Semi-Annual Report of the Kentucky Asset/Liability Commission

29TH EDITION

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Commonwealth of Kentucky

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Secretary

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For the period ending June 30, 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/

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INTRODUCTION

This is the Kentucky Asset/Liability Commission's (ALCo) twenty-ninth semi-annual report pursuant to KRS 56.863 (11) for the period beginning January 1, 2011 through June 30, 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

- While the National Bureau of Economic Research has not officially declared an end to the recession, the economy is experiencing positive, but slowing, growth.
- Even with the support of the first time home buyers tax credit, the sales of new and existing homes seems to be slowing. The expiration of the tax credit is expected to lead to further declines.
- The Federal Reserve continues to target Federal Funds in the range of 0.00 to 0.25 percent. They are allowing limited quantitative tightening as their balance sheet declines in size due to security maturities which are not being replaced.
- Most of the stimulus programs initiated by the federal government have ended during the last six months.
- The credit worthiness of the weaker European Union countries has been called into question as Greece required additional support from the European Central Bank.

On the state level

- General Fund receipts totaled $8,759.4 million for Fiscal Year 2011, or 6.5% higher than Fiscal Year 2010 collections. Receipts exceeded estimates by $166 million for Fiscal Year 2011.
- Road Fund receipts totaled $1,338.8 million for Fiscal Year 2011, or 11.0% higher than Fiscal Year 2010 collections. Receipts exceeded estimates by $73 million for Fiscal Year 2011.
- Continued implementation of bond authorizations from the 2010 Special Session and prior year sessions of the General Assembly.
- Kentucky's seasonally adjusted unemployment rate stood at 9.6% at the end of June 2011, down from 10.3% one year ago.

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MARKET OVERVIEW

During the last six months of Fiscal Year 2011, sovereign risk in both the United States and in Europe has substantially increased. The financial situation in Greece has substantially deteriorated requiring a bailout from the European Central Bank and the International Monetary Fund. Even with the bailout, Greece will most likely experience at least a partial default on outstanding debt. Contagion from Greece is affecting the other countries as the perceived default risk of the "PIIGS" (Portugal, Ireland, Italy, Greece, and Spain) has increased.

At the same time, the United States has not enacted a budget in two years and faces a debt crisis on August 2nd, if Congress does not act to increase the debt limit. Although federal debt outstanding reached the current debt ceiling during June, the Treasury department has been able to roll existing debt and use accounting gimmicks to meet all cash outlays. The Treasury has predicted that the country will run out of money on August 2nd potentially leading to a default or to unimaginable economic disruption as other bills are not paid. (Subsequent to the date of this report, Congress and the President reached a deal which conditionally extends the debt ceiling past the next election while enacting budget measures which are expected to reduce the future deficit.)

At the same time that sovereign risk is increasing, the U.S. economy has hit a "soft patch". Growth of Real Gross Domestic Product fell to 0.4% in the first calendar quarter and 1.3% in the second quarter. This slow down in the economy was in large part driven by consumer spending which is somewhat driven by unemployment. Personal spending (not adjusted for inflation) was basically flat in the second quarter as slight increases in April and May were almost entirely offset by a decline in June. Unemployment Claims averaged 425,500 per week during the second quarter compared to 405,800 per week during the first quarter. In addition to the step up in lay-offs, companies reduced hiring as total payrolls increased 165,000 per month in the first quarter, but only 21,500 in May and June.

Historically during an economic slow down, the federal government, through either fiscal or monetary policy, takes action to stimulate the economy. The federal government, through fiscal policy, normally increases spending or reduces taxes (some of this, such as unemployment insurance, is automatic) to place money in the hands of consumers and businesses to spend. This time, the push for reduced deficits is limiting the political willingness to undertake new stimulus. The Federal Reserve normally reduces short term interest rates as a simulative measure. This time, the Fed has held short rates at near zero for over two years and has gone through two rounds of quantitative easing (purchasing longer dated securities in the market to drive long rates down). There is limited willingness to engage in another round as the effectiveness of the first two has been questioned and the long term risks are potentially severe.

The next six months shall be interesting as the economy tries to rebound without additional governmental support. At the same time, increased risk premiums due to uncertainty of several sovereign's solvency will act as a headwind.

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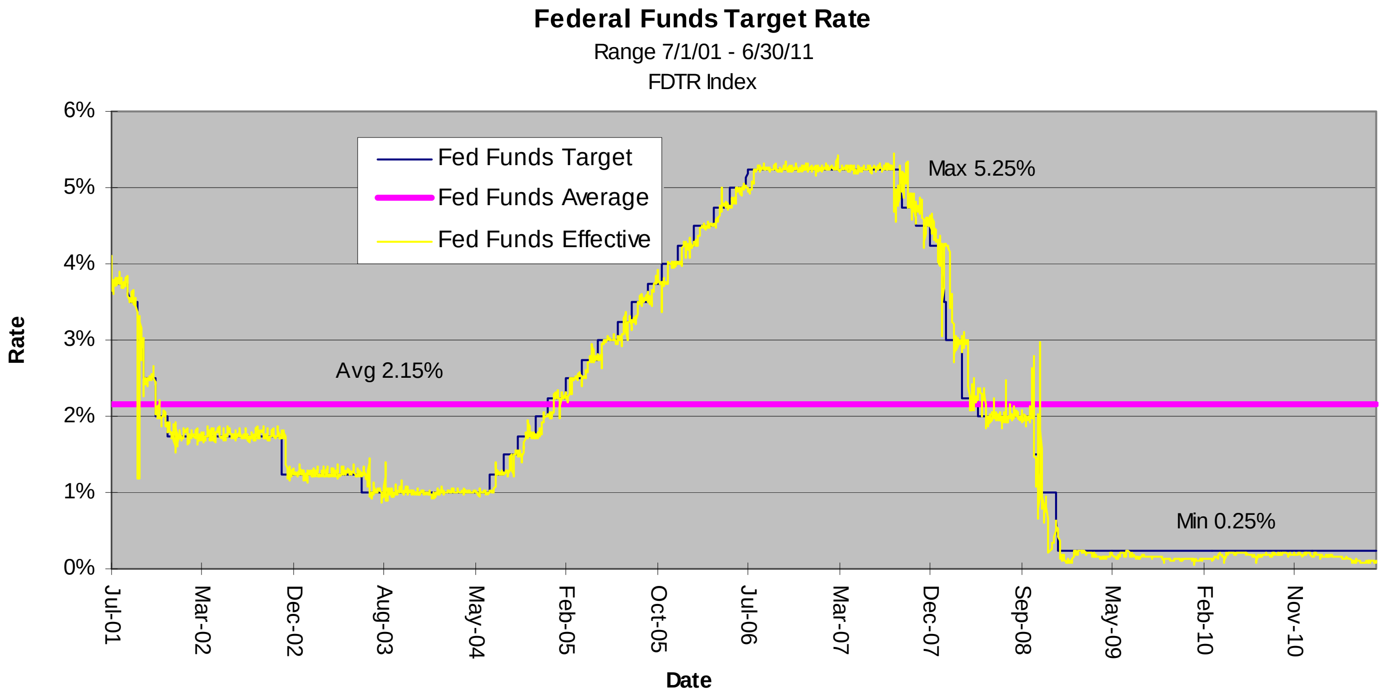
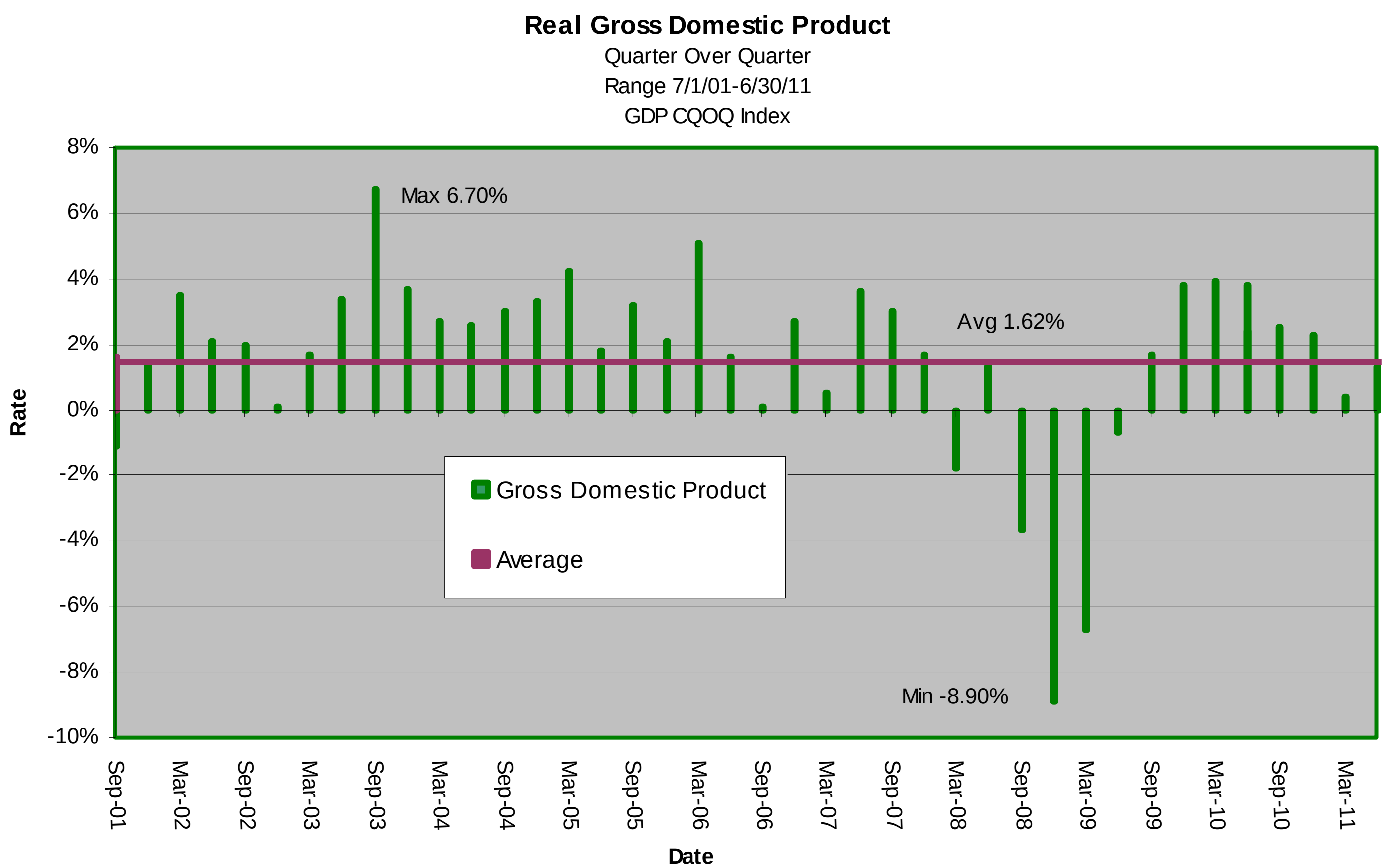
Federal Funds Target Rate & Real Gross Domestic Product





