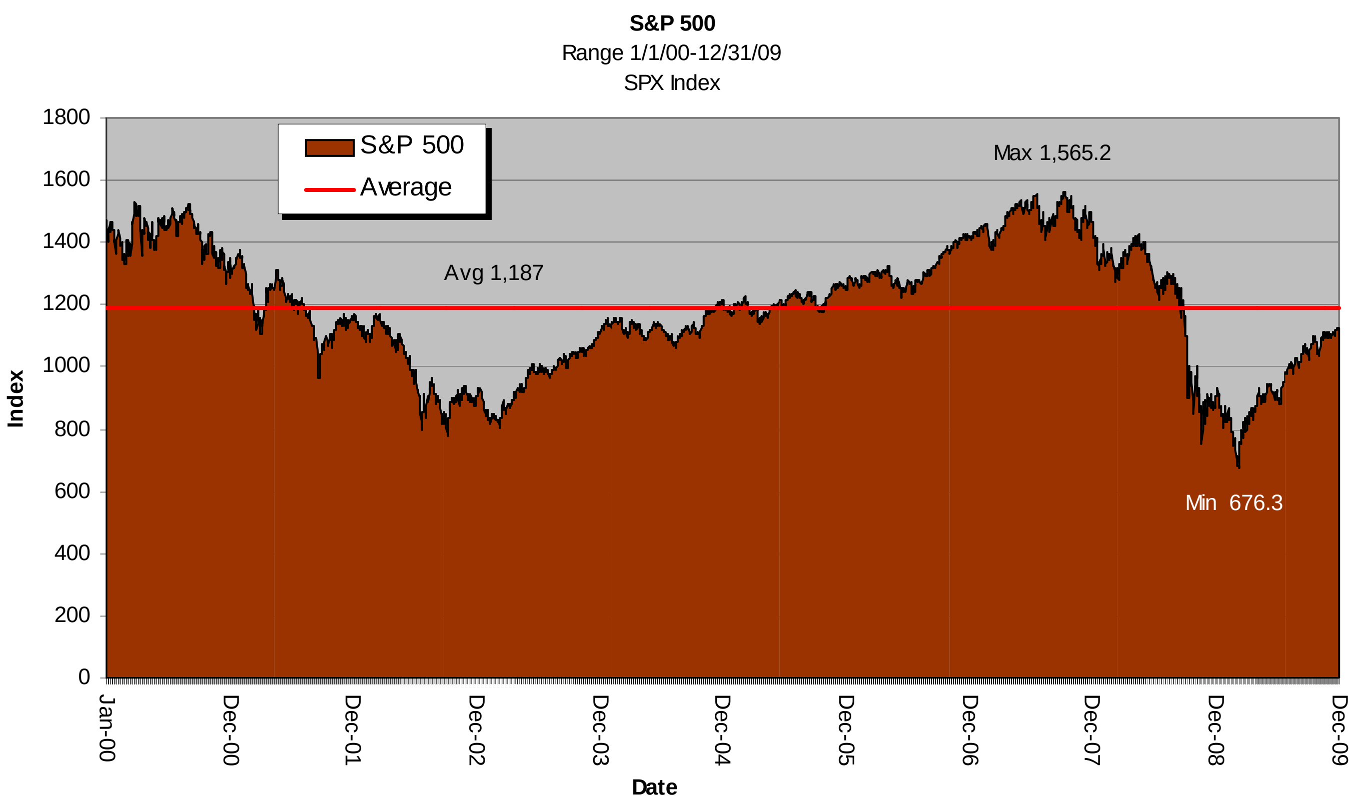
Existing Home Sales & S&P 500





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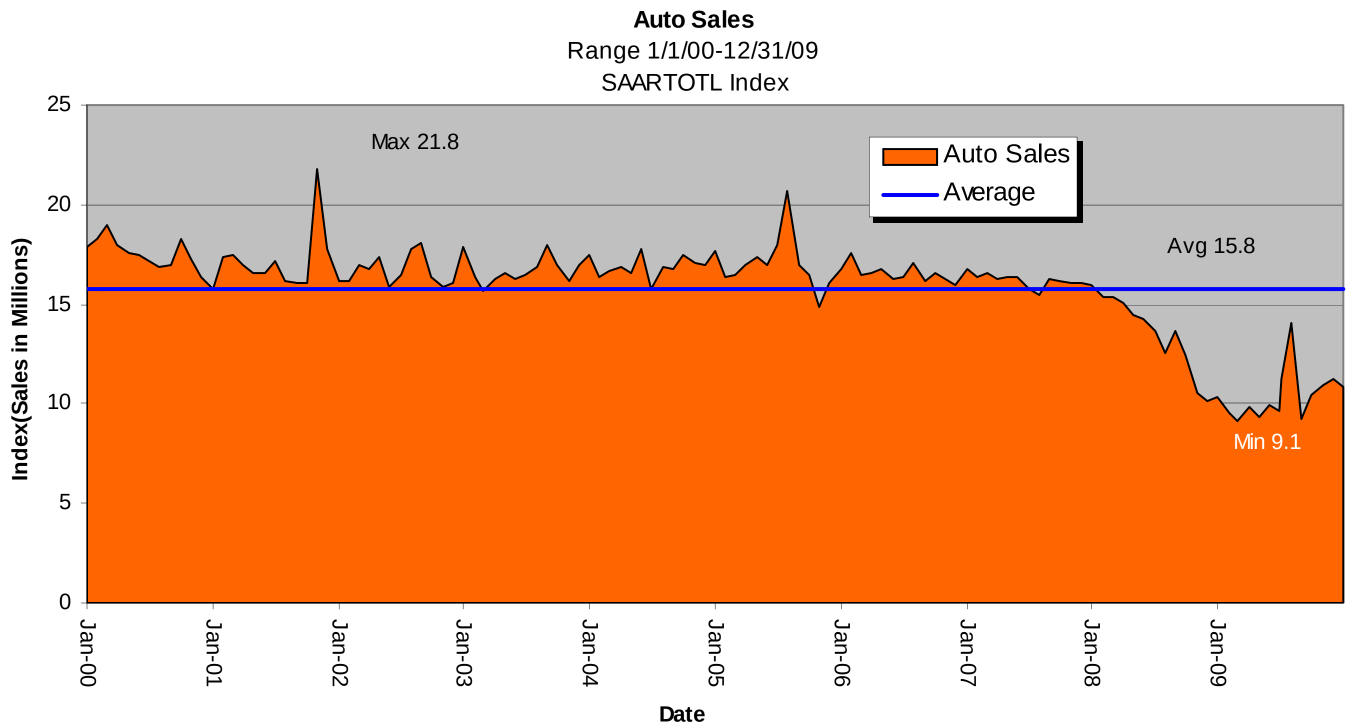
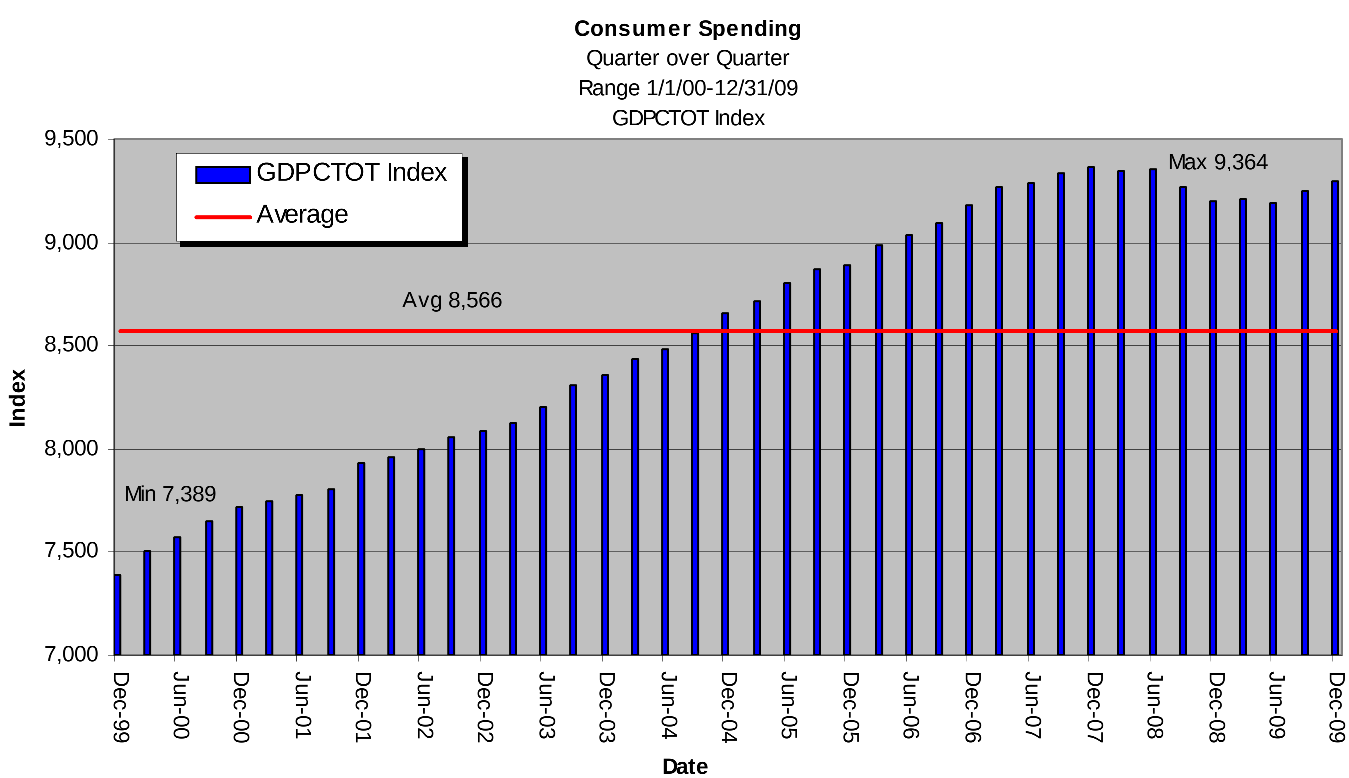
Auto Sales & Consumer Spending





