

# Semi-Annual Report of the Kentucky Asset/Liability Commission

30TH EDITION

Steven L. Beshear  
Governor  
Commonwealth of Kentucky

Lori H. Flanery  
Secretary  
Finance and Administration Cabinet

F. Thomas Howard  
Executive Director  
Office of Financial Management



---

***For the period ending December 31, 2011***

This report may be viewed at:

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

The Commonwealth's Comprehensive Annual Financial Report (CAFR)

may be viewed at:

<http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/cafr.htm>

The Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA) website is located at:

<http://emma.msrb.org/>

**TABLE OF CONTENTS**

SECTION	PAGE
Introduction	4
Investment Management	5
Market Overview	5
Portfolio Management	10
Debt Management	13
Financial Agreements	16
Asset/Liability Model	16
Summary	19
 <b><i>Appendix</i></b>	
A - Swap Summary	21
B - Appropriation Supported Debt	22
C - ALCo Notes Outstanding	23

## INTRODUCTION

This is the Kentucky Asset/Liability Commission's (ALCo) thirtieth semi-annual report pursuant to KRS 56.863 (11) for the period beginning July 1, 2011 through December 31, 2011. 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

- The U.S. economy is in expansion mode with 10 consecutive quarters of growth in real Gross Domestic Product (GDP); although, the rate of expansion remains well below historic norms.
- The unemployment rate is gradually falling, ending the year at 8.5%; however, much of the decline can be attributed to individuals leaving the work force. On average, approximately 137,000 jobs per month were created during the year with acceleration in the rate at the end of the year.
- The Federal Reserve continues to target Federal Funds in the range of 0.00 to 0.25 percent. The Fed also initiated "Operation Twist" in which they sell short U.S. Treasuries and buy long U.S. Treasuries in a thus far successful attempt to drive longer term interest rates down.
- The sovereign credit problems continue in Europe as Greece approaches a debt restructuring; the credit worthiness of other countries, including France, is called into question; and the Economic Union teeters on the verge of recession.
- World wide economic growth appears to be slowing, driven by tepid growth in the U.S., the potential recession in Europe, and the resulting spillover effects in the developing world as the rate of growth in China slows.

### On the state level

- General Fund receipts increased 3.1% for the first six months of fiscal year (FY) 2012 compared to the same timeframe in FY 2011.
- Road Fund receipts increased 7.4% for the first six months of FY 2012 compared to the same timeframe in FY 2011.
- Implementation of bond authorizations from prior-year sessions of the General Assembly continued.
- The Consensus Forecast Group (CFG) met on December 21, 2011. The CFG's official estimate of General Fund revenues for FY 2012 was revised to \$9,007.7 million, an increase of \$136.5 million from the official estimate. General Fund official revenue estimates are \$9,220.6 million for FY 2013 and \$9,500.3 million for FY 2014. General Fund revenues are projected to grow at a rate of 2.4% in FY 2013 and 3.0% in FY 2014.
- The CFG also revised the official estimate for Road Fund revenues for FY 2012 to \$1,412.5 million, a \$71.6 million increase from previous estimates. Road Fund revenue estimates are \$1,498.9 million for FY 2013 and \$1,568.0 million for FY 2014. Road Fund revenues are projected to grow to a rate of 6.1% in FY 2013 and 4.6% in FY 2014.

## INVESTMENT MANAGEMENT

### ***MARKET OVERVIEW***

Over the past year, the U.S. economy has continued to recover from the Great Recession; however, growth has been at levels well below past recoveries. The accompanying chart shows that real GDP growth has been positive every quarter since the second calendar quarter of 2009. When comparing this recovery to the early 80's, during the first two years following that recession, the economy averaged a 6.66% increase. In the more recent experience, the economy has only managed to grow at an average rate of 2.46%.

This is clearly evident when examining the various employment statistics. The unemployment rate peaked at 10.0% in October 2009, and has fallen by 1.5% to 8.5% after 26 months at the end of 2011. During the early 80's recession, unemployment peaked at 10.8% in December, 1982. The rate had declined to 7.2% 26 months later, a 3.6% improvement. Part of this reduction in unemployment has been creation of new jobs. Although the economy has created an average of 137,000 jobs per month during the year, this rate is not fast enough job creation to reduce the unemployment rate. The unemployment rate has dropped primarily because the rate of participation in the labor force has dropped to only 64.0% from a 2007 high of 66.4%.

The Federal Reserve Board has continued to run a stimulative monetary policy. The Fed Funds target rate has remained in the range of 0.00% to 0.25% since December of 2008. The Fed has undertaken two rounds of quantitative easing in which they pur-

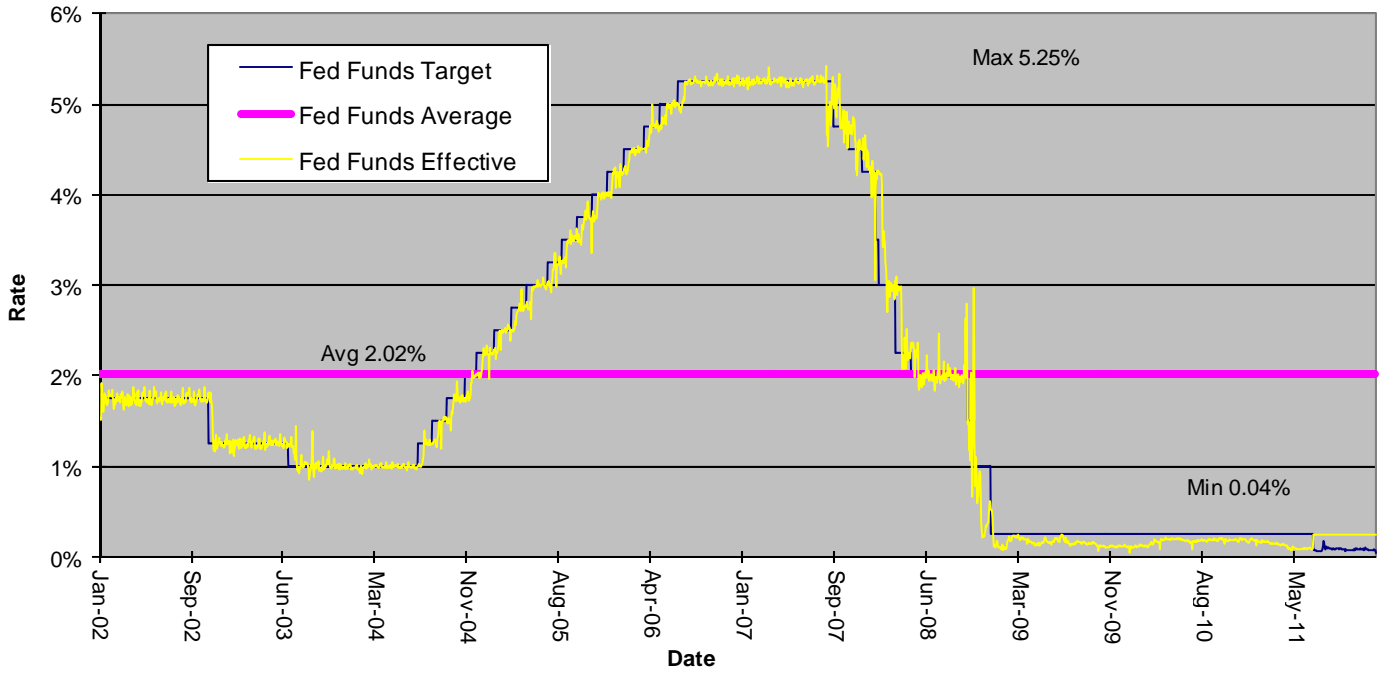
chase longer term securities, primarily Treasuries and Agency Mortgage-Backed Securities, in an effort to drive interest rates down. The Fed's logic, as Chairman Bernanke recently explained, is that the housing market should be a major part of the economy and one of the primary counter-cyclical components. When the economy is doing poorly, interest rates decline. This creates opportunities for the 90+% of people who have jobs to either refinance their homes at lower rates, providing excess cash to spend, or to buy new homes at the lower financing rates.

The weakness in the housing market is driven in large part by price. A financial "bubble" occurs when the price of an asset is driven too high through excessive or artificial demand. When the bubble "pops," prices fall to economically sustainable levels. While an "average" price for houses is difficult to calculate, the Case-Shiller composite index gives a good indication of price levels. After several years of double digit price increases, prices began to fall in 2007 and have continued to fall ever since, with the exception of a period in 2010 when the First Time Home Buyer tax break propped up the market. Because the prices of homes have fallen, many mortgages are underwater as the size of the mortgage exceeds the price of the home. This results in fewer people being able to sell their homes and use the net proceeds as a down payment on a new home. Sales of new homes have fallen from over 1.2 million in 2005 to only about 300,000 in 2011.