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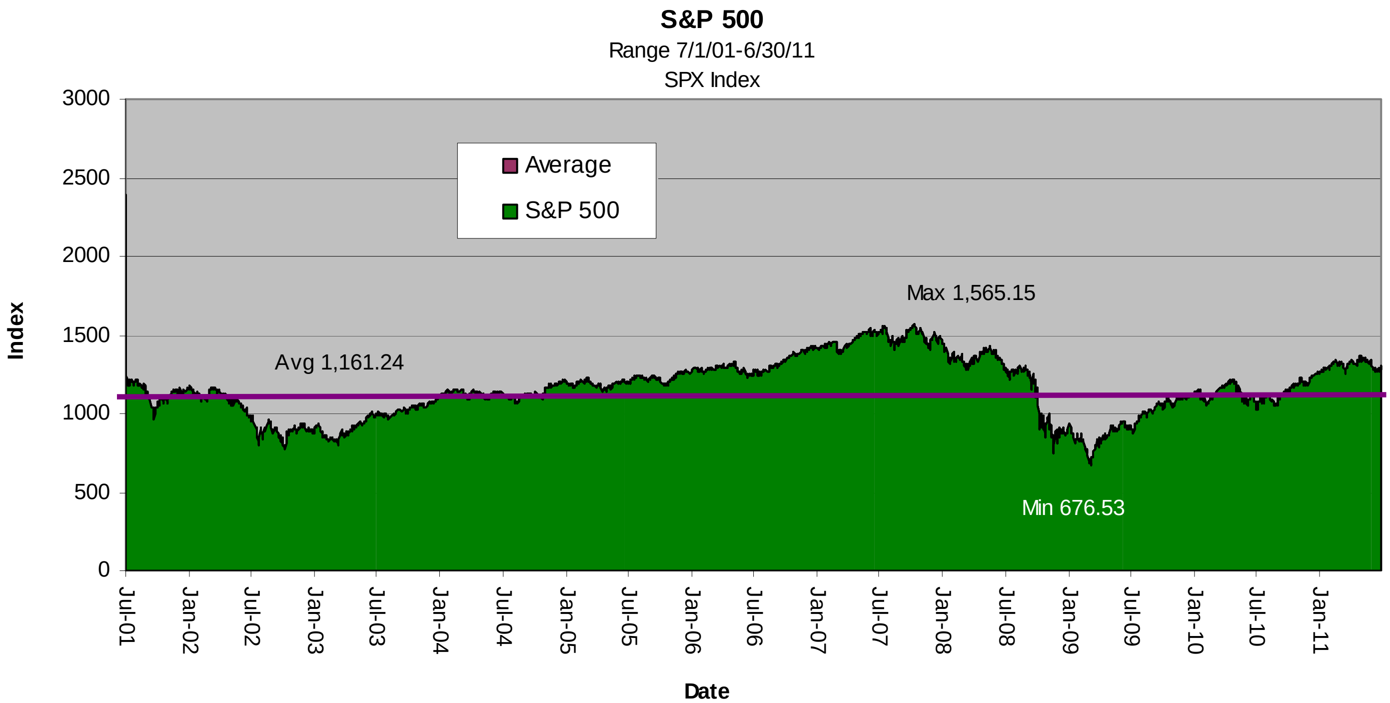
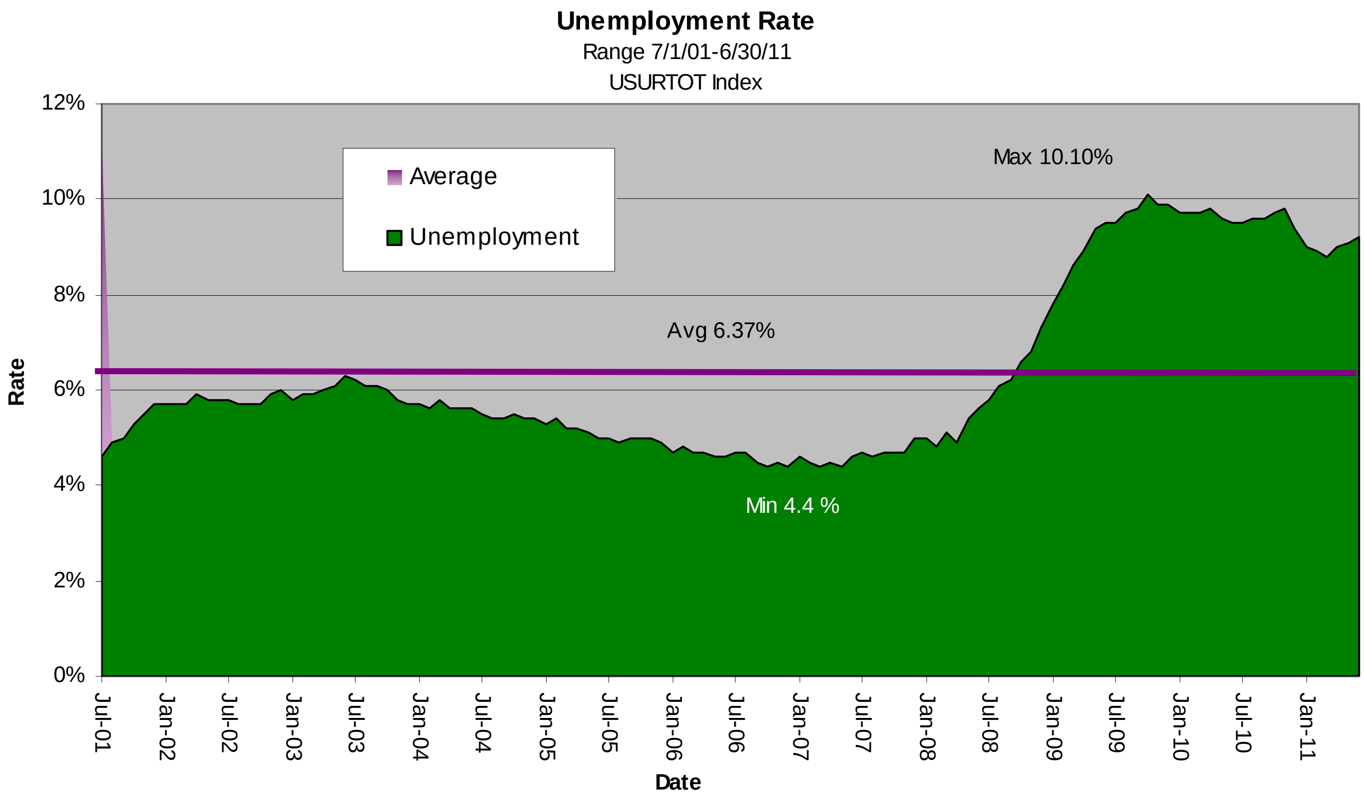
S&P 500 & Unemployment Rate