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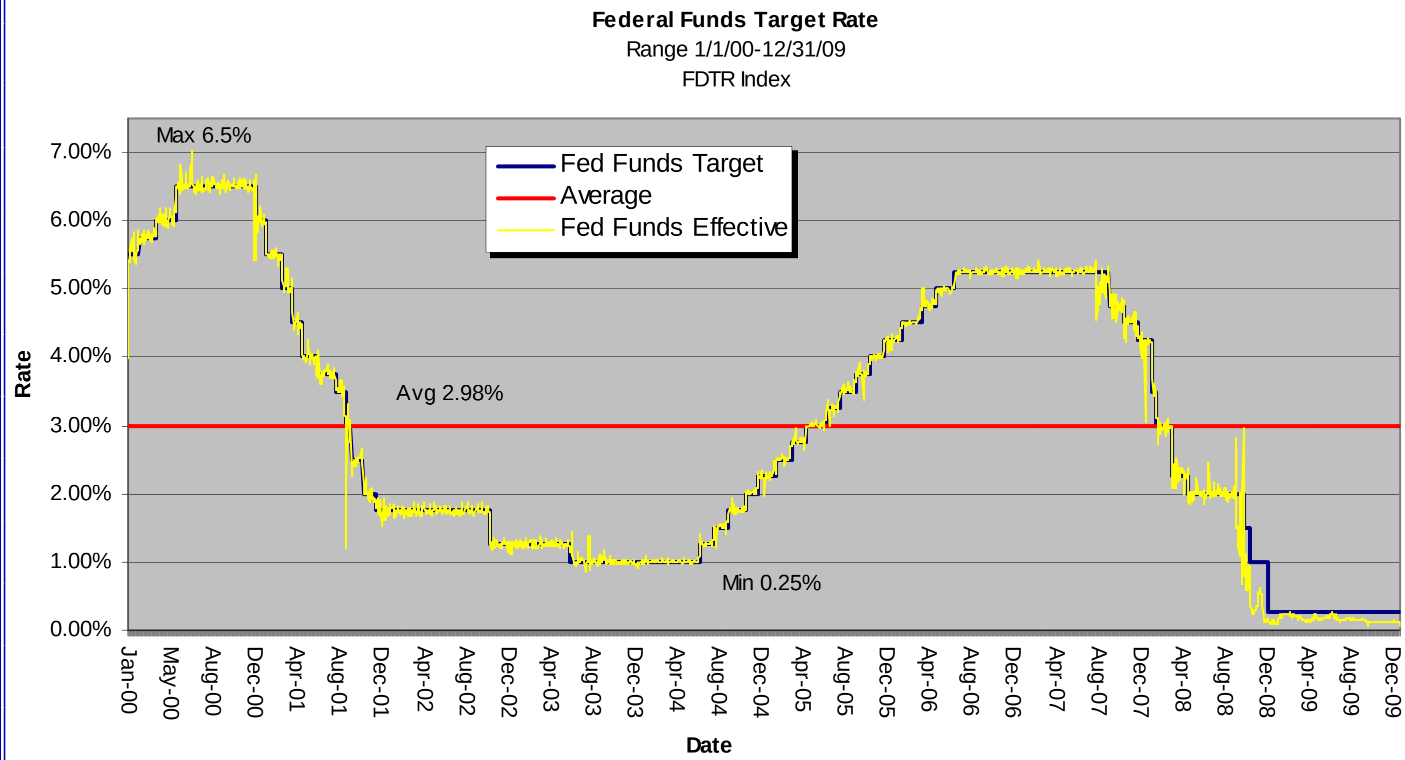
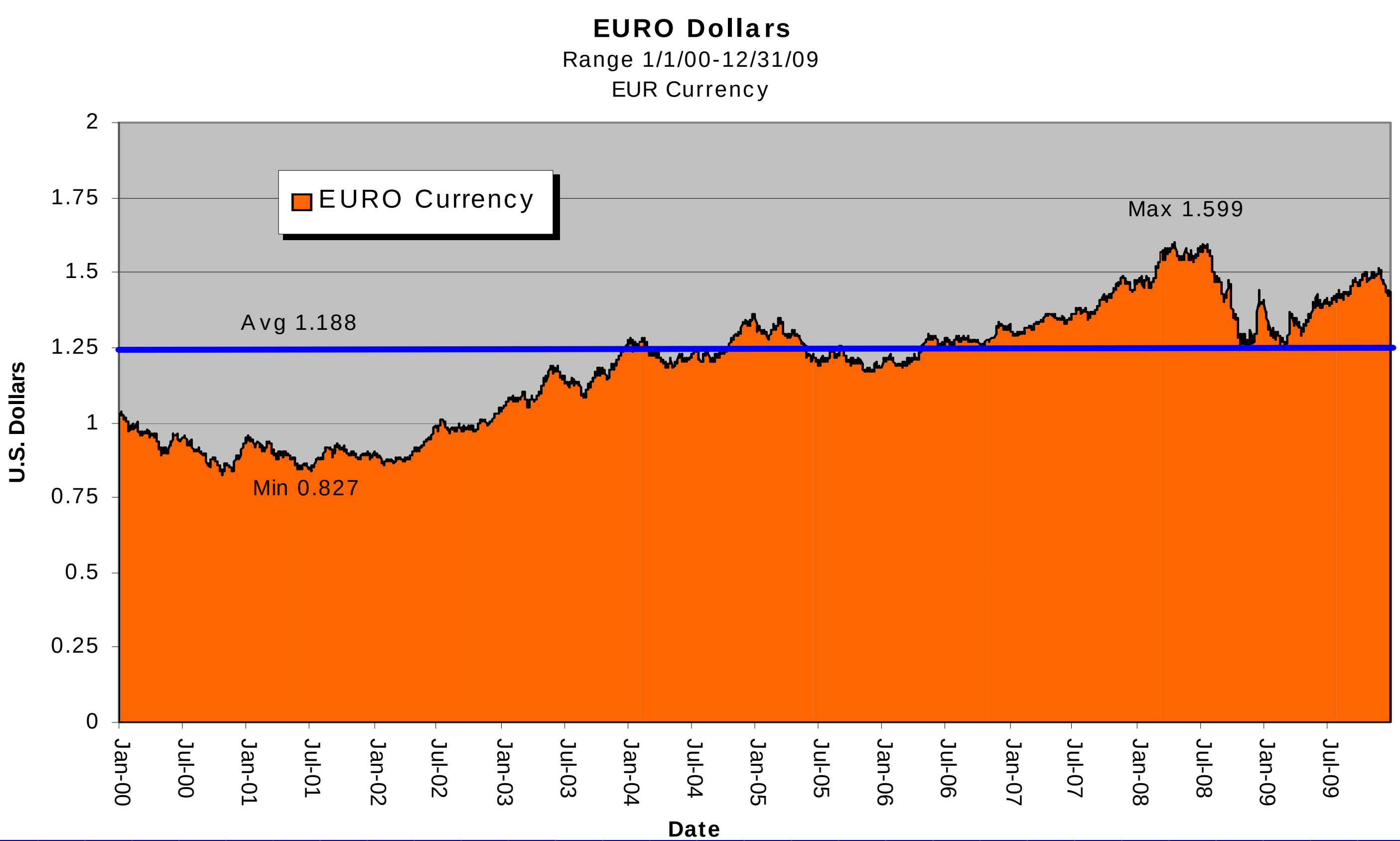
Federal Funds Target Rate & EURO Currency





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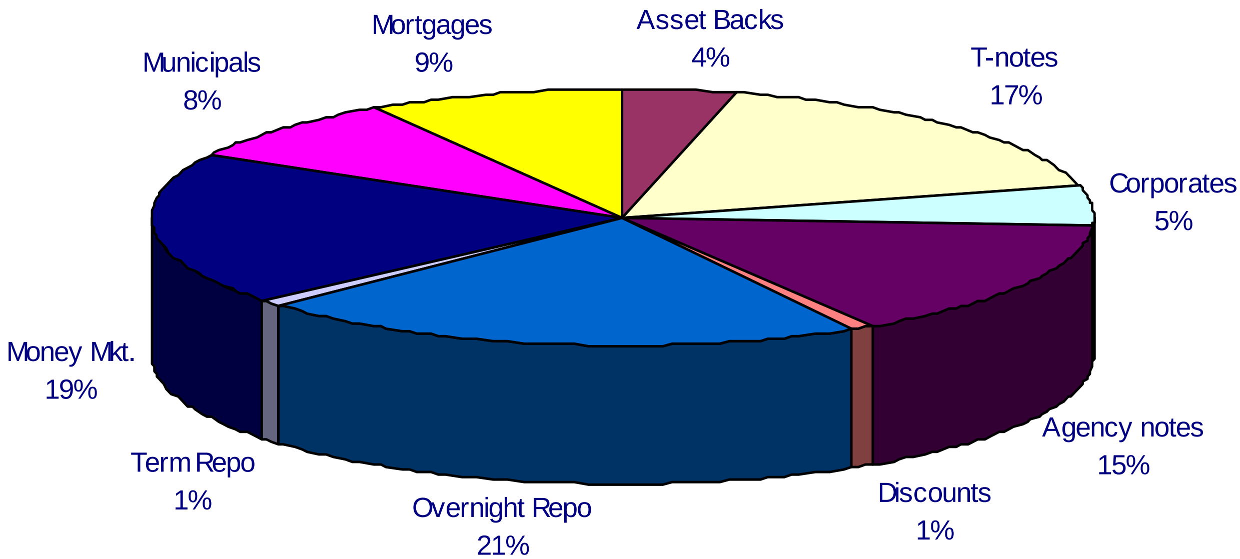
PORTFOLIO MANAGEMENT

For the six months ended December 31, 2009, the Commonwealth's investment portfolio averaged $2.6 billion. As of December 31, 2009, the portfolio was invested in U.S. Treasury Securities (17 percent), U.S. Agency Securities (16 percent), Mortgage Pass Through Securities (1 percent), Collateralized Mortgage Obligations (8 percent), Repurchase Agreements (22 percent), Municipal Securities (8 percent), Corporate Securities (5 percent), Asset-Backed Securities (4 percent), and Money Market Securities (19 percent). The portfolio had a market yield of 0.91 percent and an effective duration of .83 years.

The total portfolio is broken down into four investment pools. The pool balances as of December 31, 2009, were: Short Term Pool - $608 million, Intermediate Term Pool - $1,727 million, Bond Proceeds Pool - $650 million, and UK Hospital Pool - $35 million.

Total investment income from all investments, on a cash basis, for the six months ended December 31, 2009, was $32.5 million versus $55.3 million for the six months ended December 31, 2008. On a full mark-to-market basis, investment income was $25.8 million for the six months ended December 31, 2009, versus $65.1 for the six months ended December 31, 2008. Roughly half of the reduction in cash income was due to a 20% decline in investable balances with the remainder explained by drop in short term interest rates. The decline in investment income was also affected by differences in the movement of longer term interest rates during the two periods.