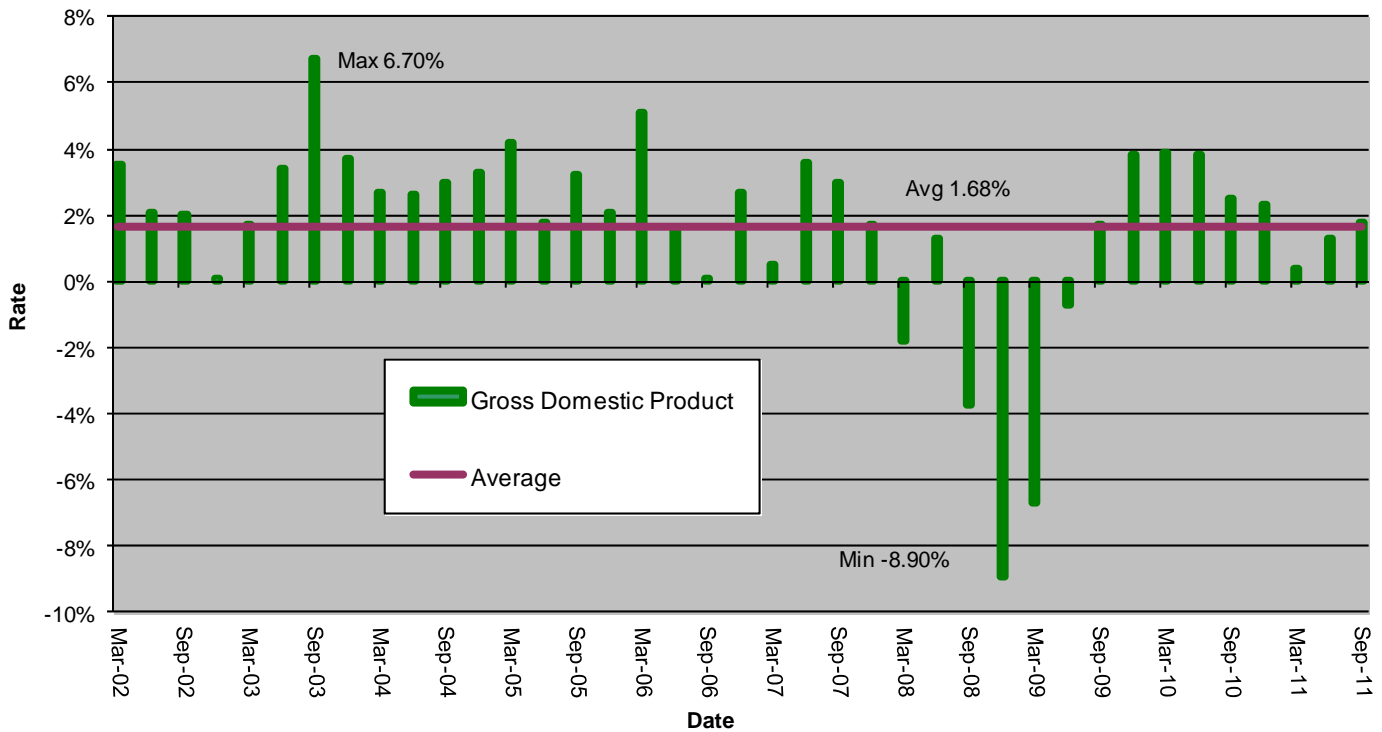
# INVESTMENT MANAGEMENT

## Federal Funds Target Rate & Real Gross Domestic Product

**Federal Funds Target Rate**  
 Range 1/1/02 - 12/31/11  
 FDTR Index, FEDL01 Index



**Real Gross Domestic Product**  
 Quarter Over Quarter  
 Range 1/1/02 - 12/31/11  
 GDP CQOQ Index

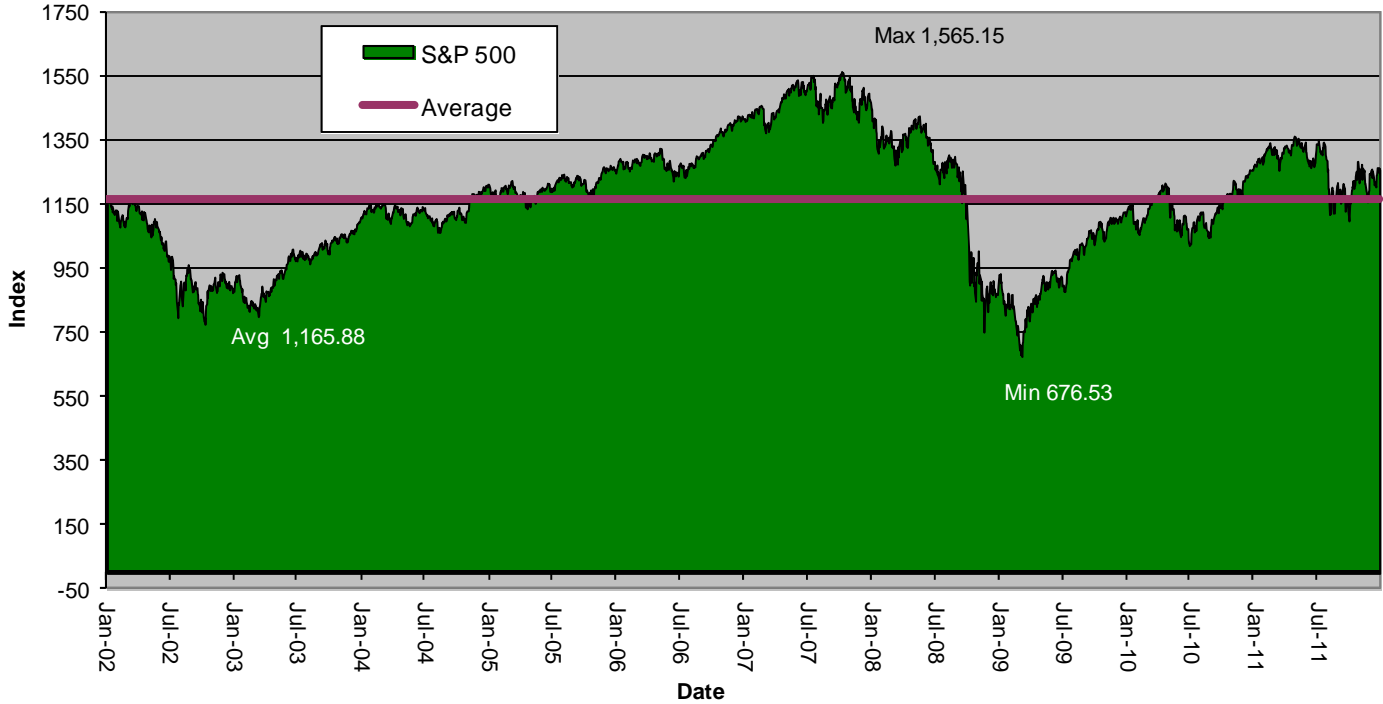


# INVESTMENT MANAGEMENT

## S&P 500 & Unemployment Rate

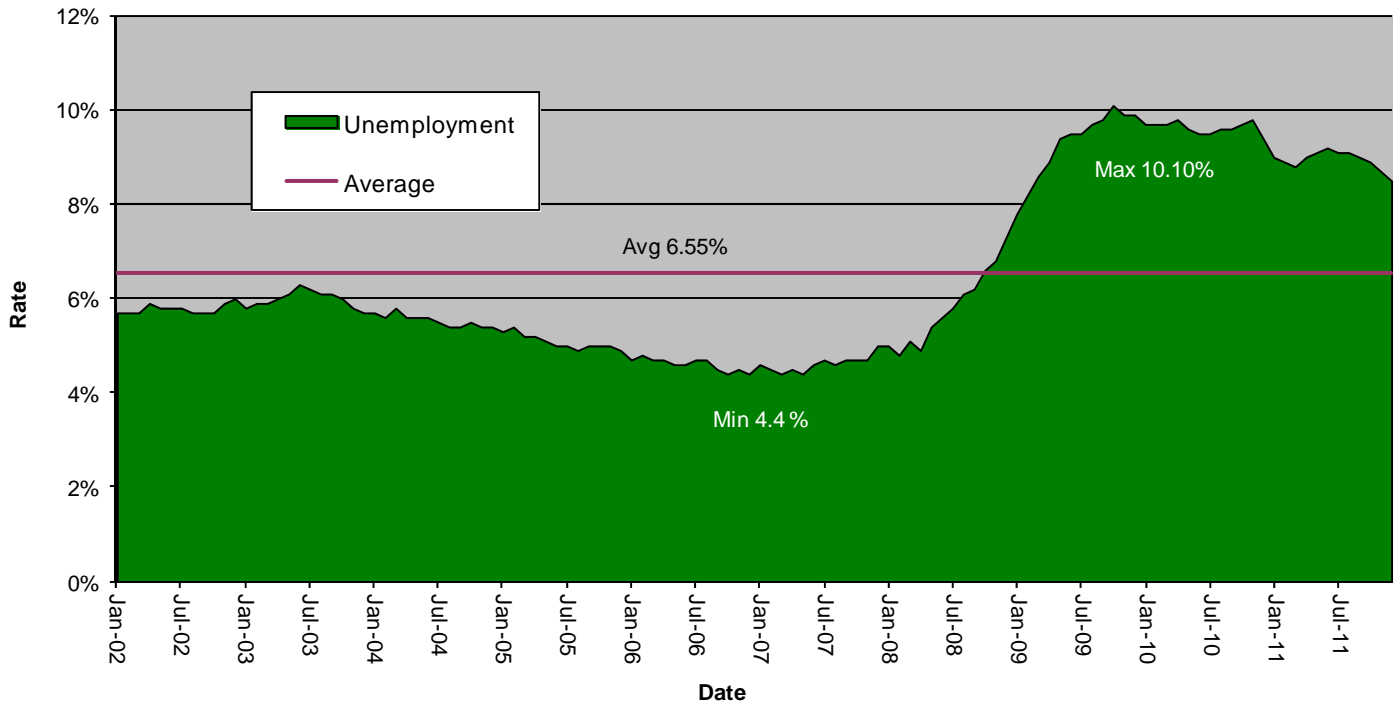
### S&P 500

Range 01/01/02-12/31/11  
SPX Index



### Unemployment Rate

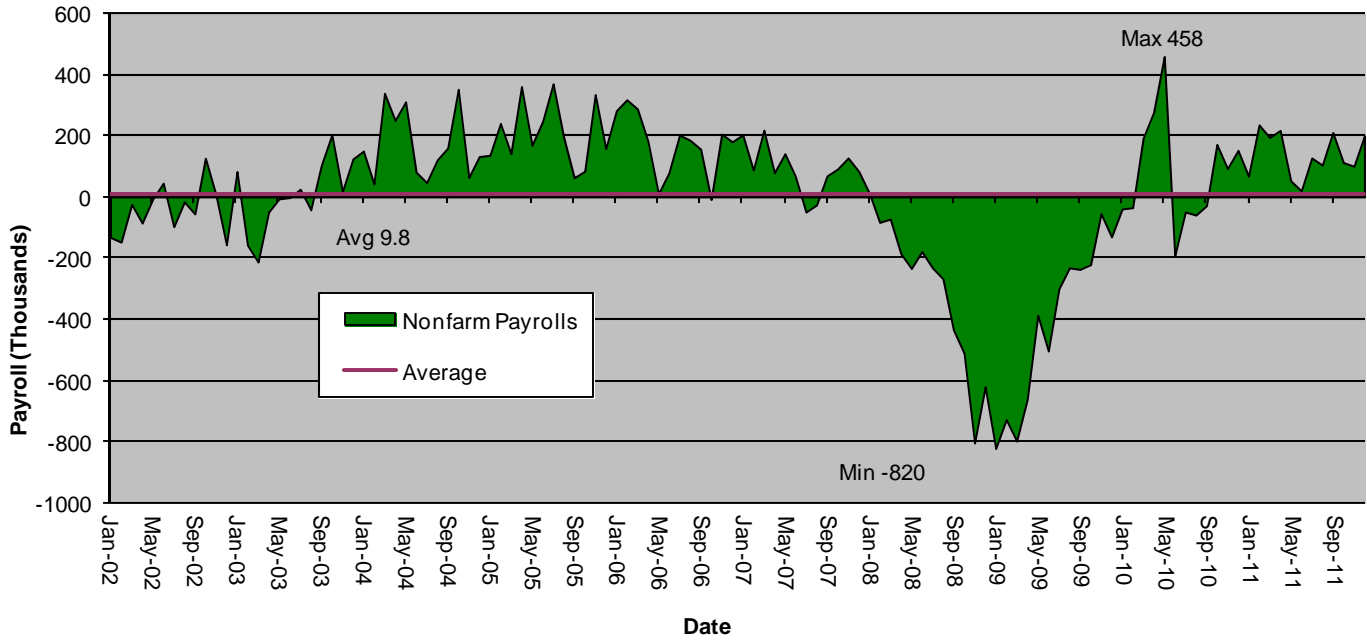
Range 1/1/02-12/31/11  
USURTOT Index



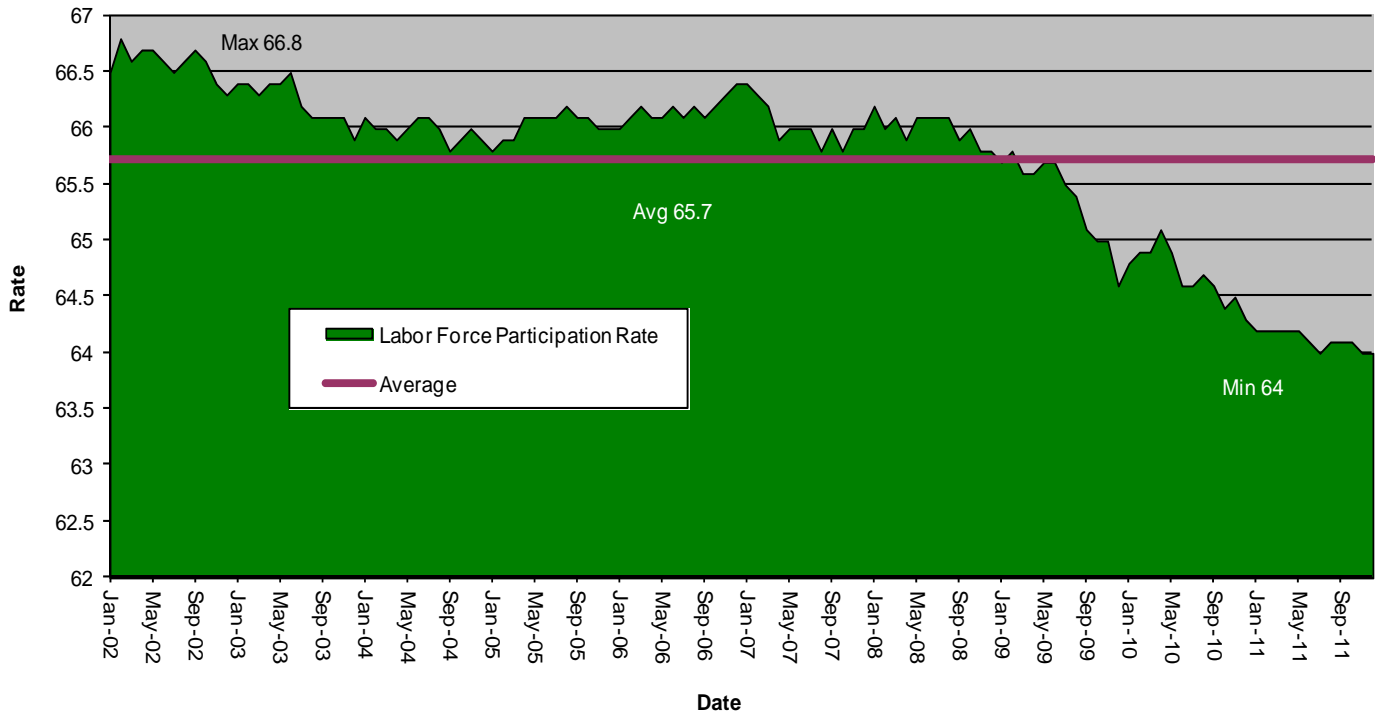
# INVESTMENT MANAGEMENT

## Non Farm Payrolls & Labor Force Participation Rate

**Nonfarm Payrolls**  
Range 1/1/02 - 12/31/11  
NFPTCH Index



**Labor Force Participation Rate**  
Range 1/1/02 - 12/31/11  
PRUSTOT Index

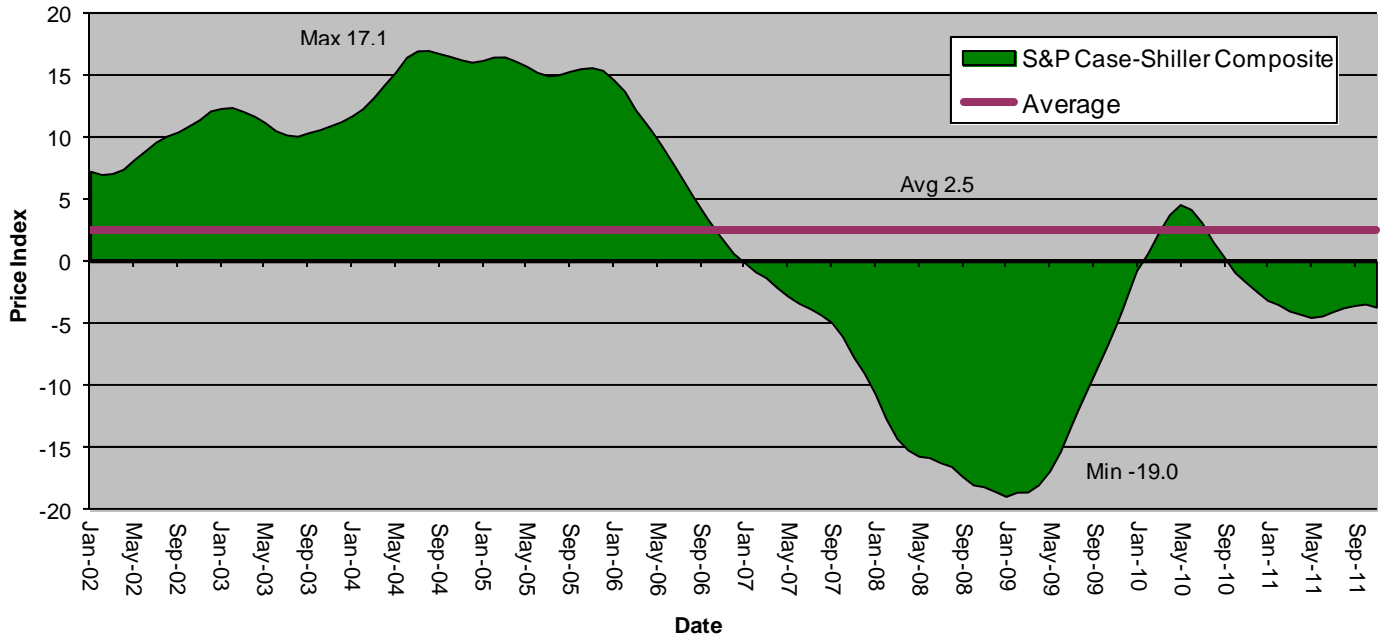




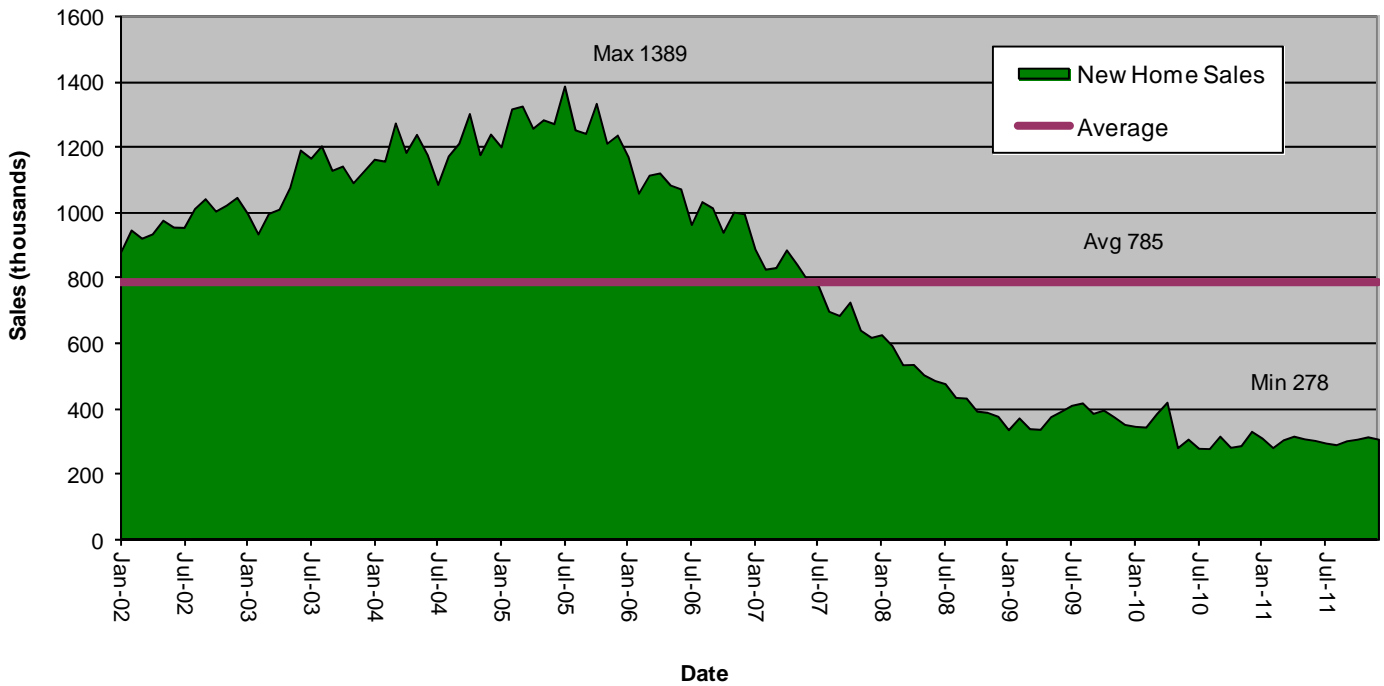
# INVESTMENT MANAGEMENT

## Case-Shiller Price Index & New Home Sales

**Case-Shiller Price Index**  
Range 1/1/02 - 12/31/11  
SPCS20Y% Index



**New Home Sales**  
Range 1/1/02 - 12/31/11  
NHSLTOT Index