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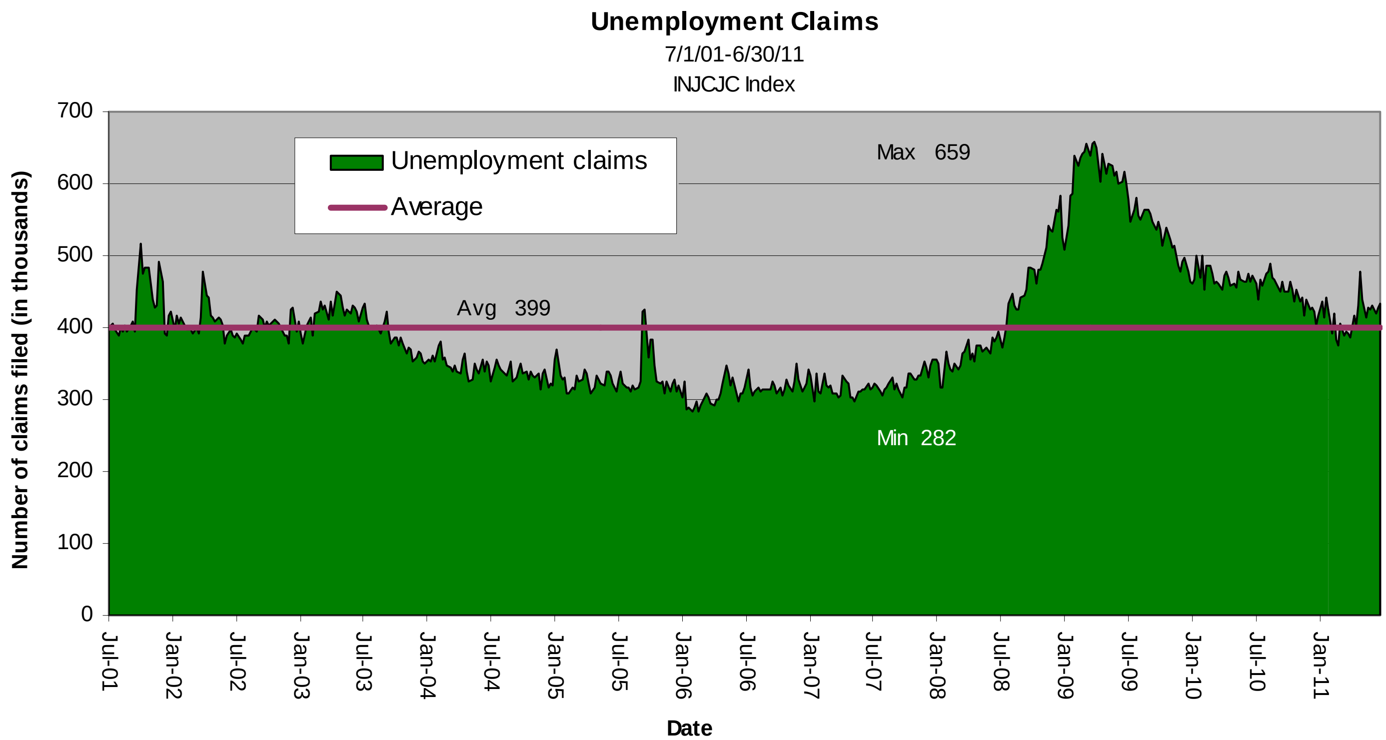
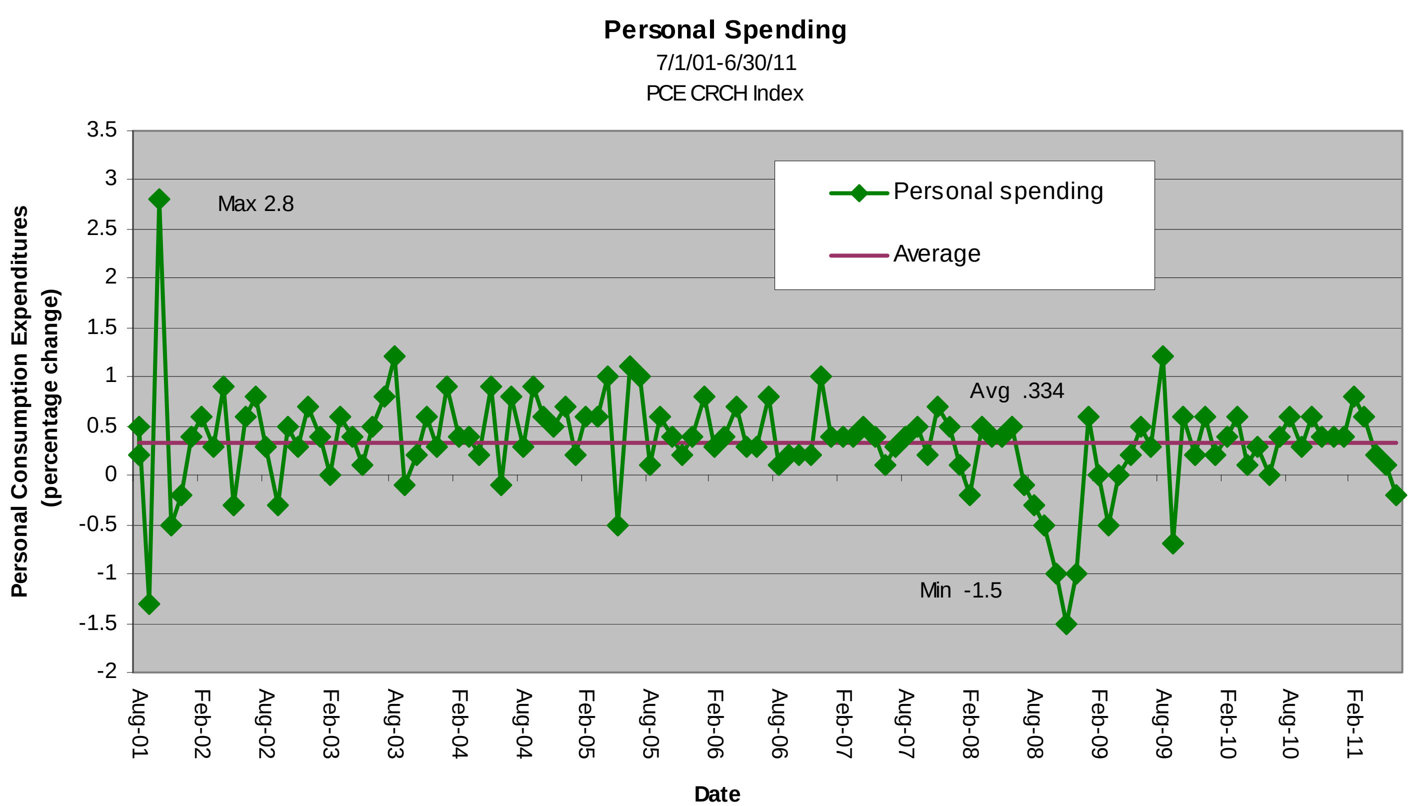
Unemployment Claims & Personal Spending





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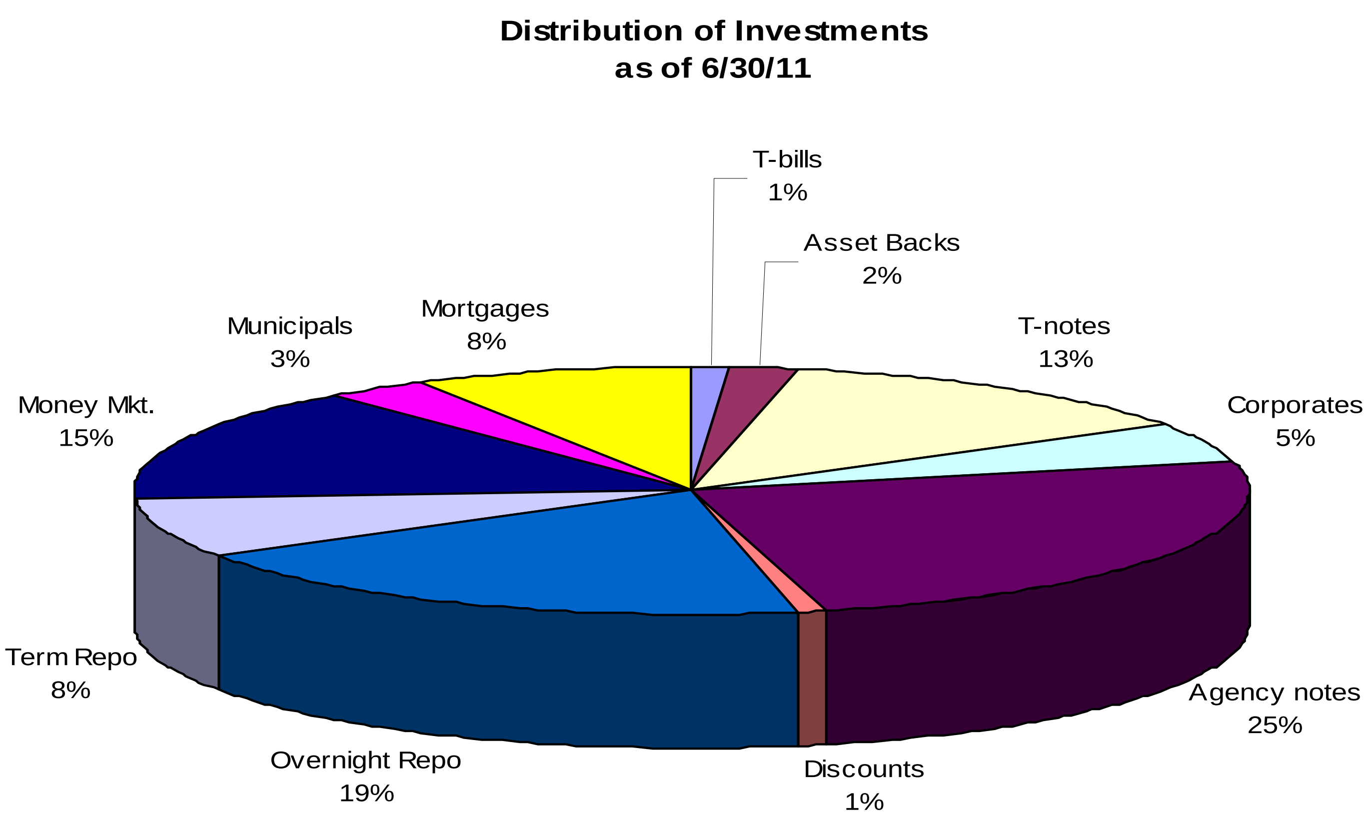
PORTFOLIO MANAGEMENT

For the year ended June 30, 2011, the Commonwealth's investment portfolio averaged $3.3 billion. As of June 30, 2011, the portfolio was invested in U.S. Treasury Securities (14 percent), U. S. Agency Securities (26 percent), Mortgage Pass Through Securities (1 percent), Collateralized Mortgage Obligations (7 percent), Repurchase Agreements (27 percent), Municipal Securities (3 percent), Corporate Securities (5 percent), Asset-Backed Securities (2 percent), and Money Market Securities (15 percent). The portfolio had a market yield of 0.46 percent and an effective duration of .78 years.