Distribution of Investments at 12/31/2009



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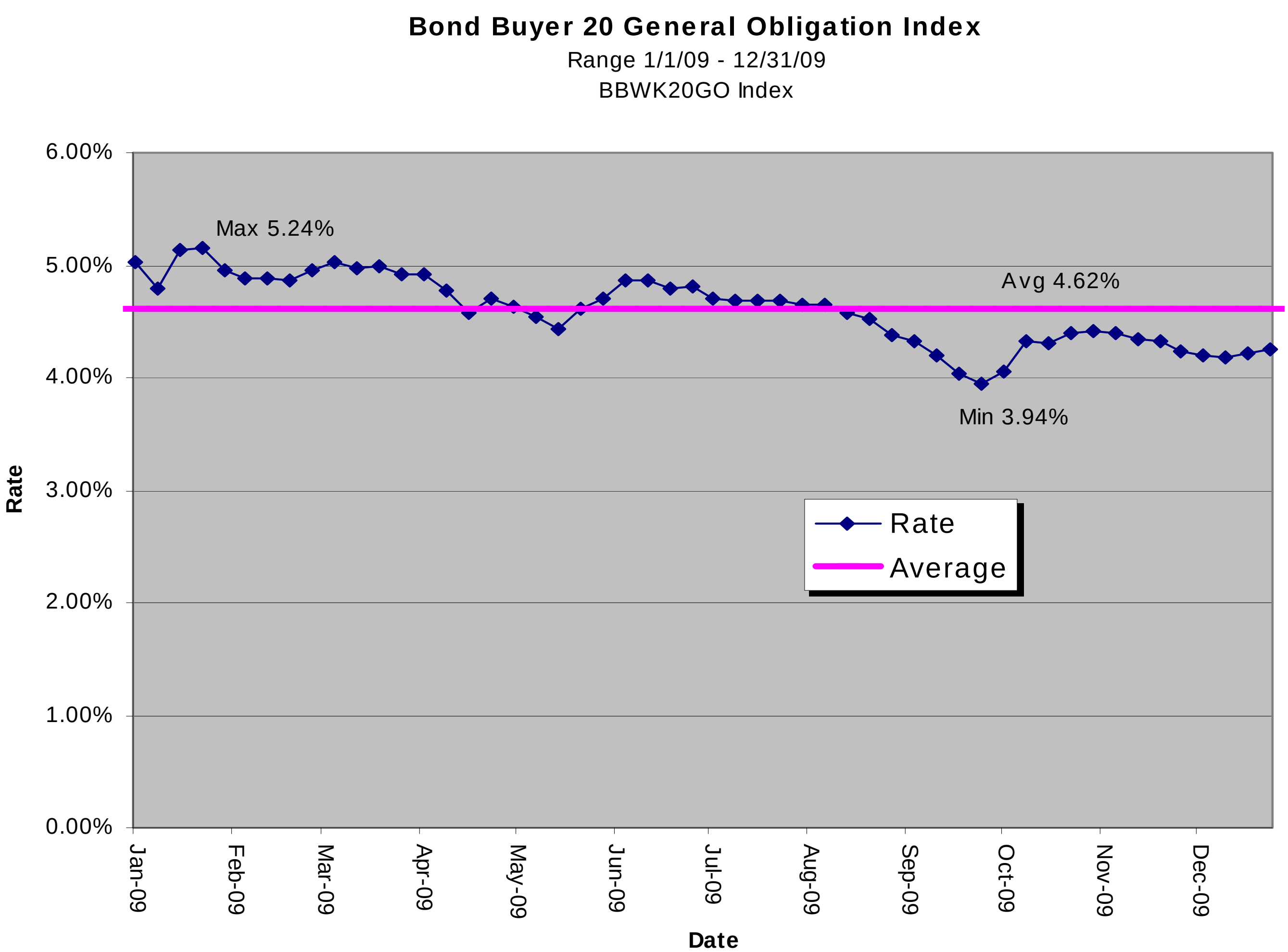
Tax-Exempt Interest Rates and Relationships

The Bond Buyer 20 year General Obligation Index averaged 4.62% for calendar year 2009. The high was 5.24% in January 2009 and the low was 3.94% in October 2009 with the year end at 4.25%.

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index averaged 0.41% for calendar year 2009. The high was 0.90% in January 2009 and the low was 0.22% in December 2009 and it ended the year at 0.25%. The 30-day USD London Interbank Offered Rate (LIBOR) averaged 0.33% for calendar year 2009. The fiscal year high was 0.56% in March 2009 and the low was 0.23% in December 2009 and it ended the year at that level. During the year, SIFMA traded as high as 214% of 30-day LIBOR in January 2009 and as low as 90% in July 2009 with an average of 123% for the year. The year ended with SIFMA at 108% of 30-day LIBOR.



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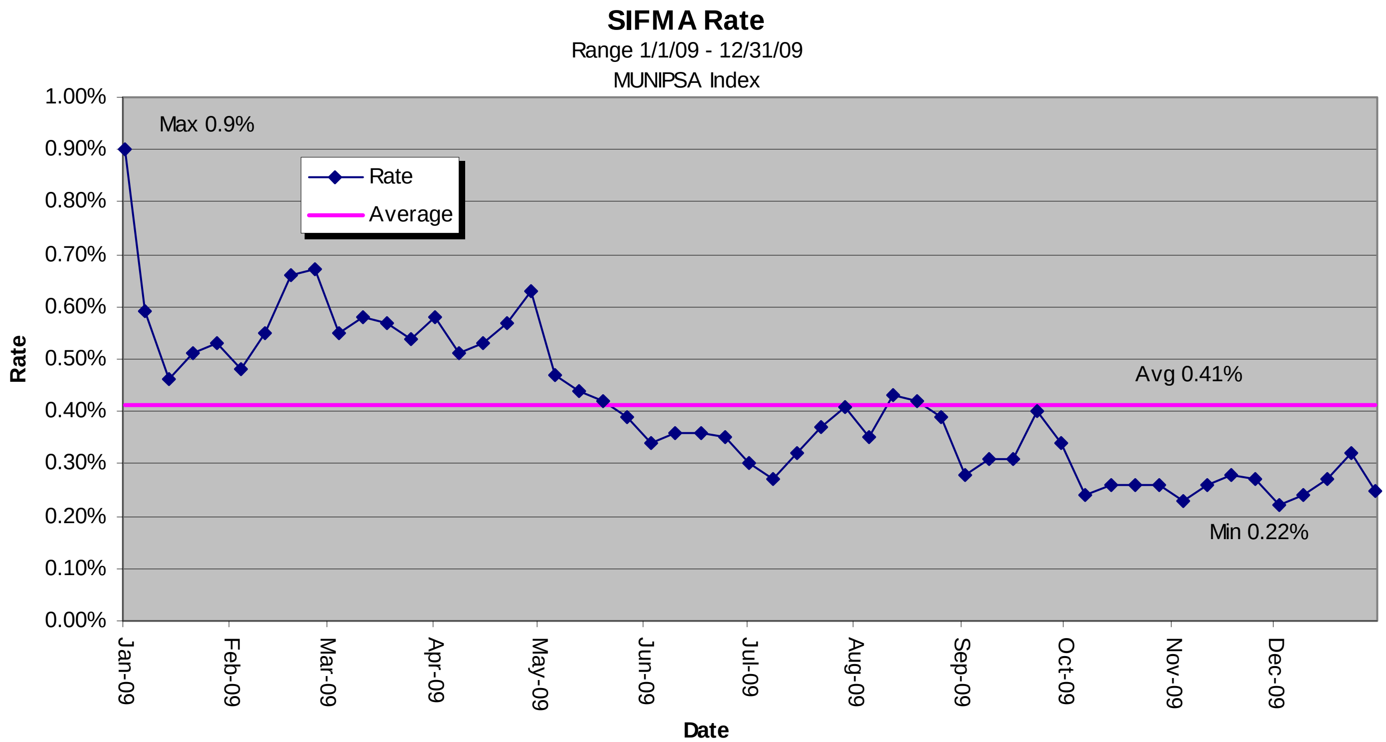
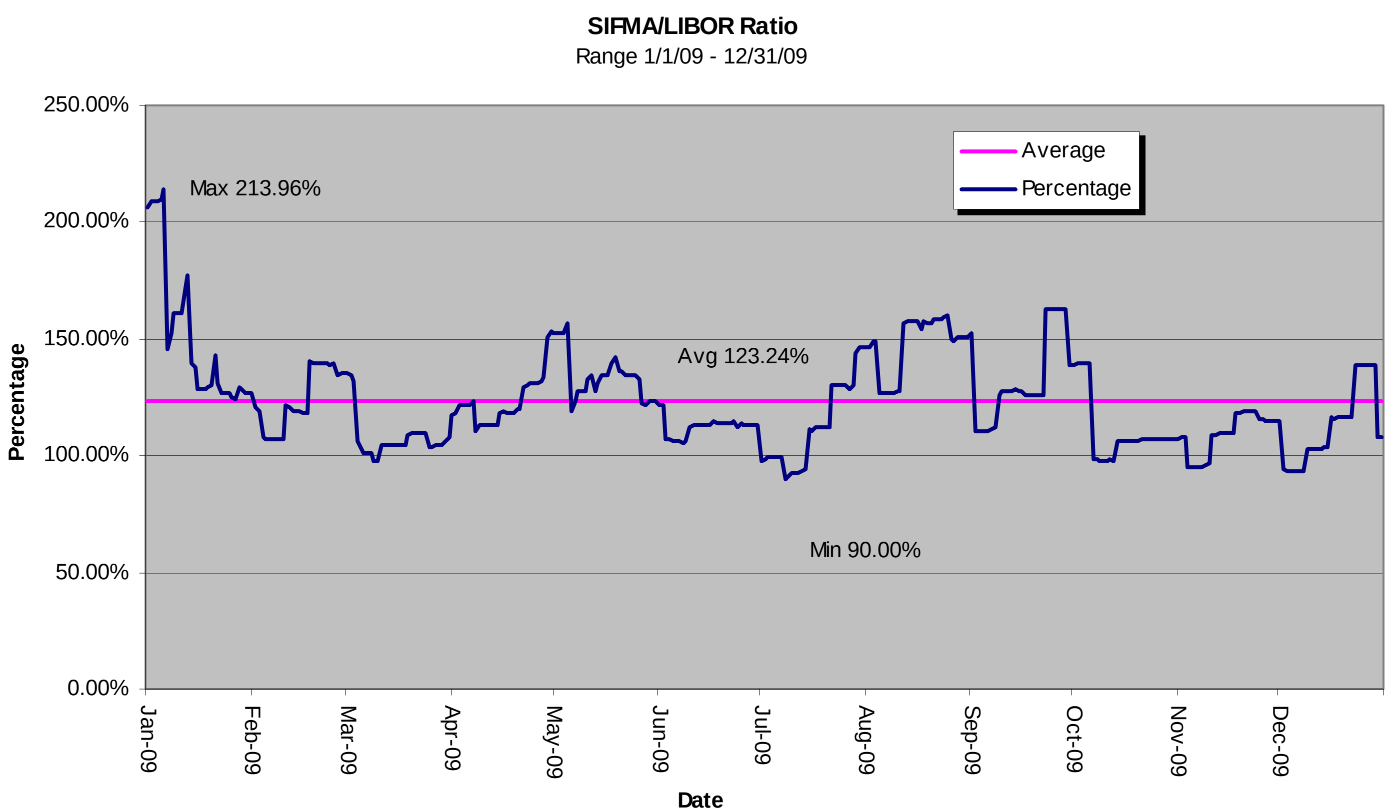
SIFMA and SIFMA/LIBOR Ratio





DEBT MANAGEMENT

The 2005 Kentucky General Assembly adopted a State Budget for the biennium ending June 30, 2006, which authorized $2.056 billion of bond funded capital projects. The General Fund authorization was $1,204 million; the Road Fund authorization was $450 million; Agency Funds were authorized at $251.7 million; and $150 million was authorized to be supported by Federal Highway Trust Funds (FHTF). Bonds have been issued to permanently finance the Road Fund, Agency Fund and FHTF authorizations.