## INVESTMENT MANAGEMENT

### ***PORTFOLIO MANAGEMENT***

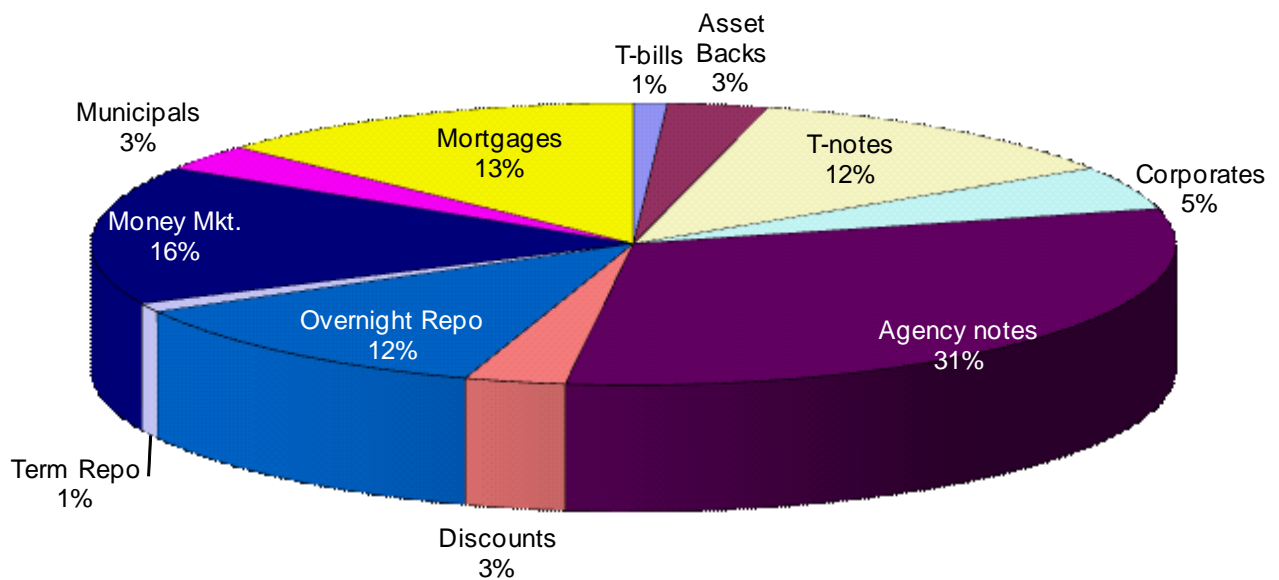
For the six months ended December 31, 2011, the Commonwealth's investment portfolio averaged \$3.5 billion. As of December 31, 2011, the portfolio was invested in U. S. Treasury Securities (13 percent), U. S. Agency Securities (34 percent), Mortgage Pass Through Securities (1 percent), Collateralized Mortgage Obligations (12 percent), Repurchase Agreements (13 percent), Municipal Securities (3 percent), Corporate Securities (5 percent), Asset-Backed Securities (3 percent), and Money Market Securities (16 percent). The portfolio had a market yield of 0.54 percent and an effective duration of 0.94 years.

The total portfolio is broken down into two investment pools. The pool balances as of December 31, 2011, were: Short Term Pool - \$943 million, and Intermediate Term Pool - \$2,276 million.

Total investment income from all investments, on a cash basis, for the six months ended December 31, 2011, was \$16.3 million versus \$19.8 million for the six months ended December 31, 2010. On a full mark-to-market basis, investment income was \$13.5 million for the six months ended December 31, 2011, versus \$18.6 for the six months ended December 31, 2010.