The total portfolio is broken down into two investment pools. The pool balances as of June 30, 2011, were: Short Term Pool - $1,509 million, and Intermediate Term Pool - $2,514 million.

Total investment income from all investments, on a cash basis, for the year ended June 30, 2011, was $34.0 million versus $52.7 million for the year ended June 30, 2010. On a full mark-to-market basis, investment income was $38.6 million for the year ended June 30, 2011, versus $54.7 for the year ended June 30, 2010.



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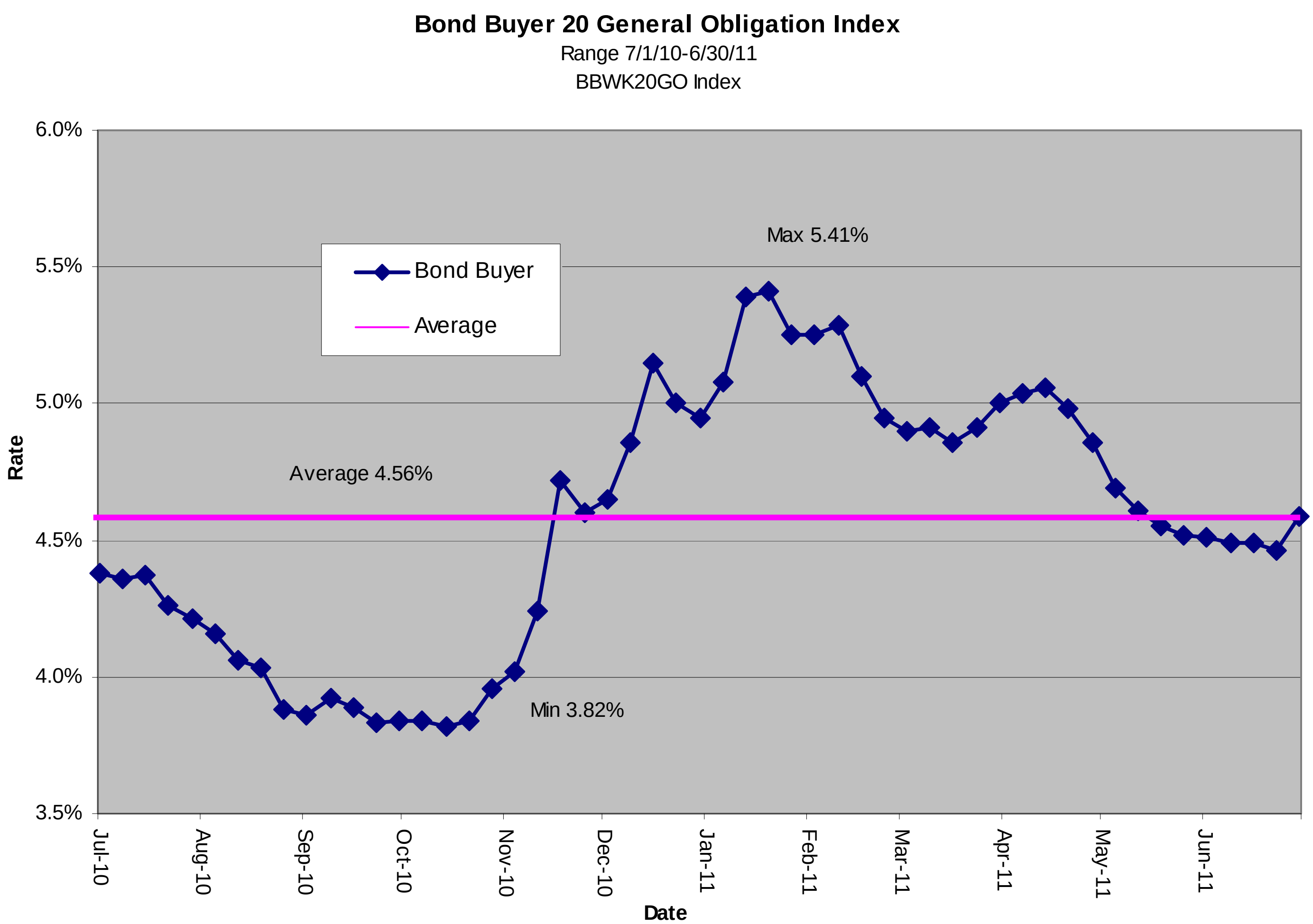
Tax-Exempt Interest Rates and Relationships

The Bond Buyer 20 year General Obligation Index averaged 4.89% for the reporting period and 4.56% for the Fiscal Year. The Fiscal Year high was 5.41% in January 2011 and the low was 3.82% in October 2010 with the Fiscal Year end at 4.59%.

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index averaged 0.22% for the reporting period and 0.25% for Fiscal Year 2011. The high was 0.34% in December 2010 and the low was 0.09% at the end of Fiscal Year 2011. The 30-day USD London Interbank Offered Rate (LIBOR) averaged 0.23% for the reporting period and 0.25% for Fiscal Year 2011. The Fiscal Year high was 0.345% in July 2010 and the low was 0.185% in June 2011 and it ended the year at 0.186%. During the Fiscal Year, SIFMA traded as high as 130.05% of 30-day LIBOR in December 2010 and as low as 48.50% in June 2011 with an average of 100.27% for the Fiscal Year. The Fiscal Year ended with SIFMA at its low of 48.50% of 30-day LIBOR.



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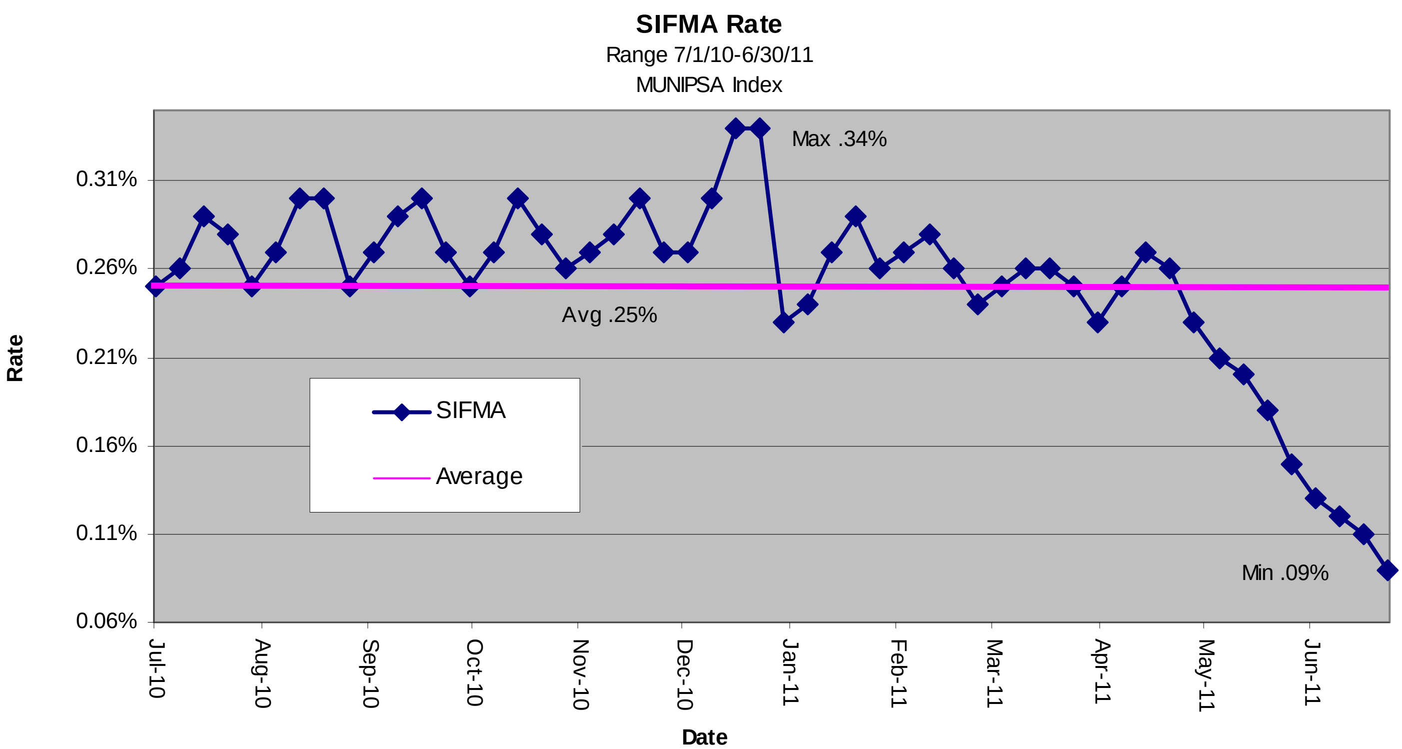
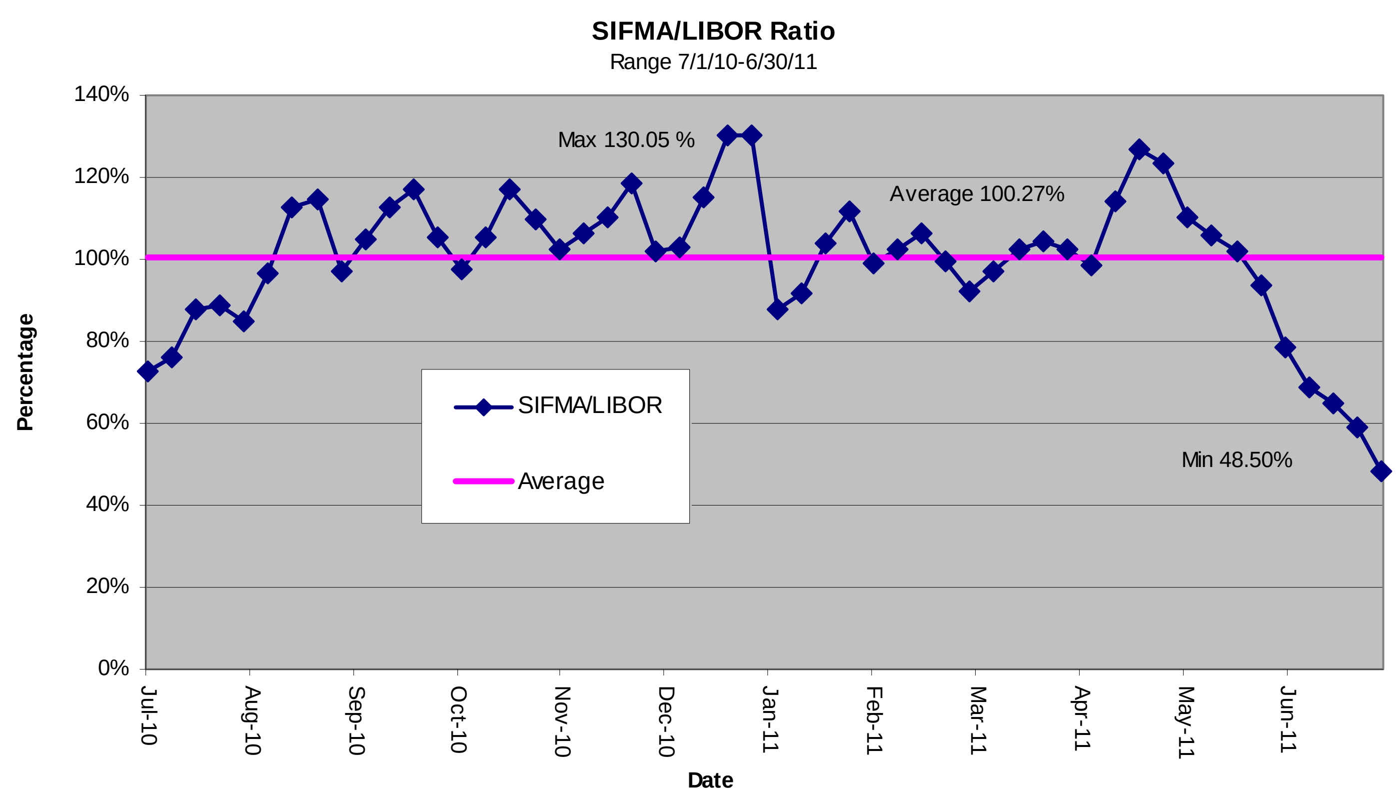
SIFMA and SIFMA/LIBOR Ratio