The 2006 Kentucky General Assembly adopted a State Budget for the biennium ending June 30, 2008, which authorized an additional $2.3 billion of bond funded capital projects. The General Fund authorization was $1,392.9 million; the Road Fund authorization was $350 million; Agency Funds were authorized at $267.5 million; and the FHTF authorization was $290 million. Bonds have been issued to permanently finance the Road Fund, Agency Fund and FHTF authorizations.

In the 2007 2nd Special Session, the Kentucky General Assembly authorized $100 million of General Fund supported Energy Bonds.

The 2008 Kentucky General Assembly adopted a State Budget for the biennium ending June 30, 2010, which authorized an additional $1.739 billion of bond funded capital projects. The General Fund authorization was $650.3 million; the Road Fund authorization was $135 million; Agency Funds were authorized at $643.2 million; the FHTF authorization was $231 million; and there were $80 million of other authorizations. Bonds have been issued to permanently finance a portion of the Road Fund and Agency Fund authorizations.

The 2009 Kentucky General Assembly authorized $7 million of additional General Fund supported bonds and an additional $400 million of Economic Development Road Revenue Bonds to be supported from the Road Fund.

In the 2009 Special Session, the Kentucky General Assembly authorized $100 million of Agency Fund supported bonds to provide additional financing for the University of Kentucky hospital.

To date, a significant portion of the General Fund bond projects from the above authorizations have been permanently financed. Interim note financing through ALCo is not currently available due to increased funding costs related to credit facilities for this type of program. The Commonwealth plans to provide financing for the balance of the existing authorizations through permanent fixed rate bonds. However, ALCo will continue to analyze potential interim financing options to provide construction financing for future debt authorizations of the General Assembly.

Ratings Update

The rating agencies continually monitor the Commonwealth's performance in areas such as revenue, the economy, and debt management. The recent softening in the economy has continued to put pressure on the Commonwealth's credit ratings.

In June 2009, S&P revised its outlook from "positive" to "stable" for Kentucky's "AA-" issuer credit rating and its "A+" rating for the State Property and Buildings Commission (SPBC), based on the impact of a challenging revenue climate on the Commonwealth's budget and reserves. S&P also observed that the pressure on revenues is hindering meaningful progress in reducing the Commonwealth's unfunded liabilities for retiree pensions and health care. The stable outlook does however recognize the Commonwealth's demonstrated willingness to make budget cuts and enhance revenues in order to balance its budget. S&P affirmed its ratings and outlook for the Commonwealth and SPBC in October 2009.

In April 2008, Moody's Investors Service revised from "stable" to "negative" its outlook on the Commonwealth's "Aa2" issuer credit rating and SPBC rating of "Aa3", citing ongoing economic and financial weakening, leading to revenue underperformance and sizable budget deficits. Moody's also cited a draw-down of ending and reserve balances and a strong reliance on one-time resources to balance the biennial budget. In October 2009,

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Moody's affirmed its ratings and outlook for the Commonwealth and SPBC and stated that the Commonwealth faces ongoing budget pressure, as a trend of revenue weakening appears to be continuing, while the Commonwealth has a history of active financial management that has enabled it to address fiscal instability in the past.

Also in April 2008, Fitch Ratings, for similar reasons, revised its outlook from "stable" to "negative" on its "AA-" rating for SPBC. In October 2009, Fitch Ratings affirmed its rating and outlook for SPBC and continued to express concerns over the Commonwealth's structural budget imbalance and depleted reserves.

Subsequent to the Reporting Period:

Moody's and Fitch both indicated that they plan to move forward with efforts to "recalibrate" their rating scales in order to enhance comparability of credit ratings across all types of rated bonds. The move will entail replacing all outstanding municipal credit ratings with a new Global Scale Rating (GSR). The move to the new GSR ratings is anticipated to begin in the Spring of 2010.

Tax and Revenue Anticipation Notes (TRAN)

No fiscal year 2010 TRAN was issued for a number of reasons: 1) After the Consensus Forecast Group revised the General Fund revenue estimate downward in May 2009, the Commonwealth was faced with an estimated $1 billion budget gap in FY 2010. This was addressed during a Special Session in late June 2009 (and formally remedied with the Governor's Budget Reduction Order in September 2009). Prior to this however, it was not feasible to accurately model General Fund cashflows for FY 2010 given the uncertainty of how the budget gap would be remedied; 2) Without an accurate General Fund cashflow model demonstrating the Commonwealth's ability to repay, it was unclear if the Commonwealth would achieve the highest short-term ratings on a FY 2010 TRAN; and 3) Current reinvestment yields on TRAN proceeds would not be significantly higher than the cost of funds for the TRAN, especially if the highest short-term ratings could not be achieved.

Fiscal Year	TRAN size	Economic Benefit
1998	200	3.2
1999	300	4.7
2000	400	7.3
2001	550	6.5
2002	650	4.3
2003	500	0.3
2004	NA	NA
2005	500	2.8
2006	600	6.0
2007	150	2.8
2008	350	5.9
2009	400	7.1
2010	NA	NA

($ in millions)

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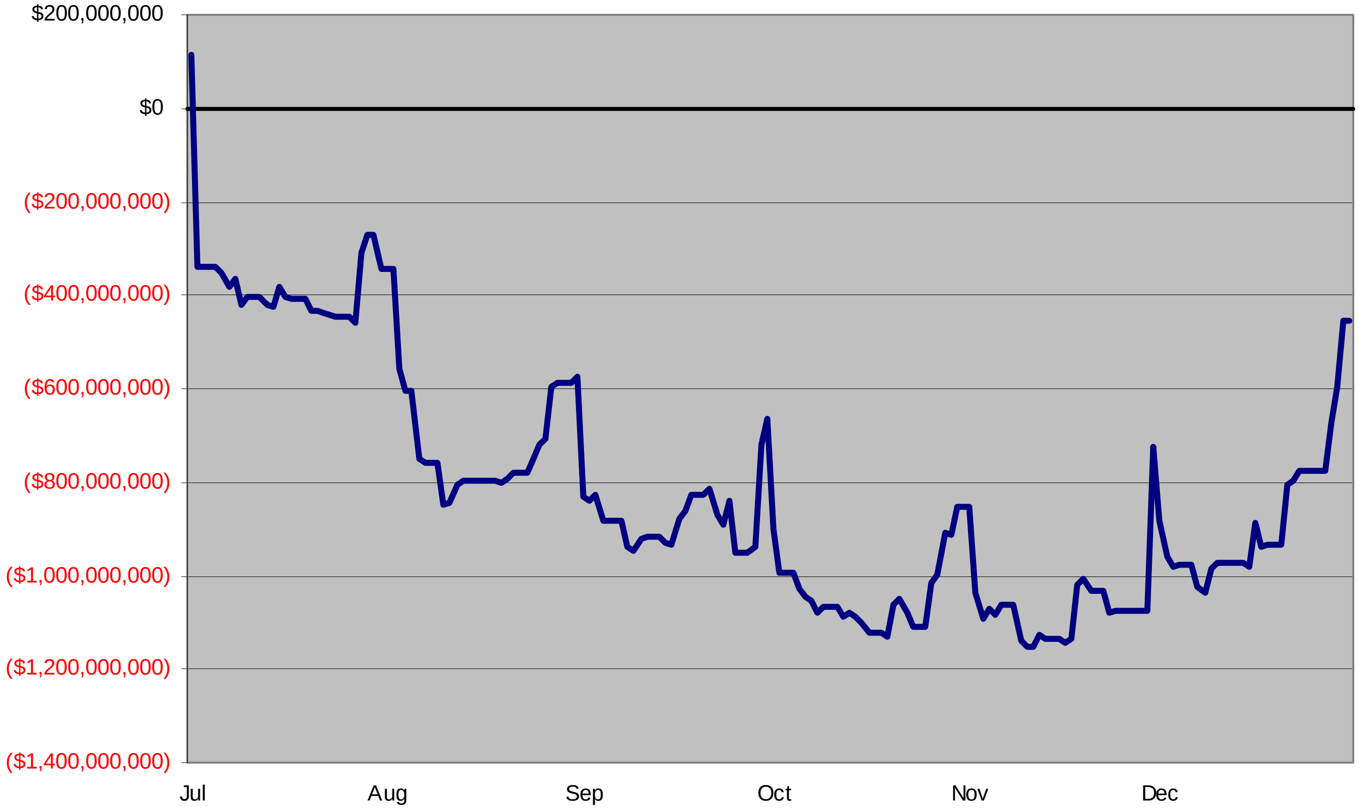
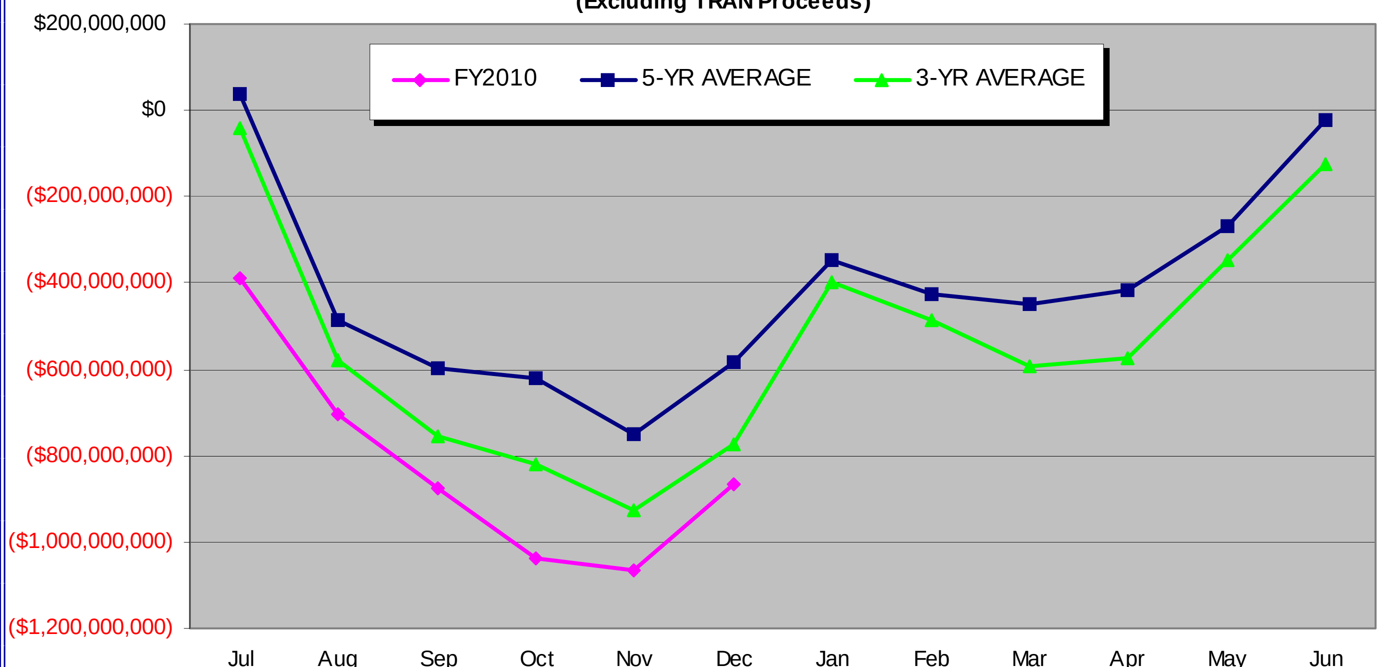
General Fund Cash Balance
Fiscal Year 2010



General Fund Monthly Average
(Excluding TRAN Proceeds)



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FINANCIAL AGREEMENTS

As of December 31, 2009, ALCo had four financial agreements outstanding, with a net notional exposure amount of $227.42 million. These financial agreements are described in the section below and the terms of these transactions are detailed in Appendix A. No additional financial agreements were executed during the reporting period.