OFM has engaged PFM Asset Management LLC to conduct an evaluation of existing statutes and regulations, general investment functions, portfolio performance benchmarks, reporting and suggested best practices.

**Distribution of Investments as of December 31, 2011**



## INVESTMENT MANAGEMENT

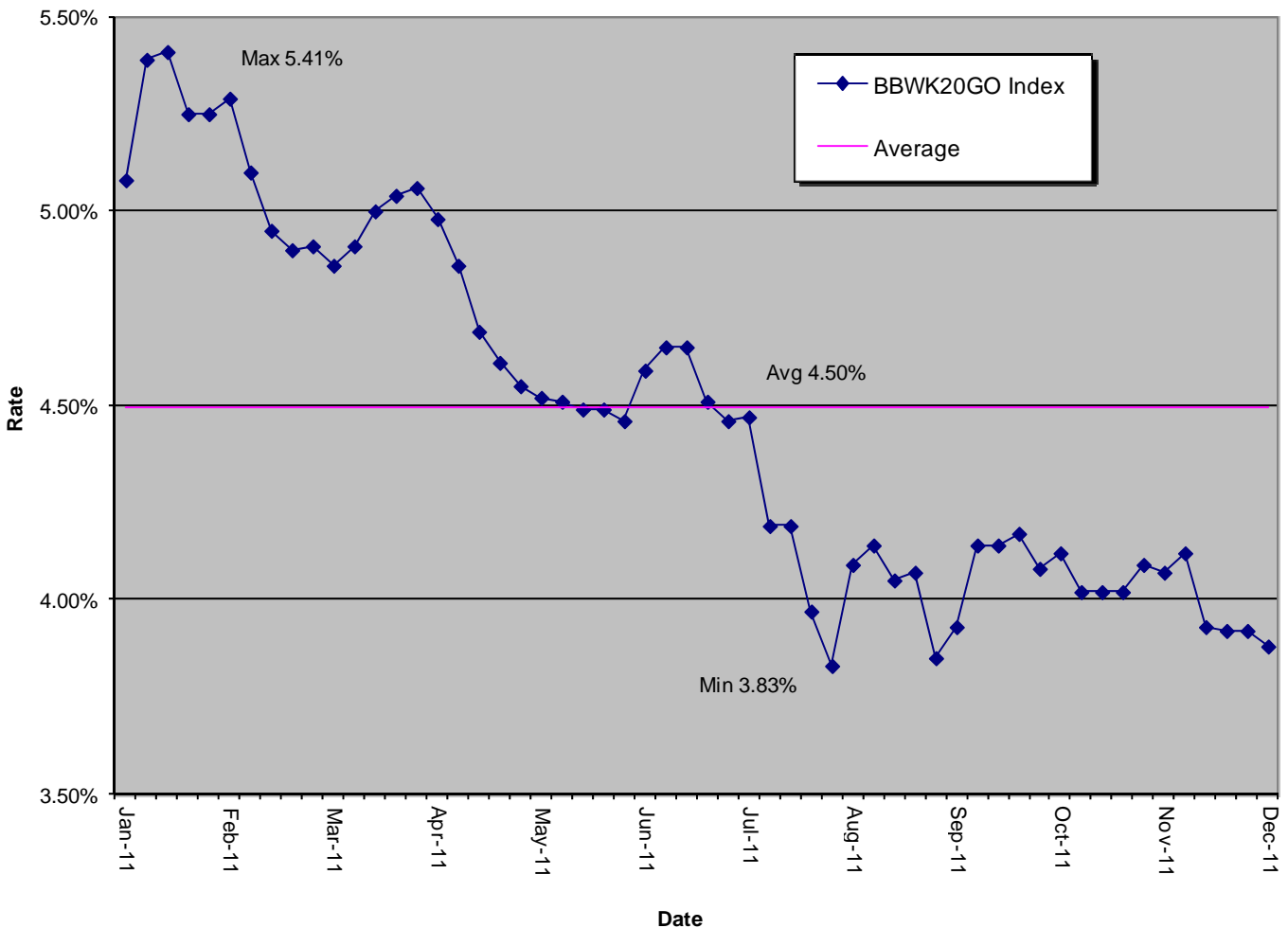
### ***Tax-Exempt Interest Rates and Relationships***

The Bond Buyer 20 year General Obligation Index averaged 4.50% for calendar year 2011. The high was 5.41% in January 2011 and the low was 3.83% in August 2011 with the year end at 3.88%.

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index averaged 0.18% for calendar year 2011. The high was 0.29% in January 2011 and the low was 0.07% in July

2011 and it ended the year at 0.10%. The 30-day USD London Interbank Offered Rate (LIBOR) averaged 0.23% for calendar year 2011. The calendar year high was 0.29% in December 2011 and the low was 0.19% in July 2011 and it ended the year at 0.29%. During the year, SIFMA traded at a high of 127% of the 30-day LIBOR in April 2011 and at a low of 34% in December 2011 with an average of 77% for the year. The year ended with SIFMA at 34% of the 30-day LIBOR.