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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 million 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 June 30, 2011, and reflecting the issuance of SPBC 100, the unissued balances of bond authorizations from the General Assembly prior to 2010 were:

General Fund - $175.4 million

Road Fund - $200 million

Agency Restricted Fund - $40.2 million

Federal Highway Trust Fund - $131 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 March 2011, Moody's Investors Service downgraded the Commonwealth's issuer credit rating from "Aa1" to "Aa2" and downgraded their rating on the Commonwealth's General Fund lease supported bonds from "Aa2" to "Aa3". Moody's did however maintain 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".

In June 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. 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 June 2011, Fitch Ratings affirmed their "AA-" rating on the Commonwealth's General Fund lease supported bonds. In their review, they noted the

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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 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 June of 2011, S&P affirmed its "A+" rating on the Commonwealth's General 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.

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
2011	NA	NA
2012	NA	NA

($ in millions)

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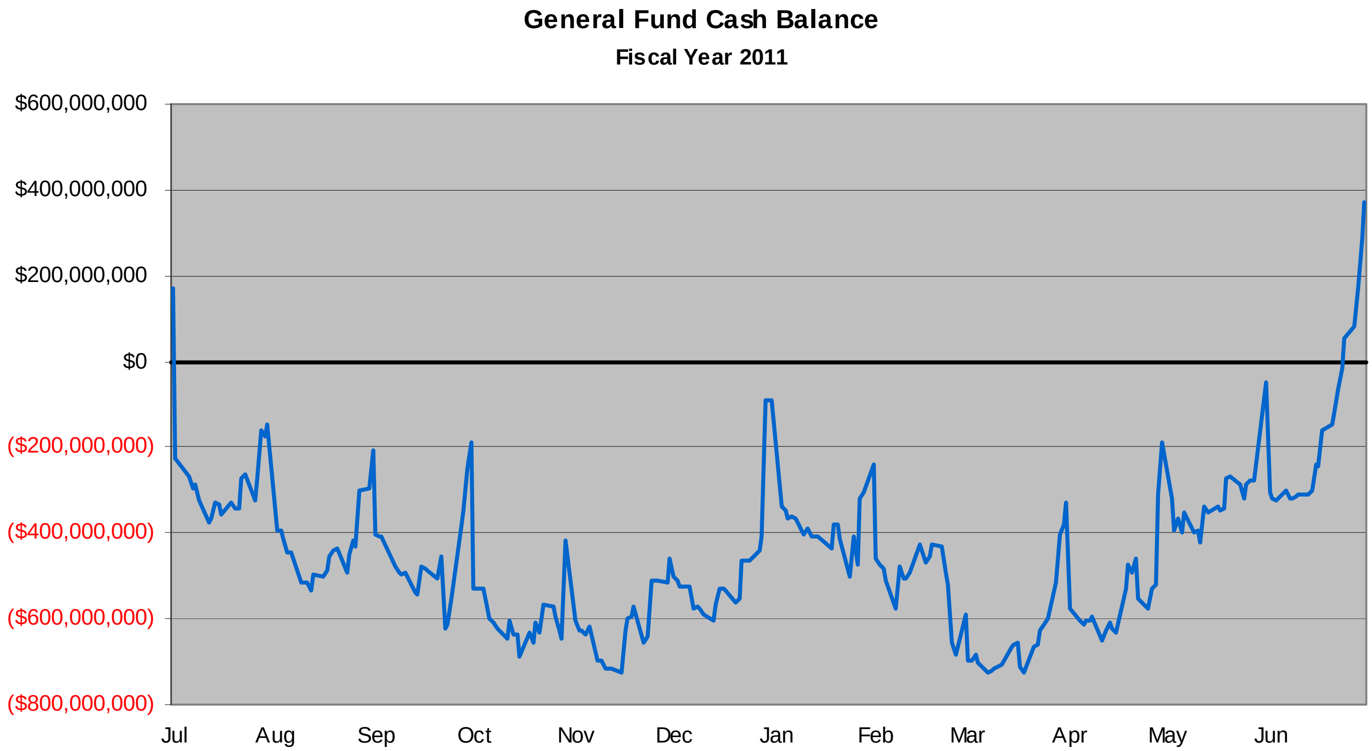