General Fund – Floating Rate Note Hedges

In May, 2007, ALCo issued $243.08 million of Floating Rate Notes (FRNs) to permanently finance $100 million of General Fund bond supported projects and to advance refund certain outstanding SPBC bonds for present value savings. The transaction entailed ALCo issuing four FRNs, each paying a rate of interest indexed to 3-Month LIBOR plus a fixed spread. Integrated into the transaction were four separate interest rate swaps which perfectly hedge the floating rates on the FRNs and lock in a fixed rate payable by ALCo on the transaction. The terms of the four interest rate swaps exactly match the notional amount, interest rate, and amortization schedule of the four FRNs and allowed ALCo to elect "super-integrated" tax status on the transaction, whereby it receives similar tax treatment as a fixed rate bond issue under IRS rules.

Under the FRN transaction, both the Notes and interest rate swaps were insured by FGIC, which maintained an Aaa/AAA credit rating at the time from Moody's and S&P. Under the terms of the interest rate swaps, the counterparty (Citibank) may optionally terminate the agreements if the insurer's claims paying rating falls below an A3/A- level. Subsequent to the transaction, FGIC was downgraded multiple times by the credit rating agencies and currently are no longer rated. In December 2008, MBIA (rated A2 by Moody's at the time) reinsured FGIC's municipal insurance portfolio providing additional coverage on the transaction. However, MBIA Insurance Corporation's credit rating was also subsequently downgraded on multiple occasions. In February of 2009, MBIA established a new U.S. public finance financial guaranty insurance company known as National Guaranty Public Finance Corporation (National). National, at no additional charge, provided reinsurance on the FRNs and related swaps. As of the reporting date, National is rated Baa1/A, and so long as National maintains the "A" level rating from S&P no action will be required. ALCo has been in ongoing communications with the counterparty to stay apprised of any new developments and has been analyzing potential solutions in the event of a further downgrade and possible early termination on the swaps.

ASSET/LIABILITY MODEL

General Fund

The total SPBC debt portfolio as of December 31, 2009 had $3,829 million of bonds outstanding with a weighted average coupon of 5.1 percent, modified duration of 4.96 years, and a yield at market of 2.50 percent. The market yield increased 21 basis points from the prior reporting period while modified duration increased by 0.62 years. The average coupon reflects investor preference for tax-exempt callable premium bonds in the current market at a yield lower than par or discount coupon bonds. The $1,310 million callable portion had a weighted average coupon of 5.15 percent.

The SPBC General Fund debt structure has 33 percent of principal maturing in 5 years and 64 percent of principal maturing in 10 years. These ratios are approximately in line with the rating agencies' proposed targets of 27-30 percent due in 5 years and 55-60 percent maturing within 10 years.

The General Fund had a high balance of $116 million at the beginning of fiscal year 2010 and a low of negative $1,151 million on November 10, 2009.

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The average and median balances were a negative $821 million and a negative $881 million, respectively. Since the General Fund continued to have a negative available cash balance for most of the fiscal year, there is little, if anything, that can be done from an asset management point of view beyond current actions.

From a liability management perspective, total General Fund debt service, net of credits was $287 million for fiscal year 2010. Net interest margin will continue to be negative due to low cash balances versus outstanding fixed rate debt, low level of interest rates, and the callability of the debt portfolio..

ALCo Project Notes, 2005 General Fund First Series.

Project proceeds of $87,000,000 ALCo 2005 General Fund First Series delivered on June 8, 2005 to provide for the financing of the Phase II Tobacco Settlement Payments were returned to the state in late 2005. The proceeds have been yield restricted and applied to General Fund supported bond projects, specifically the infrastructure for economic development fund for tobacco counties. As of December 31, 2009, $82.5 million of the proceeds had been expended on projects.

SPBC 96

In late October of 2009, SPBC sold $401,345,000 Revenue Bonds, Project No. 96 and closed on the transaction on November 17, 2009. The proceeds of the bonds were used to (1) provide $364,000,000 of additional permanent financing (taxable and tax-exempt) to partially fund ongoing General Fund bond-supported capital projects authorized in the 2005, 2006, 2007 (2nd Special Session), 2008, 2009 and 2009 (Special Session) of the General Assembly and (2) pay costs of issuing the bonds.

The structure consisted of three series of bonds, Series A (Revenue), Series B (Federally Taxable), and Series C (Federally Taxable – Build America Bonds – Direct Payment to the Commission). The Series A Bonds and the Series C Bonds will provide ongoing financing for a multitude of projects. The Taxable Series B Revenue Bonds will provide financing for the Research Challenge Trust Fund and Regional University Excellence Trust Fund projects, authorized in the 2008 Session of the General Assembly, for the Council on Postsecondary Education to match endowment monies from various universities (Bucks for Brains) as well as a small amount of bonds for energy projects for the Cabinet for Economic Development.

The Series C Bonds consisted of BABs. BABs were created under the American Recovery and Reinvestment Act of 2009. This transaction was structured to issue the majority of the bonds as BABs with some tax-exempt bonds issued to appeal to retail investors. As a result, the transaction included approximately $323 million issued as BABs, which are tax-exempt bond proceeds in nature to be sold on a taxable basis with a 35% federal subsidy to be reimbursed semi-annually to the SPBC (the Issuer) on the interest paid for debt service. The Finance & Administration Cabinet plans to request appropriation for the full amount of debt service due on the BABs and use each federal subsidy payment held at the trustee to net fund the next debt service payment. This will allow Finance to lapse any excess unused debt service appropriations at the end of the fiscal year as is normal practice for Authorized but Unissued (ABUI) capital projects. This approach provides assurance to the rating agencies and investors that there would be no risk of default on a debt service payment in the unlikely event that the federal government did not make their reimbursement in a timely manner or discontinued future reimbursements. Most of the projects being partially financed with SPBC 96 were also partially financed with SPBC 90, SPBC 93, and SPBC 95 proceeds. In addition, the General Fund Energy Projects Economic Development Bond Pool that was authorized in the 2007 2nd Special Session of the General Assembly was added under the SPBC 96 plan of finance. **All of the remaining ABUI General Fund bond supported projects are now covered under a lease/sublease and a**

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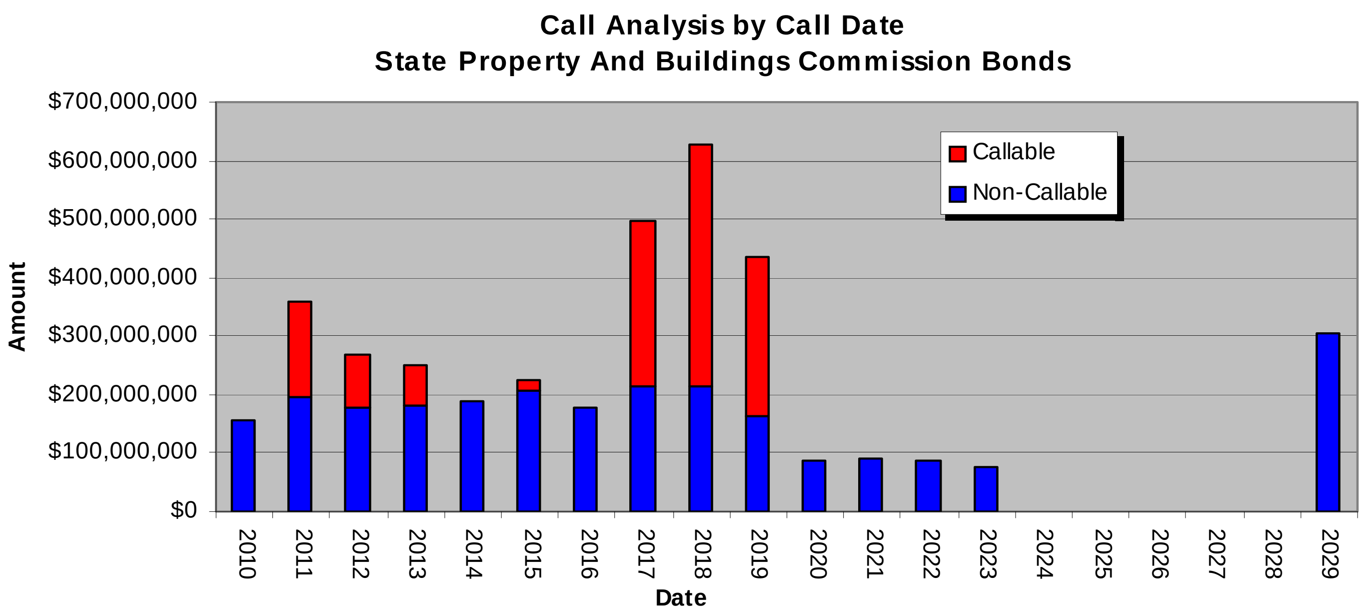
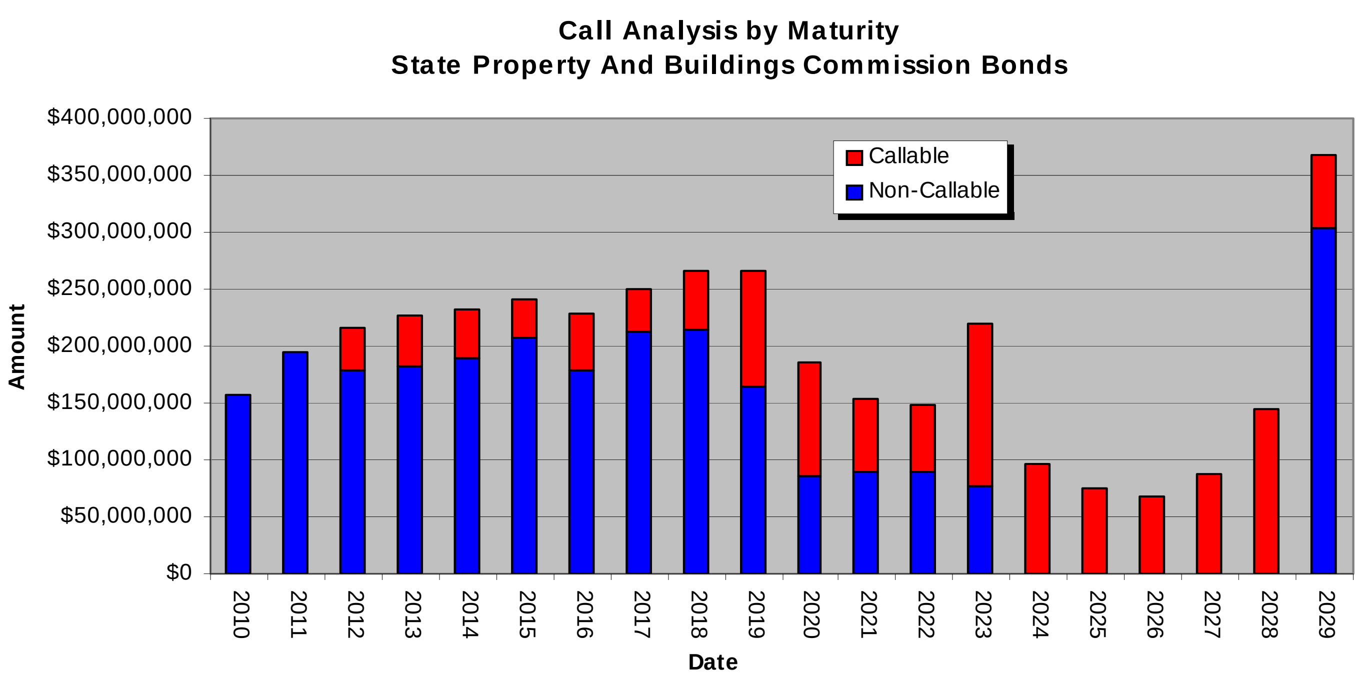
plan of finance to allow them to move forward with construction and expenditures.