**Bond Buyer 20 General Obligation Index**  
Range 01/01/11 - 12/31/11  
BBWK20GO Index

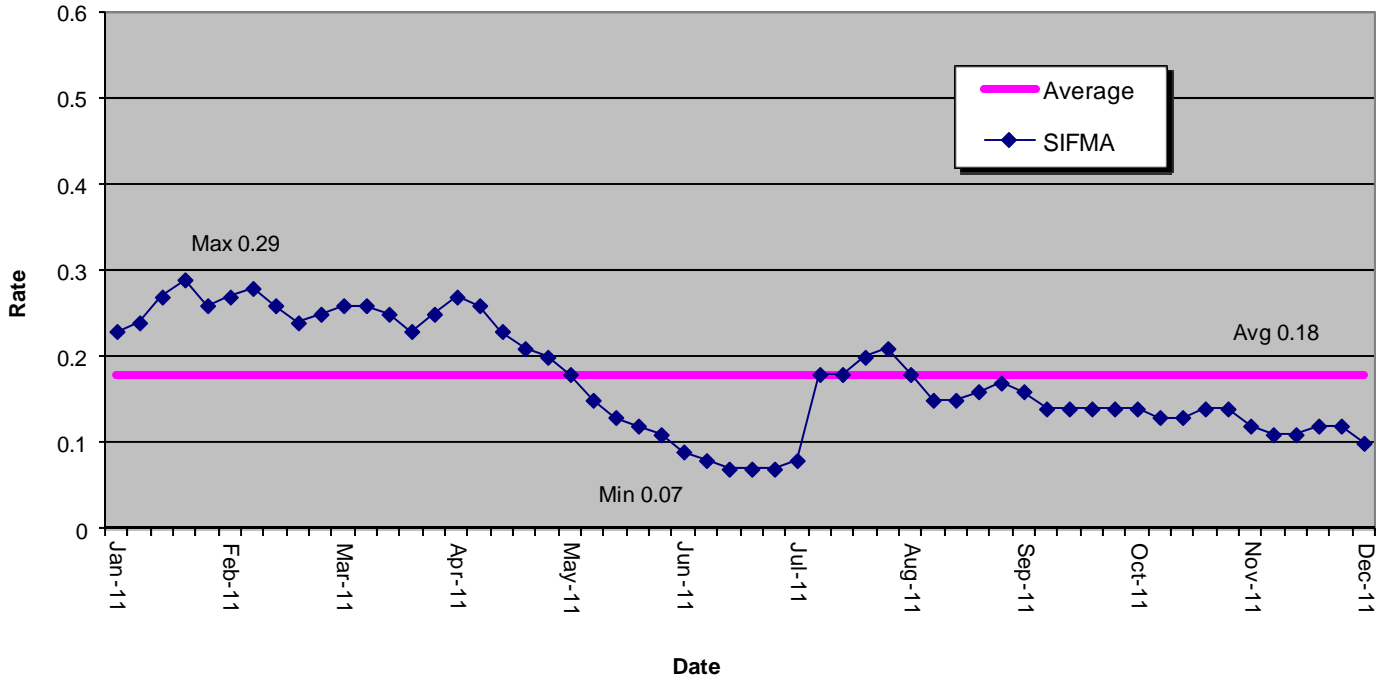


# INVESTMENT MANAGEMENT

## SIFMA and SIFMA/LIBOR Ratio

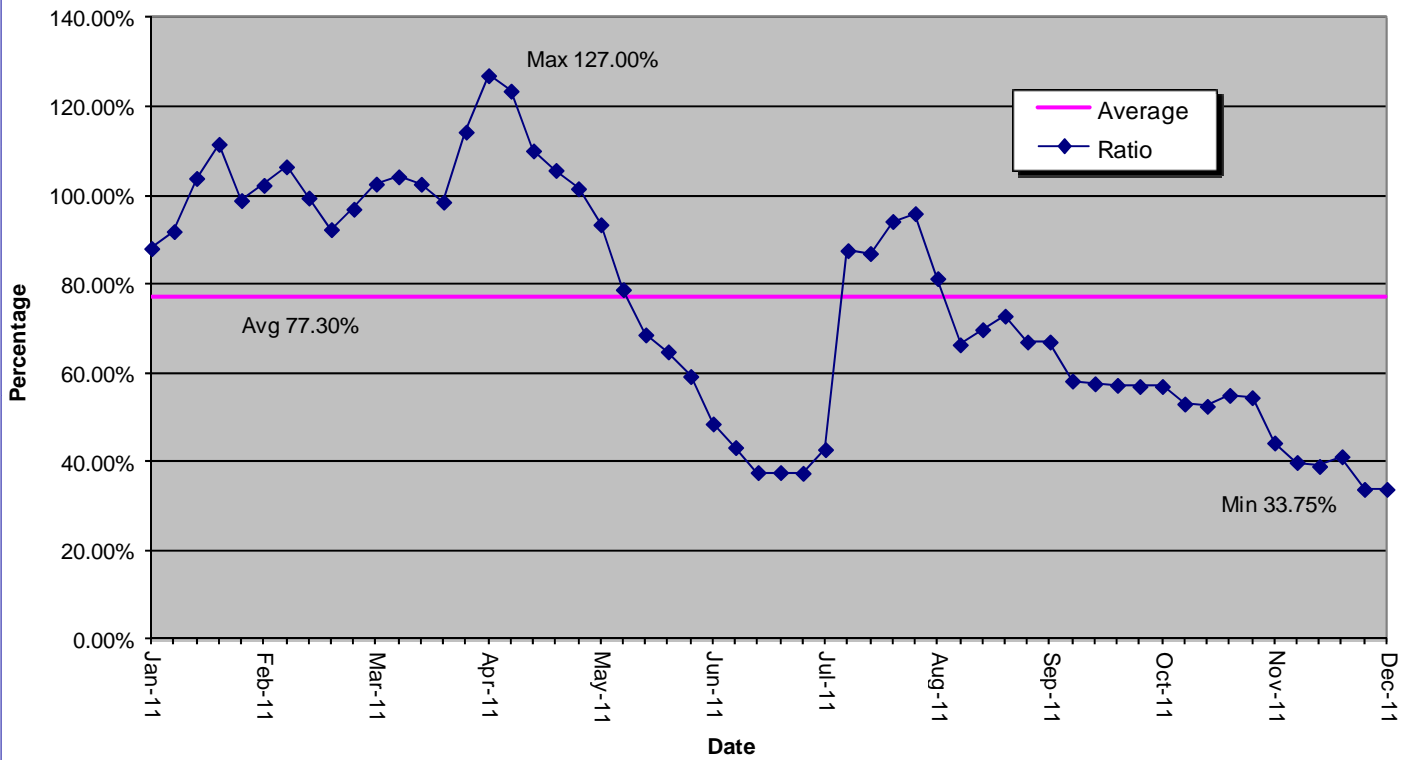
### SIFMA Rate

Range 01/01/2011 - 12/31/2011  
MUNIPSA Index



### SIFMA / LIBOR Ratio

Range 01/01/2011 - 12/31/2011



## DEBT MANAGEMENT

The 2010 Special Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) to the Governor on May 28, 2010 and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling \$1.980.2 billion to support various capital initiatives of the Commonwealth. Of the total authorization, \$507.4 million is General Fund supported, \$522.5 million is supported by Road Fund appropriations, \$515.3 million is Agency Restricted Fund supported and \$435 million is Federal Highway Trust Fund supported and designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. A portion of the General Fund, Road Fund, and Agency Restricted Fund authorizations listed above have been permanently financed.

As of December 31, 2011, the unissued balances of bond authorizations from the General Assembly prior to and including 2010 were:

General Fund - \$304.6 million

Road Fund - \$666.5 million

Agency Restricted Fund - \$421.1 million

Federal Highway Trust Fund - \$566 million

Interim note financing through ALCo has not been available over the past two years due primarily to increased funding costs related to credit facilities for this type of program. However, ALCo continues to analyze potential interim borrowing structures and may look to re-establish this type of program in the future, if economically beneficial, to provide interim construction financing for the balance of the authorizations discussed above as well as future authorizations, as necessary.

### *Ratings Update*

The rating agencies continually monitor the Commonwealth's budgetary policies and actual performance in areas such as revenue, the economy and debt management. Unemployment and the softening in the national and state economies over the past few years have continued to put pressure on the Commonwealth's credit ratings.

In October of 2011, Moody's affirmed their "Aa2" issuer credit rating for the Commonwealth and their "Aa3" rating on the Commonwealth's General Fund lease supported bonds as well as their "Aa2" rating on the Commonwealth's Road Fund lease supported bonds. Moody's noted that the issuer rating reflects the Commonwealth's record of financial control, including close monitoring of revenues and proactive responses to lowered revenue estimates. They also noted that this strength is offset by low per-capita income levels, above-average debt levels and low pension funded levels. Moody's maintained their "negative" rating outlook on the Commonwealth stating that the outlook reflects "significant fiscal stress related to the economic downturn, a large and growing unfunded pension liability and a trend of reliance on non-recurring budget balancing measures, including debt restructuring for near-term savings and accrual of teacher retiree health insurance costs". Moody's has maintained a "negative" rating outlook on the Commonwealth's issuer credit rating as well as its General and Road Fund lease appropriation ratings since April of 2008.

In October of 2011, Fitch Ratings affirmed their "AA-" rating on the Commonwealth's General Fund and Road Fund lease supported bonds. In their review, they noted the Commonwealth's reduced financial flexibility as fund balances have been depleted amidst revenue shortfalls associated with the recession. They also noted that the enacted budget for the current biennium will require

## DEBT MANAGEMENT

continued aggressive cost cutting and that they remained concerned about weak pension funding levels, the Commonwealth's rising debt position and use of debt financing for operations. They also noted that fiscal pressures caused by the demands of long-term liabilities, particularly increasing needs of the employee retirement system, could lead to a future rating downgrade. Fitch Ratings affirmed its "negative" rating outlook on the Commonwealth at the time.

In October of 2011, S&P affirmed its "A+" rating on the Commonwealth's General Fund, Road Fund, and Agency Fund lease supported bonds. S&P noted that the rating reflected their view of the risks associated with lease appropriation debt and the general creditworthiness of the Commonwealth of Kentucky. S&P reiterated their "stable" rating outlook on the Commonwealth's issuer credit rating and General Fund lease appropriation rating, which they have maintained since June of 2009.

### ***Tax and Revenue Anticipation Notes (TRAN)***

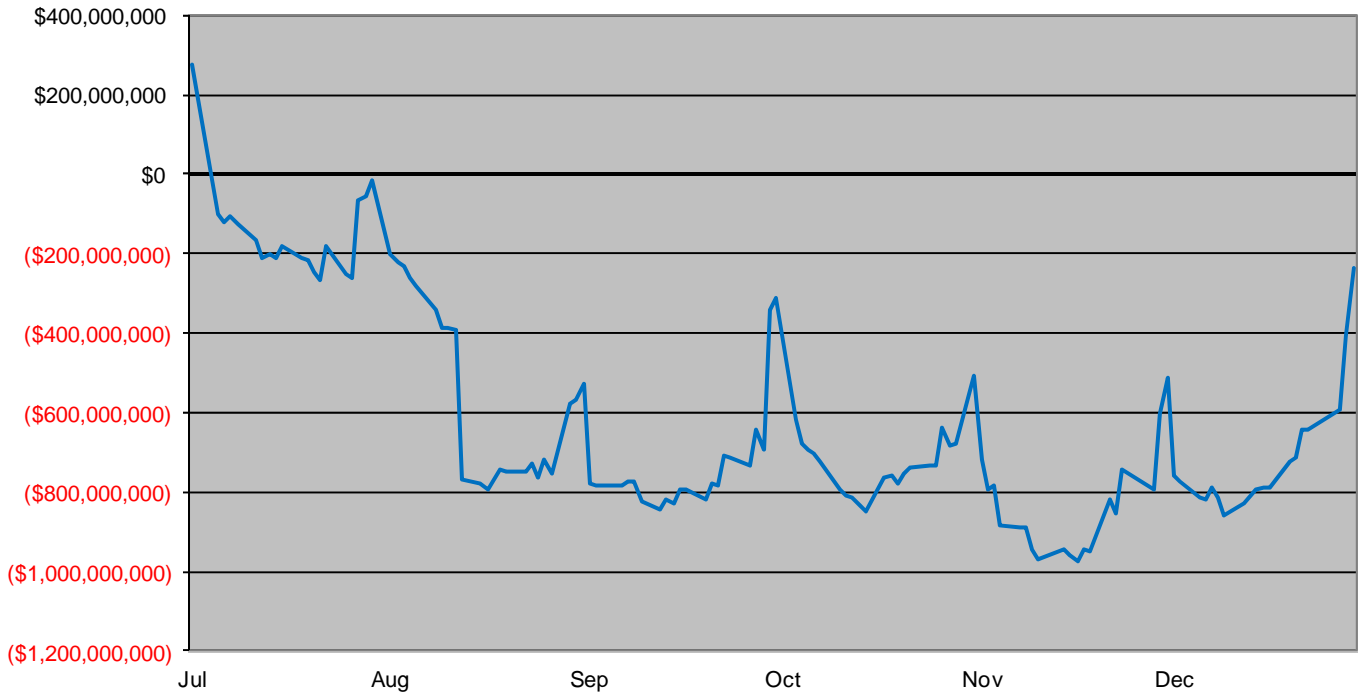
No General Fund TRAN was issued for fiscal year 2012. As in the previous two fiscal years, current reinvestment yields on TRAN proceeds would not be significantly higher than the cost of funds for a TRAN. At this time, borrowing internally from the state investment pools continues to be the most efficient and cost-effective way to provide short-term liquidity to the General Fund.