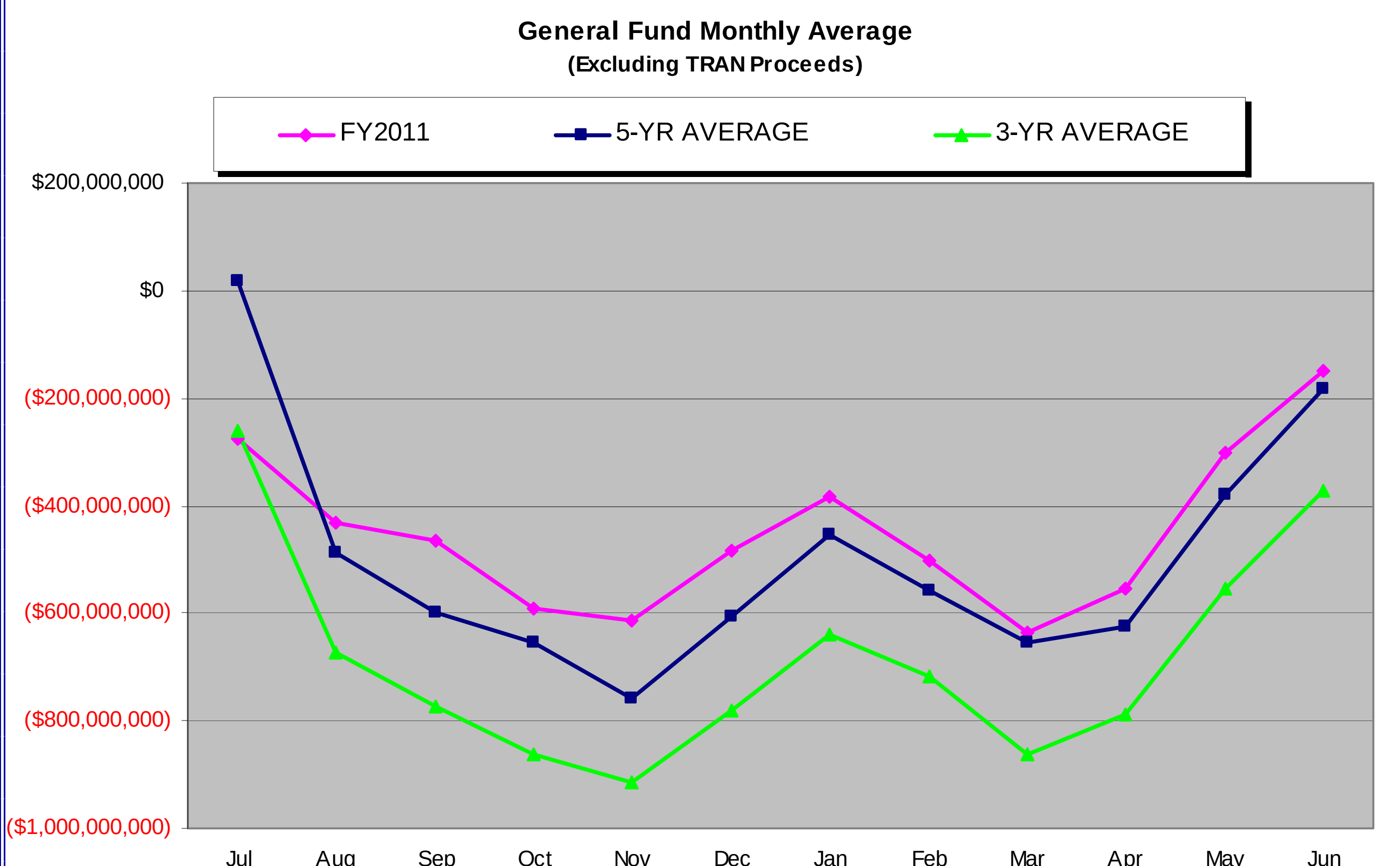

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FINANCIAL AGREEMENTS

As of June 30, 2011, ALCo had four financial agreements outstanding, with a net notional exposure amount of $222.055 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, the Notes and interest rate swaps were each insured under separate policies by FGIC, which maintained an Aaa/AAA credit rating at the time from Moody's and S&P. Under the terms of the original interest rate swaps, the counterparty (Citibank) could optionally terminate the agreements if the insurer's claims paying rating fell 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. However, on December 22, 2010, S&P downgraded National from A to BBB leaving both of National's claims paying ratings below the required A3/A- level (National is currently rated Baa1 by Moody's).

In early 2011, ALCo spent considerable time working with Citibank and other parties analyzing a variety of remedies that would prevent the potential early termination of the interest rate swaps. After much consideration, ALCo determined the preferred remedy was one offered by Citibank whereby the remaining notional amount of each interest rate swap would be assigned to a new counterparty under the existing financial terms and at no cost to ALCo or the Commonwealth. On February 14, 2011, ALCo, Citibank and the new counterparty, Deutsche Bank AG, executed the assignment of the remaining notional balances of each swap to Deutsche Bank. The terms of the new interest rate swaps with Deutsche Bank are identical to the original swaps, with two exceptions; 1) the new swaps are not insured and there are no insurer provisions contained in the new agreements, and 2) the credit rating triggers under the automatic termination provisions are now symmetrical for both counterparties (ALCo and Deutsche Bank) at A3/A-. Under the original swaps, ALCo's credit rating trigger was Baa2/BBB, but rating recalibrations by the rating agencies, whereby municipal issuers are now rated on the same scale as corporations and other debt issuing entities, have facilitated the need for equal credit rating triggers for both parties.

Details related to the interest rate swaps as of June 30, 2011 are presented in Appendix A.

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ASSET/LIABILITY MODEL

General Fund

The total SPBC debt portfolio as of June 30, 2011 had $4,208 million of bonds outstanding with a weighted average coupon of 5.04 percent and an average life of 8.81 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 preference for tax-exempt callable premium bonds in the current market at a yield lower than par or discount coupon bonds. The $1,321 million callable portion had a weighted average coupon of 5.09 percent.

The SPBC General Fund debt structure has 24 percent of principal maturing in 5 years and 58 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 $370 million near the end of Fiscal Year 2011 and a low of negative $727 million on March 7, 2011.

The average and median balances were a negative $448 million and a negative $472 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 $288 million for Fiscal Year 2011. 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 Funding Notes

On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Act by modifying the definition of "funding notes" and authorizing funding notes to be issued by the Commission for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553 (2) to KTRS . This authorization, together with certain authorizations in the Budget Act, permits the Commission to issue funding notes in an amount not to exceed $875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, the Commission issued its $467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund and will result in approximately $87 million in cashflow savings for the General Fund over Fiscal Years 2011 through 2020 versus the prior obligations. In February 2011, the Commonwealth issued its $269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012 and will provide the Commonwealth's General Fund over $40.59 million in cashflow savings over Fiscal Years 2013 through 2022.

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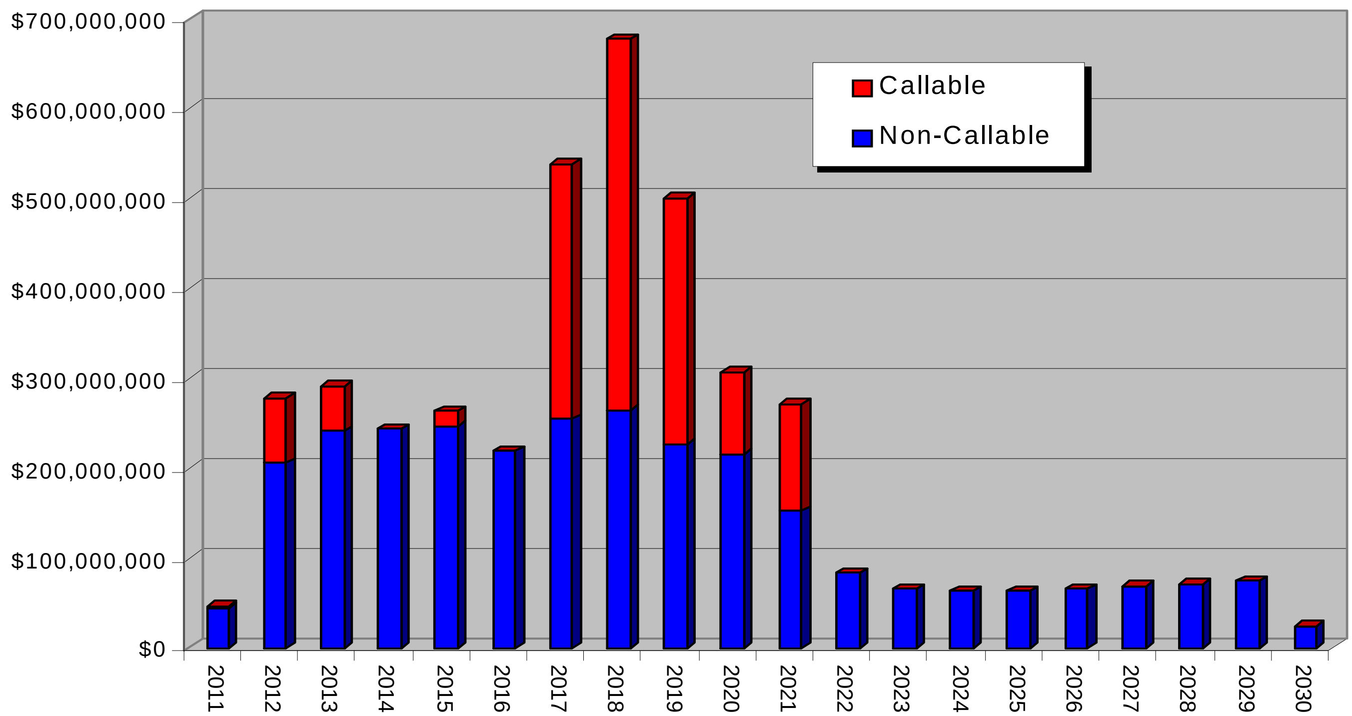
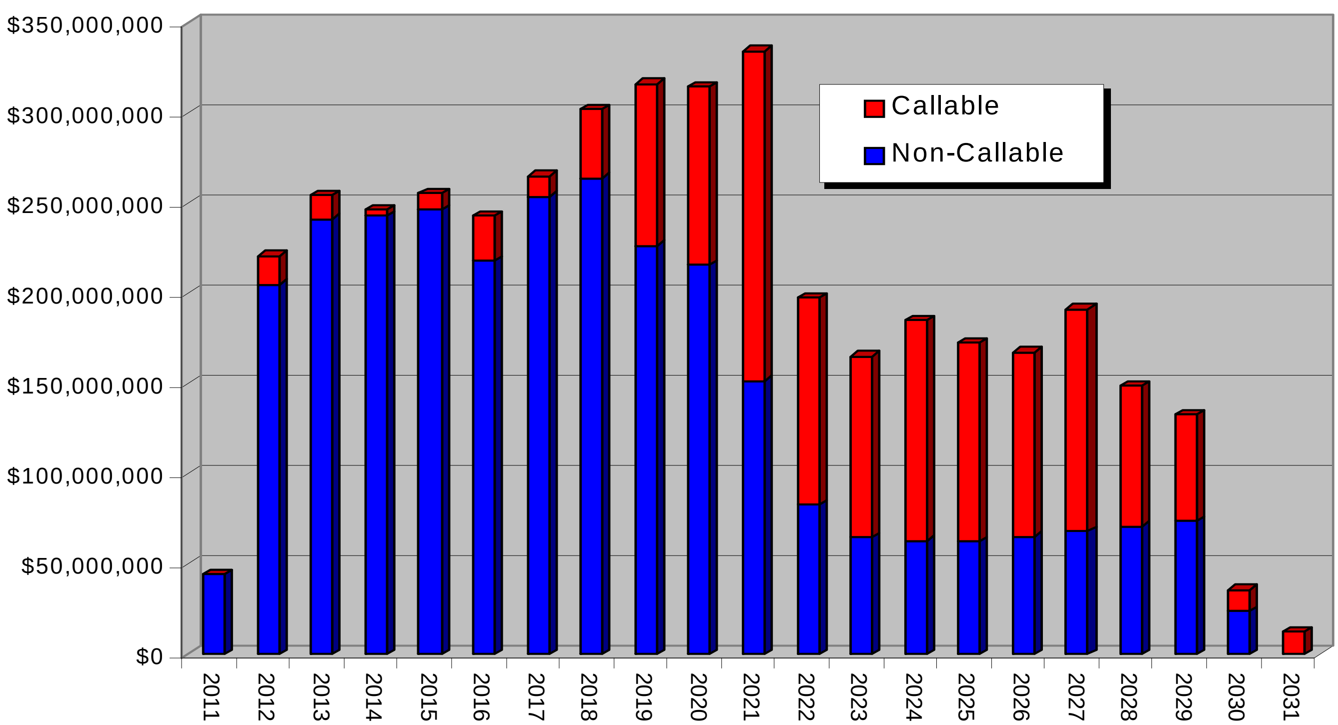
Call Analysis by Call Date
State Property and Buildings Commission Bonds