The bonds received ratings of Aa3/A+/AA- from Moody's, S&P and Fitch, respectively. S&P assigned a stable outlook, while Moody's and Fitch maintain negative outlooks for the Commonwealth. The bonds were sold via negotiated sale with Morgan Stanley serving as managing underwriter and Kutak Rock as bond counsel. The transaction was sold on schedule and achieved very attractive rates with a TIC of 3.80% and an average life on the bonds of 12.07 years. In OFM staff memory, it was the lowest cost of funding achieved for the Commonwealth on a 20-year permanent financing.





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Road Fund

The Road Fund average daily cash balance for the first half of fiscal year 2010 was $223 million compared to $301 million for the first half of fiscal year 2009. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 0.97 years as of December 31, 2009. The Road Fund earned $2.5 million on a cash basis for the first half of fiscal year 2010 versus $4.95 million for the first half of fiscal year 2009. The continued relatively low level of investable balances and the large debt authorization limits the opportunity to implement new asset liability management strategies at this time.

As of December 31, 2009, the Turnpike Authority of Kentucky (TAK) had $991 million of bonds outstanding with a weighted average coupon of 4.85 percent, modified duration of 4.35 years, and yield at market of 2.31 percent.

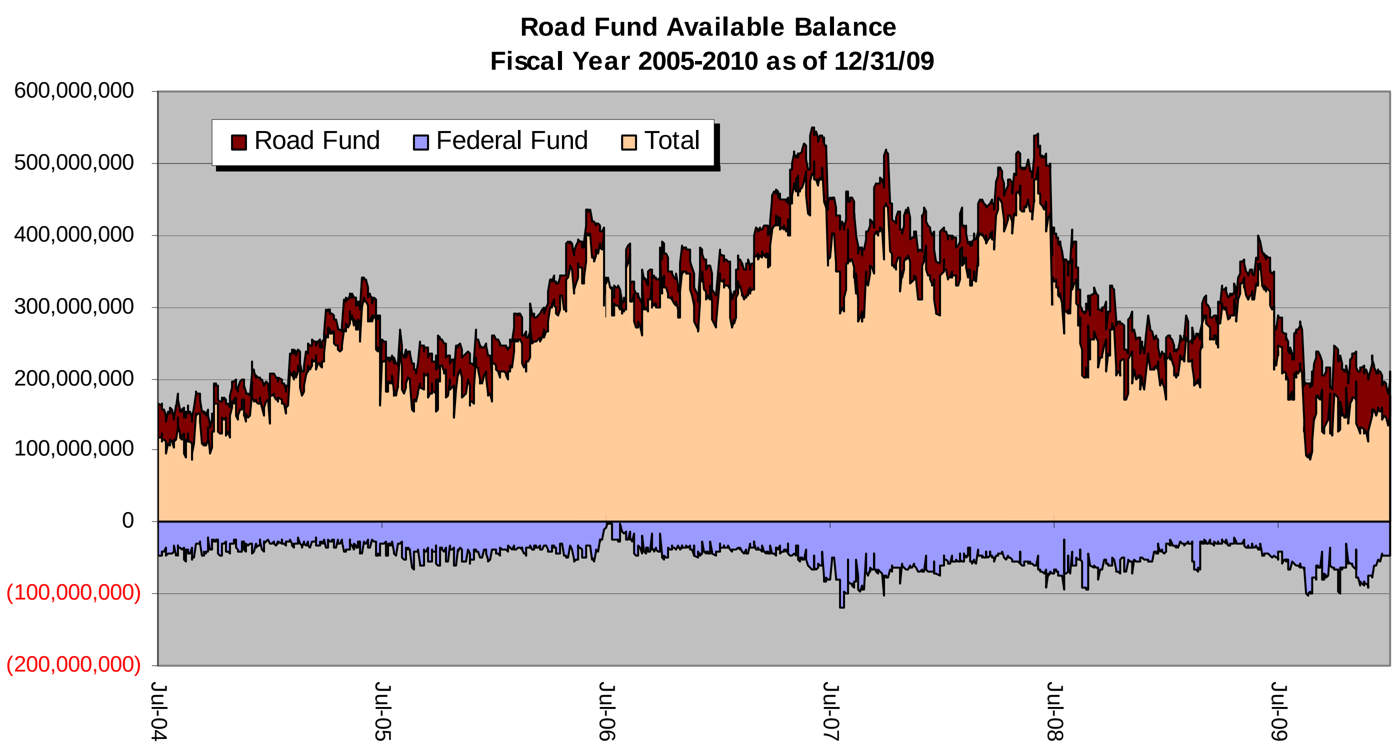
Road Fund debt service paid, net of reserve fund credits for fiscal year 2010 is expected to be $148 million, resulting in a net interest margin (investment income earned less debt service paid) of negative $144 million. The negative amount stems from the level of investable balances and a general low level of interest rates on the investment side in addition to the limited callability of fixed rate obligation on the liability side.

SPBC 73 (Third Series)

SUBSEQUENT TO THE REPORTING PERIOD:

In early January 2010, SPBC issued $13.68 million of Road Fund Revenue Refunding Bonds, Project 73 (Third Series). The proceeds of the bonds were used to (i) refinance certain maturities of SPBC Project No. 73 Bonds previously issued to provide financing for the Kentucky Transportation Cabinet office building and (ii) pay costs of issuing the Third Series Bonds.

The transaction was completed via negotiated sale with J.J.B Hilliard, W.L. Lyons, LLC serving as managing underwriter and Peck, Shaffer & Williams as bond counsel. This economic refunding transaction closed in late January 2010 and achieved approximately $473,000 in net present value savings for the Kentucky Transportation Cabinet's Road Fund.



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SUMMARY

ALCo's approach to managing the Commonwealth's interest-sensitive assets and interest-sensitive liabilities has provided tremendous flexibility and savings in financing the Commonwealth's capital construction program.

Since its inception, ALCo has been instrumental in adding incremental returns on investment income to the Commonwealth's investment portfolio. ALCo has continued to manage General Fund intra-year cash flow deficits through its TRAN program when cost effective. ALCo has issued a General Fund TRAN each fiscal year since 1998 (with the exception of FY04 and FY10), providing millions of dollars of incremental gains for the General Fund over this time (see Debt Management TRAN section for details). In addition, ALCo's management approach to project funding has allowed the Commonwealth to take advantage of short-term yields and achieve millions of dollars in budgetary savings through debt service lapses. At the end of fiscal year 2009, the Commonwealth was able to cut (budget reduction) or lapse $190 million of budgeted General Fund debt service and $30 million of budgeted Road Fund debt service. Approximately $50 million of the General Fund debt service lapse resulted from debt restructuring completed through the SPBC 90 transaction.

ALCo continues to analyze potential opportunities for savings and to evaluate new financing structures which offer the Commonwealth the ability to diversify risk within its portfolio while taking advantage of market demand for various new or unique products. However, the continuing high cost of acquiring credit/liquidity support for short-term borrowing programs when compared to the low cost of long-term financing currently available through the Build America Bond program will likely limit the Commonwealth's use of any commercial paper or other short-term construction financing programs in the near future.

APPENDIX

APPENDIX A

ALCo Financial Agreements	ALCo FRN Series A Hedge	ALCo FRN Series A Hedge	ALCo FRN Series B Hedge	ALCo FRN Series B Hedge
Fund Source	General Fund	General Fund	General Fund	General Fund
Hedge	2017 FRN	2027 FRN	2021 FRN	2025 FRN
Counter Party	Citibank	Citibank	Citibank	Citibank
Counter-Party Ratings *(Moody's / S&P / Fitch)*	A1/A+/A+	A1/A+/A+	A1/A+/A+	A1/A+/A+
Termination Trigger	A3/A-	A3/A-	A3/A-	A3/A-
Swap Type	Fixed Pay	Fixed Pay	Fixed Pay	Fixed Pay
Benchmark	67% 3M LIBOR + 40	67% 3M LIBOR + 53	67% 3M LIBOR + 52	67% 3M LIBOR + 55
Reset	Quarterly	Quarterly	Quarterly	Quarterly
Notional Amount	19,295,000	68,135,000	69,055,000	70,935,000
Amortize (yes/no)	yes	yes	yes	yes
Execution Date	5/16/2007	5/16/2007	5/16/2007	5/16/2007
Start Date	5/31/2007	5/31/2007	5/31/2007	5/31/2007
Mandatory Early Termination				
Cash Settlement Payment Date				
End Date	11/1/2017	11/1/2027	11/1/2021	11/2/2025
Fixed Rate pay-(rec)	3.839%	4.066%	4.042%	4.125%
Day Count	30/360	30/360	30/360	30/360
Payment Dates	February 1, May 1, August 1, November 1			
Security Provisions	General Fund Debt Service Appropriations			
Current Market Valuation December 31, 2009 (negative indicates payment owed by ALCo if terminated)	(1,296,784)	(5,411,137)	(5,684,045)	(6,185,748)
Interest Earnings (not applicable)				
Total	not applicable	not applicable	not applicable	not applicable