<b>Fiscal Year</b>	<b>TRAN size</b>	<b>Economic Benefit</b>
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
2011	NA	NA
2012	NA	NA

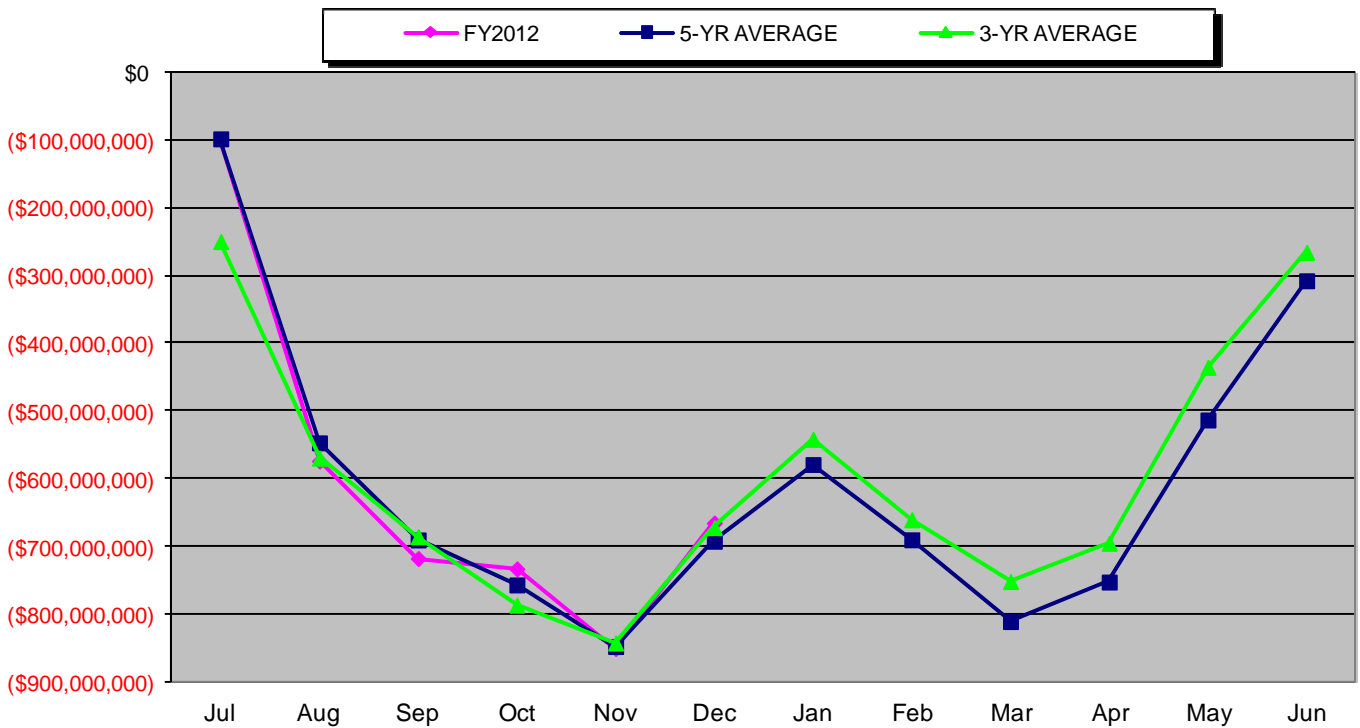
(\$ in millions)

# DEBT MANAGEMENT

**General Fund Cash Balance  
Fiscal Year 2012**



**General Fund Monthly Average  
(Excluding TRAN Proceeds)**



## DEBT MANAGEMENT

### ***FINANCIAL AGREEMENTS***

As of December 31, 2011, ALCo had four financial agreements outstanding, with a net notional exposure amount of \$216.475 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. The current counterparty on the four interest rate swaps is Deutsche Bank AG.

Details related to the interest rate swaps as of December 31, 2011 are presented in Appendix A.

### ***ASSET/LIABILITY MODEL***

#### **General Fund**

The total SPBC debt portfolio as of December 31, 2011 had \$4,210 million of bonds outstanding with a weighted average coupon of 5.00 percent and a weighted average life of 8.36 years. The average coupon reflects an amount of taxable bonds issued under the Build America Bond Program during 2009 and 2010 as well as continued investor prefer-

ence for tax-exempt callable premium bonds in the current market at a yield lower than par or discount coupon bonds. The \$1,251 million callable portion had a weighted average coupon of 5.08 percent.

The SPBC General Fund debt structure has 30 percent of principal maturing in 5 years and 67 percent of principal maturing in 10 years. The first ratio is approximately in line with the rating agencies’ proposed target of 27-30 percent due in 5 years, and the second ratio is above rating agencies’ proposed target of 55-60 percent maturing within 10 years, primarily influenced by debt restructuring.

The General Fund had a high balance of \$276 million at the beginning of fiscal year 2012 and a low of negative \$974 million on November 16, 2011.

The average and median balances were a negative \$615 million and a negative \$734 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 is expected to be \$447.3 million for fiscal year 2012. 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.

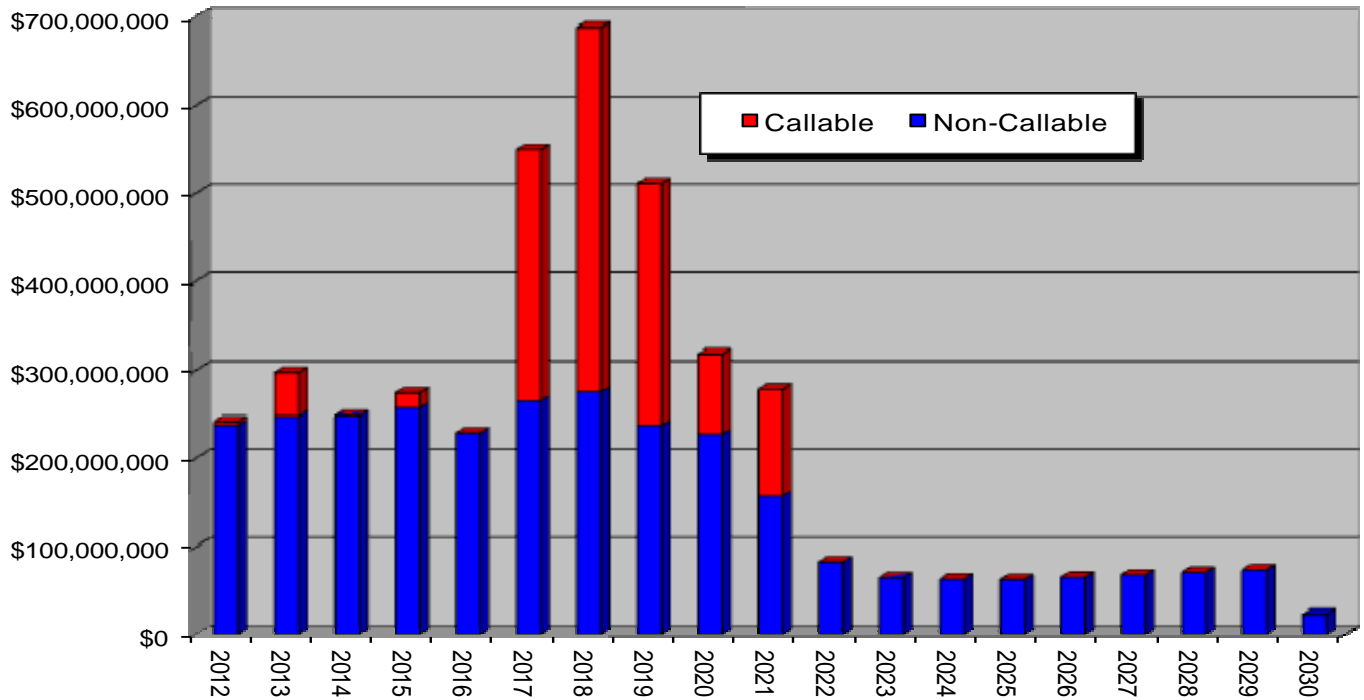
#### ***SPBC 101***

In early November of 2011, SPBC sold \$73,905,000 Revenue Refunding Bonds, Project No. 101 and closed the transaction on November 15, 2011. The transaction was (1) a current economic refunding of certain outstanding bonds of the State Property and Buildings Commission and of the Kentucky Infrastructure Authority to achieve \$7.18 million in Net Present Value savings for the General Fund, and (2) provided funding to pay costs of issuing the bonds.