Call Analysis by Maturity Date
State Property and Buildings Commission Bonds



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SPBC 100

In late June of 2011, SPBC sold $367,295,000 Revenue Bonds, Project No. 100 and closed the transaction on July 7, 2011. The transaction provided (1) $110.12 million of new money bond proceeds to provide financing for projects authorized from 2005 to 2010 Sessions of the General Assembly, (2) refunding certain outstanding bonds of the State Property and Buildings Commission and certain outstanding notes of the Kentucky Asset/Liability Commission in order to provide approximately $127 million of Fiscal Year 2012 General Fund budgetary relief, (3) a current economic refunding of $151 million in bonds to achieve $17.7 million in NPV savings for the General Fund, and (4) funding to pay costs of issuing the bonds.

The bonds were sold in two series. The Series A bonds were sold on a tax-exempt basis, and the Series B Bonds were sold on a taxable basis. 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 Citi 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 3.684% and an average life on the bonds of 8.917 years. Approximately 44% of the issue was sold to Kentucky and National Retail investors, and the issue attracted a wide distribution of Institutional investors.

LFUCG Public Facilities Corporation Lease Revenue Bonds, Series 2011 A (Eastern State Hospital Project)

In mid June of 2011, the Lexington-Fayette Urban County Government Public Facilities Corporation (the "Corporation") sold $138,635,000 Lease Revenue Bonds, Series 2011 A for the Eastern State Hospital and closed the transaction on June 28, 2011. The transaction provided funds for (i) redemption of the Lexington-Fayette Urban County Government ("LFUCG") General Obligation Bond Anticipation Notes, Series 2010E previously issued for the purpose of providing interim financing for the design and construction of a new state mental health facility to replace Eastern State Hospital to be located at the University of Kentucky's Coldstream Campus in Fayette County, Kentucky; (ii) providing additional funds for the construction, equipping, furnishing and installation of the project; (iii) paying capitalized interest on the Series 2011A Bonds; and (iv) paying certain costs related to the issuance of the Series 2011A Bonds.

House Bill 406 of the 2008 Regular Session of the General Assembly of the Commonwealth and House Bill 1 of the 2010 Extraordinary Session as adopted by the General Assembly, authorized the LFUCG, Cabinet for Health and Family Services ("CHFS") and the Finance and Administration Cabinet ("FAC") to enter into a Memorandum of Understanding, whereby the LFUCG issued Bond Anticipation Notes to assist CHFS and FAC by providing funds for the interim financing of the project. The LFUCG further agreed to issue obligations through the Corporation to provide permanent financing for the completion of the project.

CHFS and FAC entered into a lease with the Corporation providing for the payment of rent by CHFS to the Corporation to be applied to the payment of principal and interest due on the Series 2011A Bonds. The lease requires CHFS and/or FAC, for each biennial period during which Series 2011A Bonds are outstanding, to seek legislative appropriations in amounts which are sufficient to permit CHFS to make rental payments to the Corporation in amounts sufficient to pay principal of and interest on the Series 2011A Bonds.

The bonds were sold on a tax-exempt basis. The bonds received the state's lease appropriation supported 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

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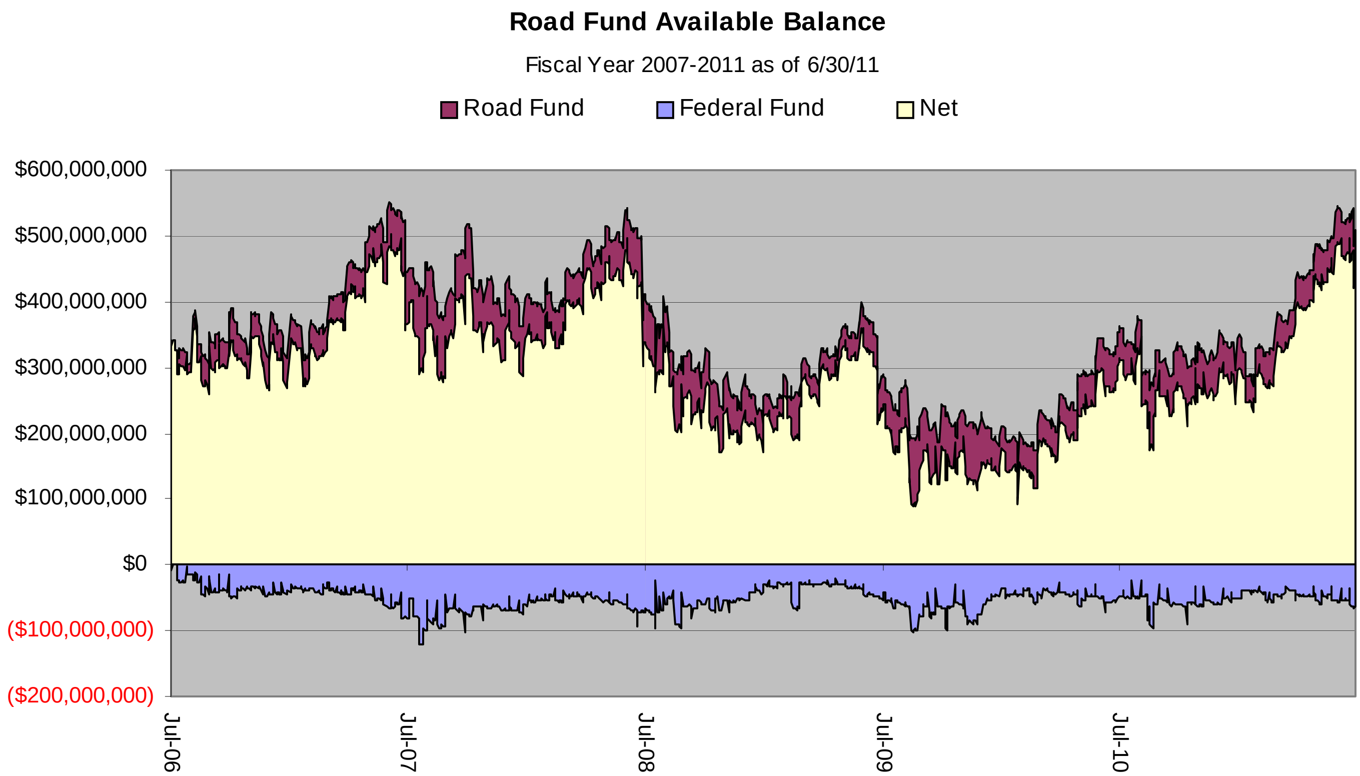
and Fitch maintain negative outlooks for the Commonwealth. The bonds were sold via competitive sale with Morgan Keegan serving as financial advisor and Peck, Shaffer & Williams LLP as bond counsel. The transaction received eight (8) bids with a winning bid of 4.485% by J.P. Morgan Securities LLC. The bonds had an All-In True Interest Cost of 4.547% and had an average life of 14.05 years.

Road Fund

The Road Fund average daily cash balance for Fiscal Year 2011 was $368 million compared to $236 million for Fiscal Year 2010. The Road Fund cash was invested in the Intermediate Term Investment Pool which had a duration of 1.21 years as of June 30, 2011. The Road Fund earned $2 million on a cash basis for Fiscal Year 2011 versus $3.6 million for Fiscal Year 2010. The volatility of investable balances during the Fiscal Year along with a large debt authorization limits the opportunity to implement new asset liability management strategies at this time.

As of June 30, 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 9.39 years.

Road Fund debt service for Fiscal Year 2011 was $108.3 million, resulting in a net interest margin (investment income earned less debt service paid) of negative $106.3 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.



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TAK 2011 Series A

In April of 2011, TAK issued their $115,175,000 2011 Series A Bonds. The proceeds of the bonds were used to (1) provide $56 million in Economic Development Bonds for the Base Realignment and Closure (BRAC) project authorized for Fiscal Year 2011 in the 2010 Extraordinary Session of the General Assembly, (2) currently refund approximately $62 million of TAK Series 2001 B Bonds principal and interest on its July 1, 2011 call date to achieve $6.4 million in Net Present Value Savings for the Road Fund, and (3) pay for costs of issuance.