Swap Summary
As of December 31, 2009

	Total Notional Amount Executed		Net Exposure Notional Amount	
	General Fund	Road Fund	General Fund	Road Fund
	243,080,000	0	227,420,000	0

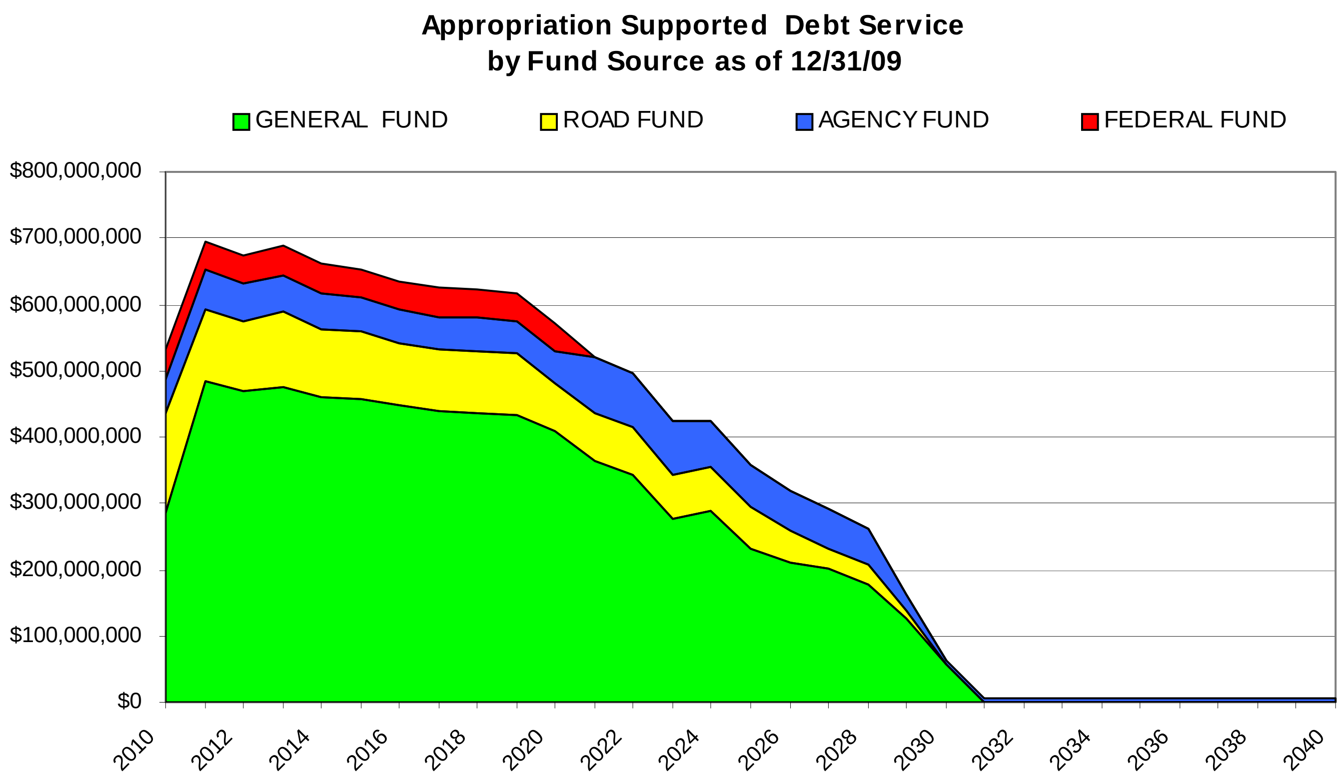
Total Notional Amount Executed by Counter Party

Citibank
243,080,000

	Debt		10 Percent Net Exposures	
	General Fund	Road Fund	General Fund	Road Fund
Bonds Outstanding	3,943,620,000	1,088,980,000	394,362,000	108,898,000
Authorized but Unissued	459,172,675	501,000,000	45,917,268	50,100,000
Total	4,402,792,675	1,589,980,000	440,279,268	158,998,000

Investment Pool Balances		10 Percent Investment Portfolio	
Other Funds	Net Road Fund	Other Funds	Net Road Fund
2,808,374,247	175,799,333	280,837,425	17,579,933

APPENDIX B


Appropriation Supported Debt Service
by Fund Source as of 12/31/09
GENERAL FUND
ROAD FUND
AGENCY FUND
FEDERAL FUND
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
2010
2012
2014
2016
2018
2020
2022
2024
2026
2028
2030
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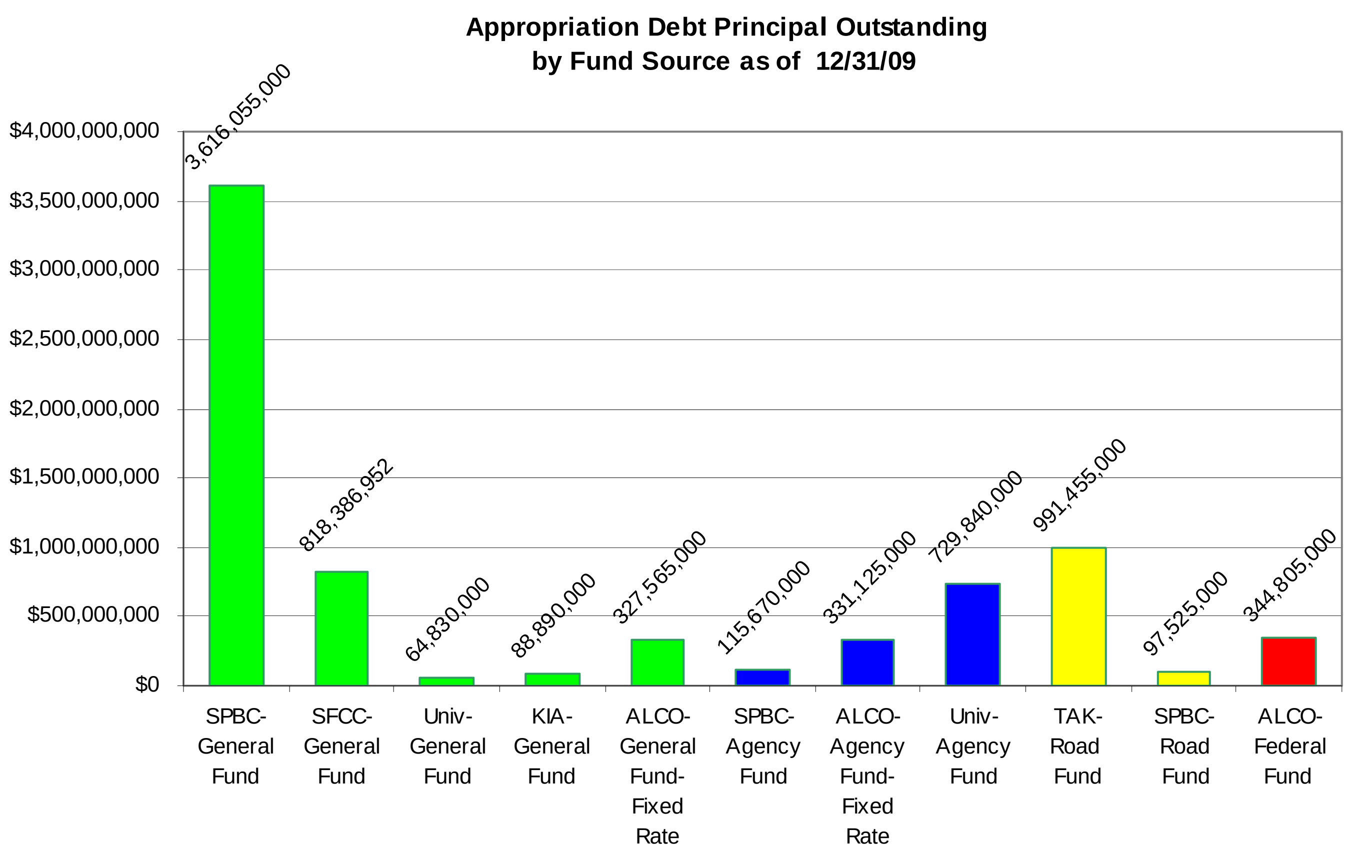
2034
2036
2038
2040


Appropriation Debt Principal Outstanding
by Fund Source as of 12/31/09
$4,000,000,000
$3,500,000,000
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$0
3,616,055,000
818,386,952
64,830,000
88,890,000
327,565,000
115,670,000
331,125,000
729,840,000
991,455,000
97,525,000
344,805,000
SPBC-General Fund
SFCC-General Fund
Univ-General Fund
KIA-General Fund
ALCO-General Fund-Fixed Rate
SPBC-Agency Fund
ALCO-Agency Fund-Fixed Rate
Univ-Agency Fund
TAK-Road Fund
SPBC-Road Fund
ALCO-Federal Fund

APPENDIX C

COMMONWEALTH OF KENTUCKY

ASSET/LIABILITY COMMISSION

SCHEDULE OF NOTES OUTSTANDING

AS OF 12/31/2009

FUND TYPE SERIES TITLE	AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
General Fund Project Notes				
2003 Series A	$171,260,000	7/2003	7/2013	$29,720,000
2005 1st Series	$81,850,000	6/2005	5/2025	$70,425,000
2007 A, B Series	$243,080,000	5/2007	11/2027	$227,420,000
FUND TOTAL	**$496,190,000**			**$327,565,000**
Agency Fund Project Notes				
2005 1st Series	$11,275,000	6/2005	6/2025	$10,075,000
2005 Series A-UK Gen Recpts	$107,540,000	11/2005	10/2025	$103,145,000
2006 Series A-UK Gen Recpts	$66,305,000	10/2006	10/2022	$59,755,000
2007 Series A-UK Gen Recpts	$77,905,000	11/2007	10/2027	$77,905,000
2007 Series B-UK Gen Recpts	$80,245,000	11/2007	10/2027	$80,245,000
FUND TOTAL	**$343,270,000**			**$331,125,000**
Federal Hwy Trust Fund Project Notes				
2005 1st Series	$139,635,000	6/2005	9/2017	$99,345,000
2007 1st Series	$277,910,000	9/2007	9/2019	$245,460,000
FUND TOTAL	**$417,545,000**			**$344,805,000**
PROJECT NOTES TOTAL	**$1,257,005,000**			**$1,003,495,000**

APPENDIX D

General Fund Bond Supported Projects Fully or Partially Financed Within the Reporting Period