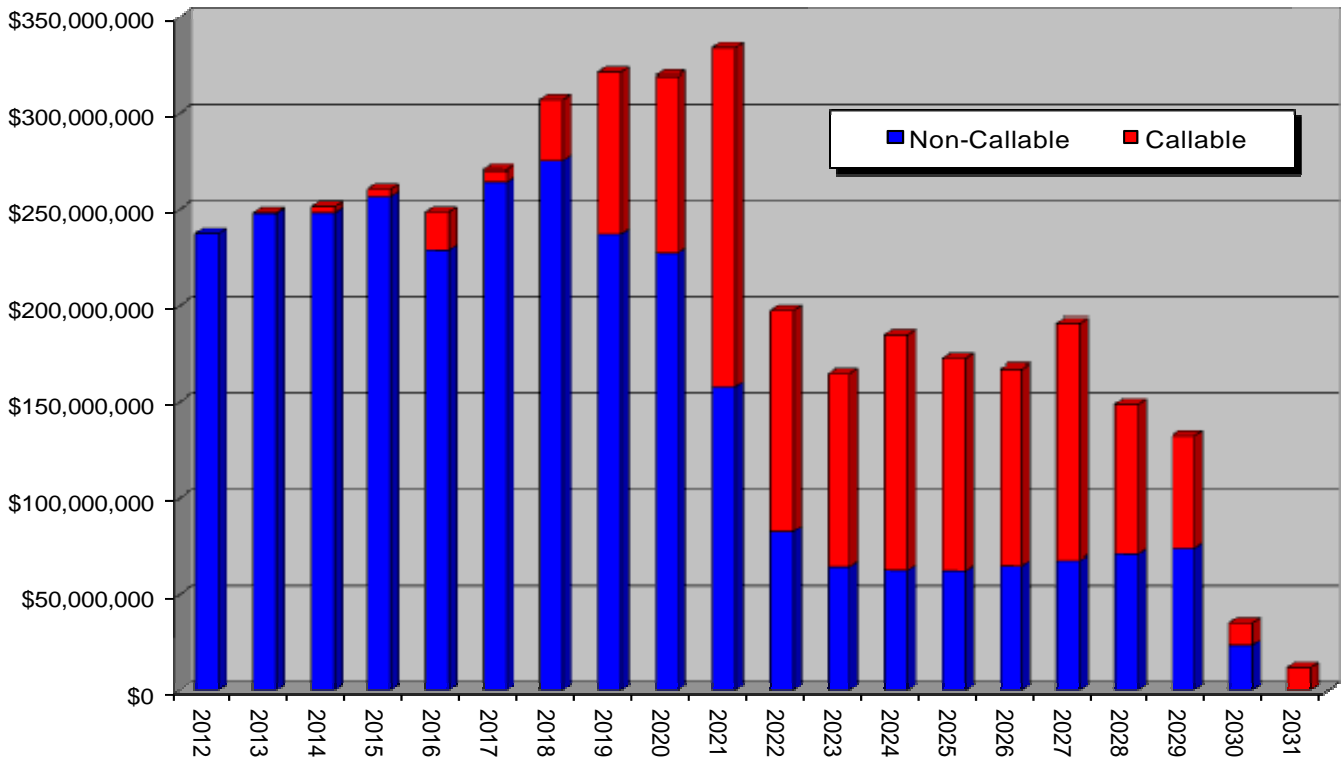


## DEBT MANAGEMENT

**Call Analysis by Call Date  
State Property and Buildings Commission Bonds**



**Call Analysis by Maturity Date  
State Property and Buildings Commission Bonds**



## DEBT MANAGEMENT

The bonds consisted of a single series of tax-exempt serial bonds. The bonds received ratings of Aa3/A+/AA- from Moody's, S&P and Fitch, respectively. S&P assigned a stable outlook at the time of the transaction, while Moody's and Fitch maintain negative outlooks for the Commonwealth. The bonds were sold via negotiated sale with Morgan Stanley serving as senior managing underwriter and Peck, Shaffer & Williams LLP as bond counsel. The transaction was sold on schedule, achieved very attractive rates with an All-In True Interest Cost of 2.273%, had an average life on the bonds of 3.384 years, and received approximately 91% in retail orders.

### ***Road Fund***

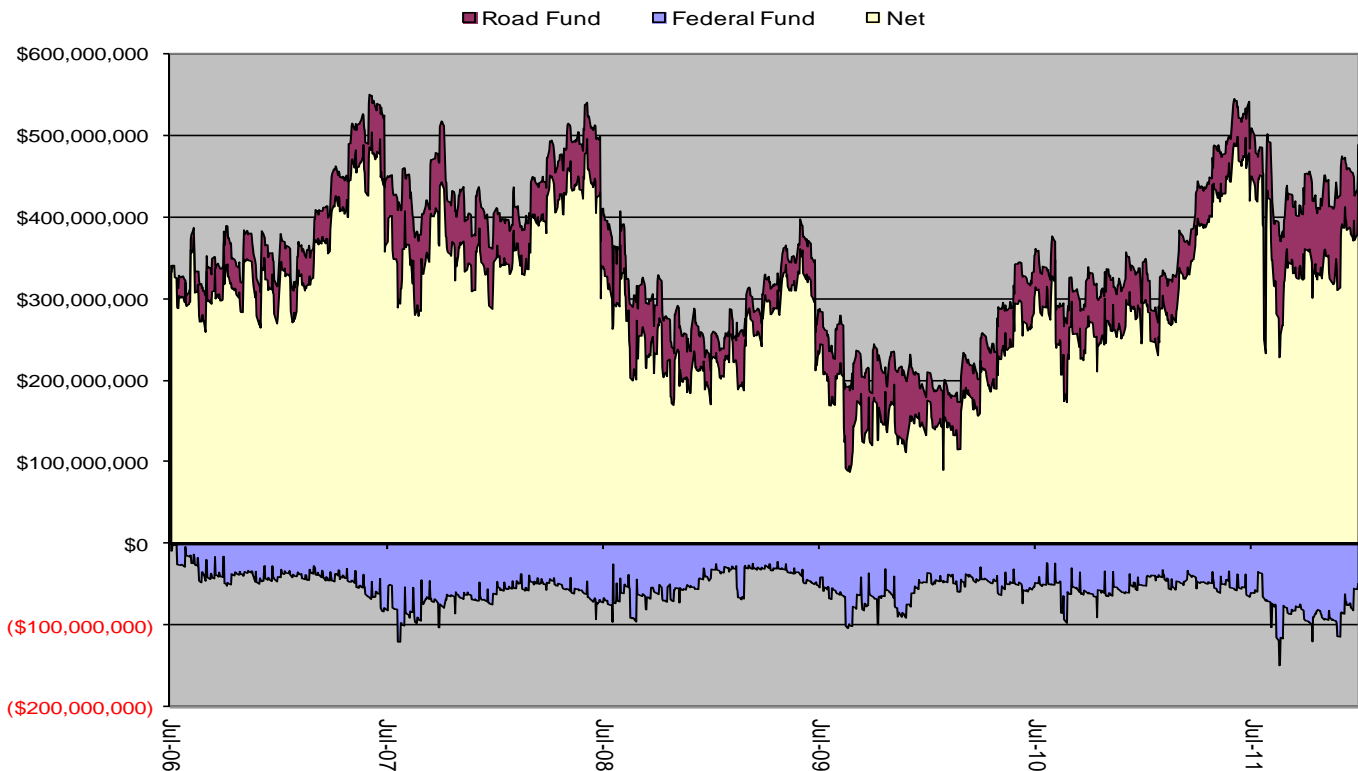
The Road Fund average daily cash balance for the first half of fiscal year 2012 was \$435 million compared to \$321 million for the first half of fiscal year 2011. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration

of 1.26 years as of December 31, 2011. The Road Fund earned \$0.3 million on a cash basis for the first half of fiscal year 2012 versus \$0.9 million for the first half of fiscal year 2011. The volatility in investable balances and the large debt authorization limits the opportunity to implement new asset liability management strategies at this time.

As of December 31, 2011, the Turnpike Authority of Kentucky (TAK) had \$1,256 million of bonds outstanding with a weighted average coupon of 4.85 percent and an average life of 8.89 years.

Road Fund debt service for fiscal year 2012 is expected to be \$109.1 million, resulting in a net interest margin (investment income earned less debt service paid) of negative \$108.8 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 obligations on the liability side.

**Road Fund Available Balance**  
Fiscal Year 2007-2012 as of 12/31/11



## DEBT MANAGEMENT

### ***SPBC 73 (Taxable Fourth Series)***

In early November of 2011, SPBC sold \$43,700,000 Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series) and closed the transaction on November 15, 2011. The transaction was (1) an economic refunding of the State Property and Buildings Commission, Project No. 73 (Second Series) Revenue Refunding Bonds to achieve \$2.767 million in Net Present Value savings for the Road Fund, and (2) provided funding to pay costs of issuing the bonds.

The bonds consisted of a single series of taxable serial bonds. The bonds being refunded were already refunding bonds so they could not be advance refunded on a tax-exempt basis given the 11/1/12

call date. With taxable rates at historic lows, the bonds were issued on a taxable basis and were still able to achieve substantial savings despite the associated negative arbitrage in the escrow of the refunded bonds. The bonds received ratings of Aa2/A+/AA- from Moody's, S&P and Fitch, respectively. S&P assigned a stable outlook at the time of the transaction, while Moody's and Fitch maintain negative outlooks for the Commonwealth. The bonds were sold via negotiated sale with Morgan Stanley serving as senior managing underwriter and Peck, Shaffer & Williams LLP as bond counsel. The transaction was sold on schedule, achieved attractive rates with an All-In True Interest Cost of 3.42%, had an average life on the bonds of 6.893 years, and received approximately 21% in retail orders.

## 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 managed General Fund intra-year cash flow deficits through its TRAN program when cost effective. Until fiscal year 2010, ALCo had issued a General Fund TRAN each fiscal year since 1998 (with the exception of FY 2004), providing approximately \$50 million 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 2011, the Commonwealth was able to cut (budget reduction) or lapse \$182 million of budgeted General Fund debt service. Approximately \$118 million of the General Fund debt

service lapse resulted from debt restructuring completed through the SPBC 90, SPBC 93, SPBC 95 and SPBC 98 transactions. In addition, approximately \$127.3 million of General Fund debt service was restructured for fiscal year 2012 through SPBC 100.

Over the past two years, the high cost of acquiring credit/liquidity support for short-term borrowing programs when compared to the low cost of long-term financing limited the Commonwealth's use of commercial paper or other short-term construction financing programs. However, with a considerable amount of capital financing remaining authorized, particularly under the Road Fund, ALCo will be analyzing the cost effectiveness of potential interim financing options during the near term.

As always, 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.