PROJECT DESCRIPTION	AGENCY	Authorization Balance		SPBC 90 Allocations	SPBC 93 Allocations	Remaining Balance
Infrastructure for Economic Development Fund for Coal-Producing Counties	KIA	13,000,000	(1)	0	3,619,725	9,380,275
Infrastructure for Economic Development Fund for Tobacco Counties	KIA	7,500,000	(1)	0	0	7,500,000
Business Refund Off-Set System	Revenue	1,750,000		68,509	0	1,681,491
Construct Business Technology Center - Phase II	EKU	32,850,000		2,417,191	8,398,053	22,034,756
Expand & Upgrade Livestock Disease Diagnostic Center	UK	8,500,000		3,434,797	4,375,611	689,592
Renovate Science Campus, Phase II	WKU	33,000,000	(1)	18,365,160	9,829,473	4,805,367
LCC Classroom/Lab Building	KCTCS	31,741,000		1,581,104	551,135	29,608,761
Replace Records and Secure Evidence Facility	State Police	6,075,000		360,132	3,266,942	2,447,926
Innovation and Commercialization for a Knowledge-Based Economy Bond Pool	Economic Development	4,500,000	(1)	0	3,250,000	1,250,000
Economic Development Bond Pool	Economic Development	8,488,000	(1)	1,300,000	250,000	6,938,000
Child Support Enforcement (KASES II)	CHFS	2,040,000		225,389	124,428	1,690,183
Upgrade KASPER System DPH	Public Health	5,000,000		2,932,498	560,718	1,506,784
Upgrade HVAC Pipes & Electric - Glasgow	MHMR	117,790		117,790	0	0
KHRIS	Personnel	25,000,000		14,816,309	5,009,334	5,174,357
Kentucky Agriculture Finance Corporation - Loan Pool	GOAP	2,000,000	(1)	0	0	2,000,000
Plan and Design Glasgow State Nursing Facility	MHMR	2,000,000		0	0	2,000,000 ***
Subtotal - 2005 General Assembly		**183,561,790**		**45,618,878**	**39,235,419**	**98,707,493**
Western Kentucky Veteran's Center-Alzheimer's/General Care Unit	Veteran's Affairs	1,757,000		0	42,165	1,714,835
Public Safety Commission - Infrastructure -KEWS	COT	13,000,000	(1)	0	0	13,000,000
Infrastructure for Economic Development Fund for Non-Coal Producing Counties	KIA	112,500,000	(1)	46,736,384	24,283,951	41,479,665
Infrastructure for Economic Development Fund for Coal Producing Counties	KIA	75,000,000	(1)	28,512,130	13,915,541	32,572,329
Community Development Fund Projects	Local Development	28,958,000	(1)	8,341,063	6,469,303	14,147,634
Warren County Fiscal Court Transpark Rail Spur	Local Development	4,500,000		3,877,299	165,008	457,693
Implement Comprehensive Tax System - Phase I	Revenue	23,250,000	(1)	0	2,182,667	21,067,333
Construct Science Building	EKU	54,108,000	(1)	1,900,714	7,494,027	44,713,260
Construct Manchester Postsecondary Education Center	EKU	3,500,000	(1)	1,087,037	1,577,563	835,400
Renovate Hathaway Hall Phase II	KSU	4,920,000	(1)	4,181,393	565,175	173,432
Space Science Center - Completion	Morehead State	3,400,000	(1)	993,467	1,834,897	571,636
Construct Center for Health Education and Research	Morehead State	23,000,000	(1)	4,238,848	11,054,810	7,706,342
Construct New Science Complex - Phase III	Murray State	15,000,000	(1)	0	14,106,679	893,321
Construct Center for Informatics	NKU	35,500,000		66,625	4,934,118	30,499,257
Construct Biological/Pharmaceutical Complex Phase II	UK	79,892,000	(1)	28,218,634	46,277,417	5,395,949

(Continued next page)

APPENDIX D

General Fund Bond Supported Projects Fully or Partially Financed Within the Reporting Period

PROJECT DESCRIPTION	AGENCY	Authorization Balance	SPBC 90 Allocations	SPBC 93 Allocations	Remaining Balance
Construct HSC Research Facility IV	UL	69,680,000 (1)	57,767,730	11,869,369	42,901
Replace College of Education Building – Tate Page Hall	WKU	35,000,000	3,702,627	3,855,351	27,442,022
Construct Advanced Manufacturing Tech Center – Gateway CTC	KCTCS	28,000,000	9,179,491	8,808,701	10,011,808
Construct Emerging Technology Center West Kentucky CTC	KCTCS	16,518,000	5,834,103	7,225,156	3,458,741
Construct Allied Health/Tech Ed Building – Laurel	KCTCS	14,015,000	5,973,734	4,170,289	3,870,977
Construct Administration Building Phase I Maysville CC	KCTCS	5,008,000	1,069,520	3,179,340	759,140
Construct Science/Allied Health Building – Jefferson CTC	KCTCS	25,557,000	6,293,126	12,682,004	6,581,871
Construct Central Reg. PSE Center Phase II Elizabethtown CTC	KCTCS	20,000,000	4,272,080	9,848,679	5,879,241
Advanced Manufacturing Center – Design – Bluegrass CTC	KCTCS	1,500,000	1,169,591	5,813	324,597
Springfield Community and Technical College	KCTCS	14,500,000	4,121,943	6,349,362	4,028,695
McCreary Center – Somerset CC	KCTCS	6,500,000	996,544	3,108,827	2,394,629
Construct Tech Dr Campus Ashland CTC – Phase III	KCTCS	17,600,000 (1)	624,786	10,822,324	6,152,890
Letcher County Central Vocational Center	Education	2,000,000	194,803	0	1,805,197
Replace Master Control & Production Infrastructure	KET	15,707,000	6,815,596	6,888,841	2,002,563
New Economy High-Tech Construction/Investment Pool	Economic Development	20,000,000	0	3,407,500	16,592,500
Economic Development Bond Pool	Economic Development	17,500,000	0	0	17,500,000
Construct New Indoor Arena	Horse Park	36,500,000	26,420,652	8,527,322	1,552,026
Safeguarding Children at Risk - TWIST Rewrite II	CHFS	3,134,000 (1)	0	0	3,134,000
Oakwood – Replace Chillers Heating & Cooling Lines	MHMR	2,131,000	141,709	204,337	1,784,954
Home of the Innocents – Phase II Children's Village	Comm. Based Services	8,250,000 (1)	8,250,000	0	0
Capital Plaza Complex – Renovation – Design	Facilities Management	4,942,000	435,900	0	4,506,100
Subtotal – 2006 General Assembly		**842,327,000**	**271,417,527**	**235,856,536**	**335,052,937**
Energy Bonds	Economic Development	100,000,000	0	0	100,000,000
Subtotal – 2007 (2nd Special Session) General Assembly		**100,000,000**	**0**	**0**	**100,000,000**
Economic Development Bonds	Economic Development	50,000,000	0	0	50,000,000
Operations and Support Services-Student Data Management System-Phase II	Department of Education	4,000,000 (1)	0	0	4,000,000
FFA Leadership Training Center Renovation	Department of Education	2,000,000	0	0	2,000,000
Kentucky Heritage Land Conservation Fund - Additional	Natural Resources	17,000,000 (1)	0	0	17,000,000
State-Owned Dam Repair	Natural Resources	2,000,000	0	0	2,000,000
Petroleum Storage Tank Environmental Assurance Fund	Environmental Protection	25,000,000	0	0	25,000,000
Maintenance Pool 2008-2010	Facilities and Support Services	6,000,000	0	0	6,000,000
Public Safety Communications Infrastructure - KEWS	COT	18,000,000 (1)	0	0	18,000,000

(Continued next page)

APPENDIX D

General Fund Bond Supported Projects Fully or Partially Financed Within the Reporting Period

PROJECT DESCRIPTION	AGENCY	Authorization Balance	SPBC 90 Allocations	SPBC 93 Allocations	Remaining Balance
Fourth State Veterans Nursing Home	Department of Veteran's Affairs	10,500,000	0	0	10,500,000
Kentucky Agriculture Heritage Center	GOAP	10,000,000	0	0	10,000,000
Animal Shelters	Department of Agriculture	3,000,000	0	0	3,000,000
Infrastructure for Economic Development Fund for Coal Producing Counties	KIA	75,000,000	0	16,426,634	58,573,366
Infrastructure for Economic Development Fund for Non-Coal Producing Counties	KIA	150,000,000	0	0	150,000,000
Wastewater Projects - Fund A - State Match	KIA	4,000,000	0	0	4,000,000
Drinking Water Projects - Fund F - State Match	KIA	4,000,000	0	0	4,000,000
Flood Control Matching Funds	Department for Local Government	2,200,000 (1)	0	0	2,200,000
Maintenance Pool 2008-2010	CHFS-Gen Admin and Prog Supp	3,000,000	0	0	3,000,000
Brooklawn Child and Family Services	CHFS-Comm Based Services	2,000,000	0	0	2,000,000
Construct Hazelwood Intermediate Care Facility	CHFS-MHMR	10,000,000	0	0	10,000,000
Maintenance Pool 2008-2010	Justice-Adult Correctional Insts.	4,000,000	0	0	4,000,000
Kentucky River Locks and Dams Maintenance & Renovation Pool	KRA	17,500,000	0	3,735,832	13,764,168
Replace Power Plant Pollution Control System	Morehead State	5,700,000	4,247,631	898,744	553,625
Expand and Upgrade Livestock Disease Diagnostic Center - Phase II	UK	20,000,000 (1)	0	0	20,000,000
Renovate 4H Camps	UK	2,000,000	0	0	2,000,000
Capital Renewal and Maintenance Pool	Council on Postsecondary Ed	13,927,000	0	12,666,211	1,260,789
Research Challenge Trust Fund	Council on Postsecondary Ed	57,500,000	0	0	57,500,000
Regional University Excellence Trust Fund	Council on Postsecondary Ed	10,000,000	0	0	10,000,000
LCC Classroom/Lab Building - Additional for Eastern State Hospital Site	KCTCS	4,000,000 (1)	0	0	4,000,000
Wetland Restoration	Transportation	10,000,000	0	0	10,000,000
Maintenance Pool 2008-2010	Tourism - Parks	4,000,000	0	0	4,000,000
Upgrade HVAC Systems	Tourism - State Fair Board	2,000,000	0	18,700	1,981,300
Major Maintenance Renovation Pool	Tourism- KY Center for the Arts	8,954,000	0	0	8,954,000
Subtotal – 2008 General Assembly		**557,281,000**	**4,247,631**	**33,746,121**	**519,287,248**
TOTAL – All Financed Projects		**1,683,169,790**	**321,284,036**	**308,838,076**	**1,053,047,678**

(1) Less than full Authorization

*** SPBC 95 closed on July 9, 2009 and bond proceeds of $229,875,000 are available for projects but have not been permanently allocated.**

**** SPBC 96 closed on November 17, 2009 and bond proceeds of $364,000,000 are available for projects but have not been permanently allo-cated.**

***** Reallocated in 2009 Special Session.**

REPORT PREPARED BY:

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Creating Financial Value for the Commonwealth