# APPENDIX

**APPENDIX A**

as of 12/31/2011

<b>ALCo Financial Agreements</b>	<b>ALCo FRN Series A Hedge</b>	<b>ALCo FRN Series A Hedge</b>	<b>ALCo FRN Series B Hedge</b>	<b>ALCo FRN Series B Hedge</b>
Fund Source	General Fund	General Fund	General Fund	General Fund
Hedge	2017 FRN	2027 FRN	2021 FRN	2025 FRN
Counter Party	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Counter-Party Ratings <i>(Moody's / S&amp;P / Fitch)</i>	Aa3/A+/A+	Aa3/A+/A+	Aa3/A+/A+	Aa3/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	15,015,000	62,785,000	67,740,000	70,935,000
Amortize (yes/no)	yes	yes	yes	yes
Original 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
Assignment Date	2/14/2011	2/14/2011	2/14/2011	2/14/2011
Mandatory Early Termination				
End Date	11/1/2017	11/1/2027	11/1/2021	11/1/2025
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, 2011 (negative indicates payment owed by ALCo if terminated)	(1,439,459)	(11,484,162)	(11,675,008)	(16,357,172)
Interest Earnings (not applicable)				
Total	not applicable	not applicable	not applicable	not applicable

**Swap Summary  
As of December 31, 2011****Total Notional Amount Executed**

<u>General Fund</u>	<u>Road Fund</u>
243,080,000	0

**Net Exposure Notional Amount**

<u>General Fund</u>	<u>Road Fund</u>
216,475,000	0

**Total Notional Amount Executed by Counter Party**

Deutsche Bank (assigned from Citibank on 2/14/2011)  
243,080,000

**Debt**

<u>General Fund</u>	<u>Road Fund</u>
5,000,500,000	1,341,000,000
<u>304,599,840</u>	<u>666,500,000</u>
<b>Total</b>	<b>5,305,099,840</b>

**10 Percent Net Exposures**

<u>General Fund</u>	<u>Road Fund</u>
500,050,000	134,100,000
<u>30,459,984</u>	<u>66,650,000</u>
<b>Total</b>	<b>530,509,984</b>

**Investment Pool Balances**

<u>Other Funds</u>	<u>Net Road Fund</u>
2,778,839,167	440,379,355

**10 Percent Investment Portfolio**

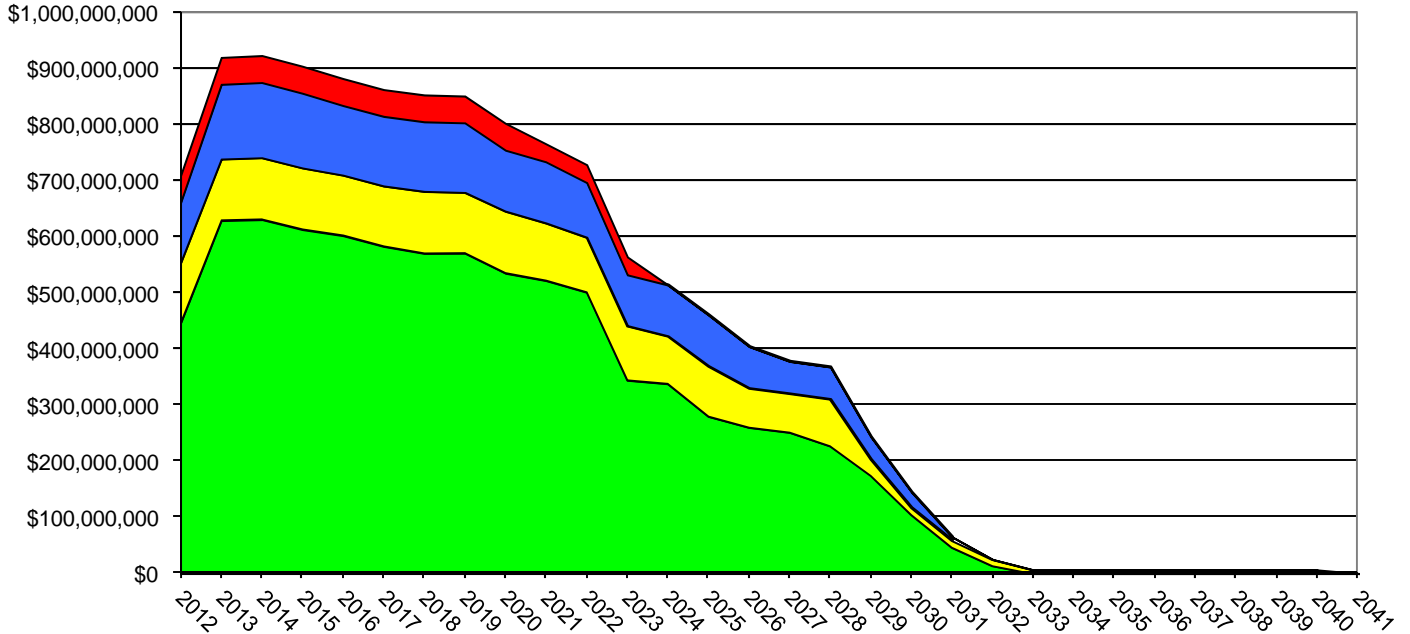
<u>Other Funds</u>	<u>Net Road Fund</u>
277,883,917	44,037,936

**Bonds Outstanding**  
**Authorized but Unissued**

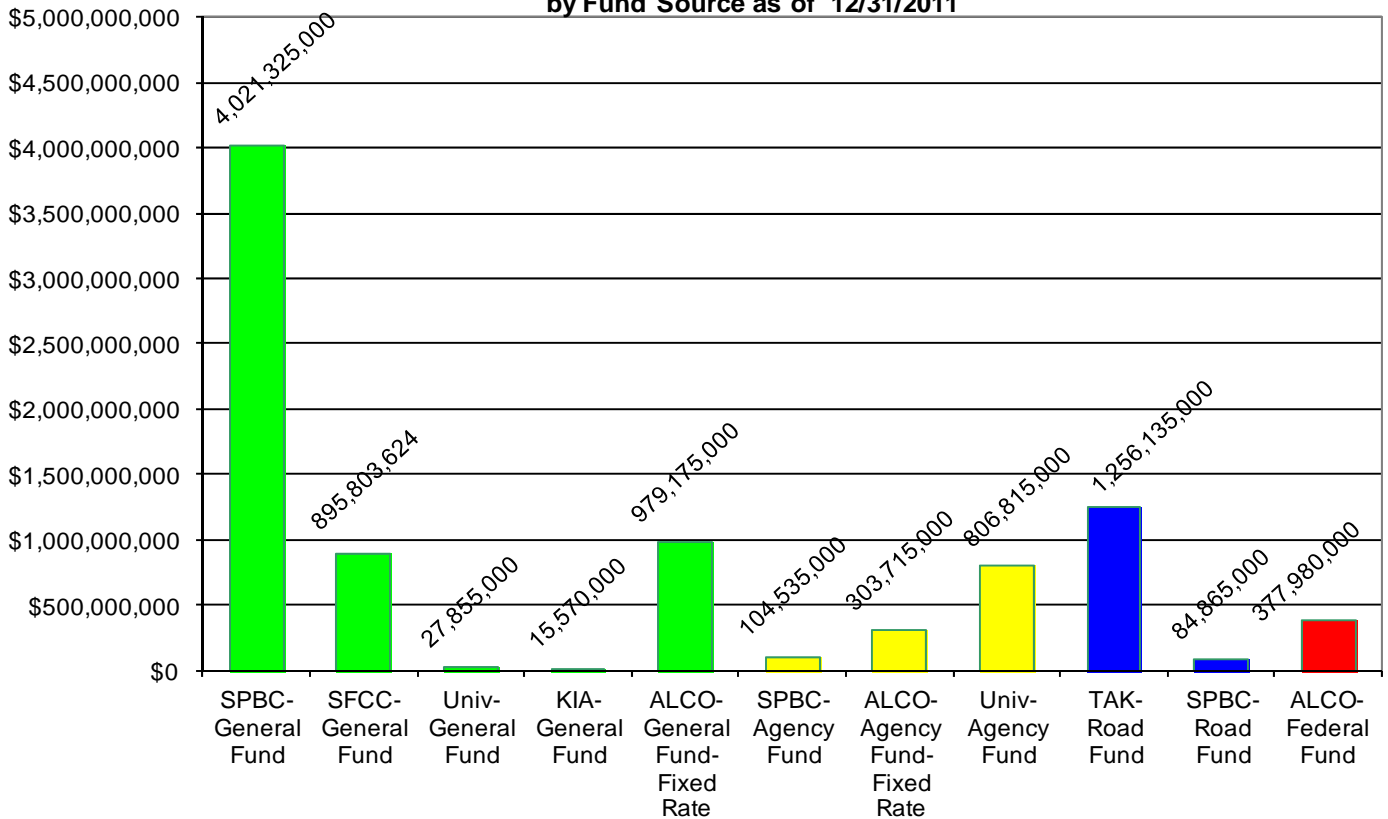
## APPENDIX B

### Appropriation Supported Debt Service by Fund Source as of 12/31/2011

■ General Fund   
 ■ Agency Fund   
 ■ Road Fund   
 ■ Federal Fund



### Appropriation Debt Principal Outstanding by Fund Source as of 12/31/2011



## APPENDIX C

### COMMONWEALTH OF KENTUCKY ASSET/LIABILITY COMMISSION SCHEDULE OF NOTES OUTSTANDING AS OF 12/31/11

FUND TYPE SERIES TITLE	AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
<b>General Fund Project &amp; Funding Notes</b>				
2003 Series A	\$171,260,000	7/2003	7/2013	\$8,365,000
2005 1st Series	\$81,850,000	6/2005	5/2025	\$64,240,000
2007 A, B Series	\$243,080,000	5/2007	11/2027	\$216,475,000
2010 1st Series-KTRS Funding Notes	\$467,555,000	8/2010	4/2020	\$420,280,000
2011 1st Series-KTRS Funding Notes	\$269,815,000	3/2011	4/2022	\$269,815,000
<b>FUND TOTAL</b>	<b>\$1,233,560,000</b>			<b>\$979,175,000</b>
<b>Agency Fund Project Notes</b>				
2005 1st Series	\$11,275,000	6/2005	6/2025	\$9,185,000
2005 Series A-UK Gen Recpts	\$107,540,000	11/2005	10/2025	\$93,885,000
2006 Series A-UK Gen Recpts	\$66,305,000	10/2006	10/2022	\$52,835,000
2007 Series A-UK Gen Recpts	\$77,905,000	11/2007	10/2027	\$72,295,000
2007 Series B-UK Gen Recpts	\$80,245,000	11/2007	10/2027	\$75,515,000
<b>FUND TOTAL</b>	<b>\$343,270,000</b>			<b>\$303,715,000</b>
<b>Federal Hwy Trust Fund Project Notes</b>				
2005 1st Series	\$139,635,000	6/2005	9/2017	\$77,960,000
2007 1st Series	\$277,910,000	9/2007	9/2019	\$210,310,000
2010 1st Series	\$89,710,000	3/2010	9/2022	\$89,710,000
<b>FUND TOTAL</b>	<b>\$507,255,000</b>			<b>\$377,980,000</b>
<b>ALCo NOTES TOTAL</b>	<b>\$2,084,085,000</b>			<b>\$1,660,870,000</b>

**REPORT PREPARED BY:**



OFFICE OF FINANCIAL  
MANAGEMENT

Commonwealth of Kentucky  
702 Capitol Ave Ste 76  
Frankfort, KY 40601  
Phone: 502-564-2924  
Fax: 502-564-7416

*Creating Financial Value for the Commonwealth*