The structure of the transaction was essentially a 20-yr financing with maturities beginning in 2016 and consisting of one series of bonds, Series A, including tax-exempt refunding and new money bonds.

The bonds received ratings of Aa2/AA+/AA- from Moody's, S&P and Fitch, respectively. The transaction was sold via negotiated sale with Goldman Sachs serving as senior managing underwriter and Peck, Shaffer & Williams LLP as bond counsel. The transaction was sold on schedule, received retail orders of $35 million and achieved cost effective rates with an All-In TIC of 4.158% and an average life on the bonds of 11.084 years.

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. Until Fiscal Year 2010, ALCo had issued a General Fund TRAN each Fiscal Year since 1998 (with the exception of FY 2004), 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 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.

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 through the Build America Bond program limited the Commonwealth's use of commercial paper or other short-term construction financing programs. However, with the sunset of the Build America Bond program at the end of 2010 and 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 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 6/30/2011

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	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG
Counter-Party Ratings *(Moody's / S&P / Fitch)*	Aa3/A+/AA-	Aa3/A+/AA-	Aa3/A+/AA-	Aa3/A+/AA-
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	17,195,000	65,515,000	68,410,000	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 June 30, 2011 (negative indicates payment owed by ALCo if terminated)	(1,398,543)	(7,609,241)	(8,329,440)	(9,697,158)
Interest Earnings (not applicable)				
Total	not applicable	not applicable	not applicable	not applicable

Swap Summary
As of June 30, 2011

Total Notional Amount Executed		Net Exposure Notional Amount	
General Fund	Road Fund	General Fund	Road Fund
243,080,000	0	222,055,000	0

Total Notional Amount Executed by Counter Party

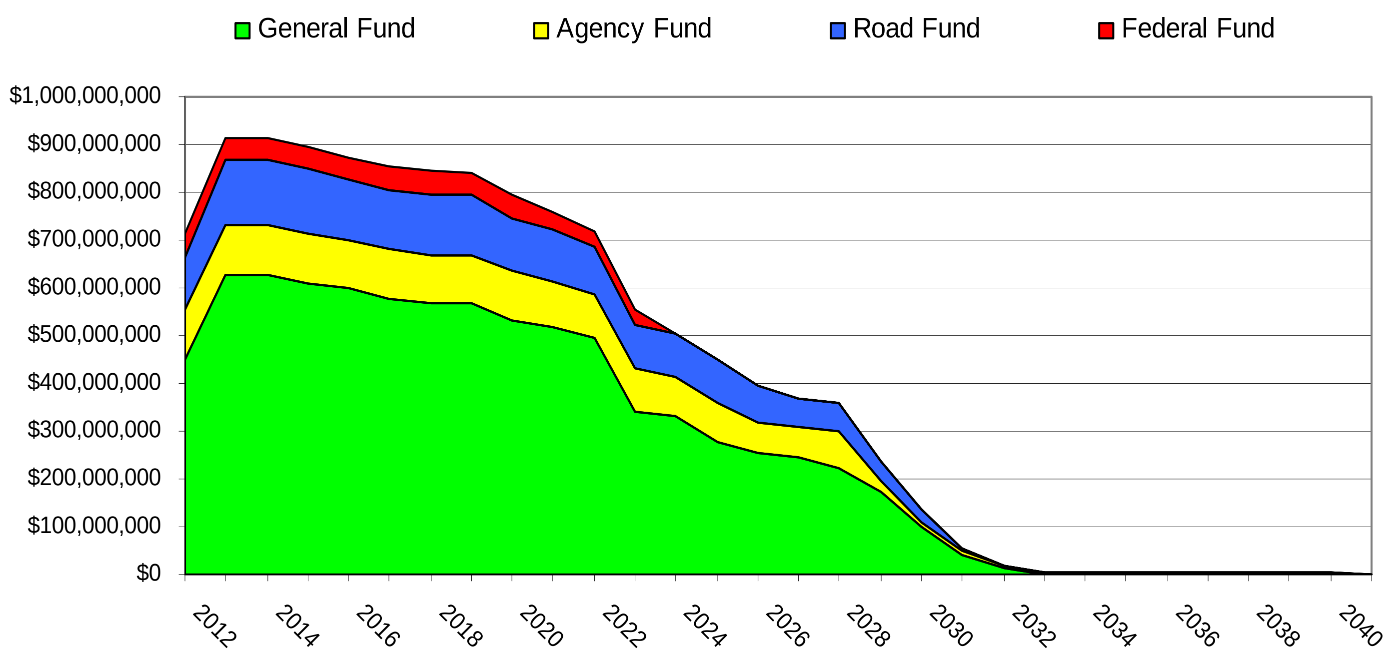
Deutsche Bank (assigned from Citibank on 2/14/2011)
243,080,000

	Debt		10 Percent Net Exposures	
	General Fund	Road Fund	General Fund	Road Fund
Bonds Outstanding	4,997,520,000	1,344,825,000	499,752,000	134,482,500
Authorized but Unissued	304,599,840	666,500,000	30,459,984	66,650,000
Total	5,302,119,840	2,011,325,000	530,211,984	201,132,500

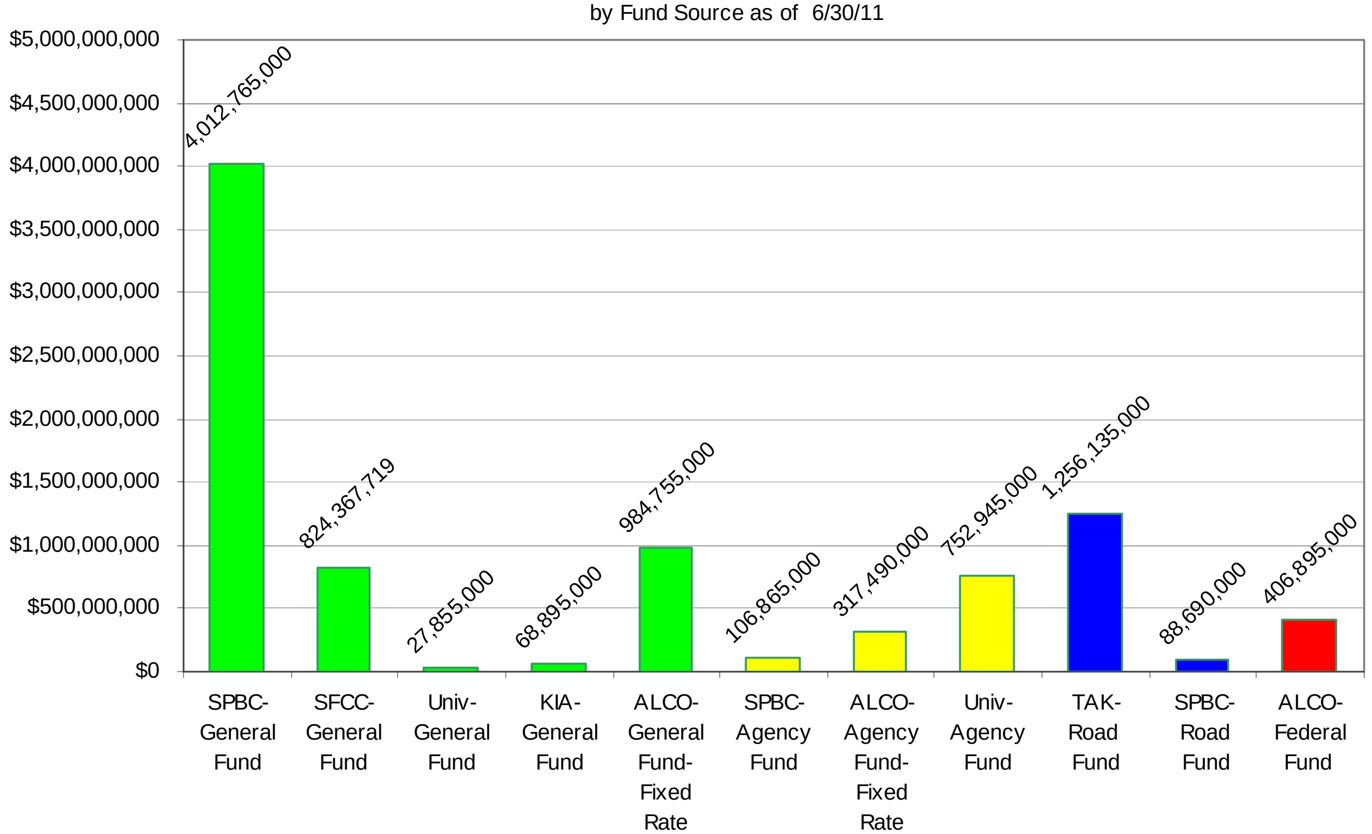
Investment Pool Balances		10 Percent Investment Portfolio	
Other Funds	Net Road Fund	Other Funds	Net Road Fund
3,575,686,301	448,191,732	357,568,630	44,819,173

APPENDIX B

Appropriation Supported Debt Service
by Fund Source as of 6/30/11



Appropriation Debt Principal Outstanding
by Fund Source as of 6/30/11



APPENDIX C

COMMONWEALTH OF KENTUCKY

ASSET/LIABILITY COMMISSION

SCHEDULE OF NOTES OUTSTANDING

AS OF 6/30/11

FUND TYPE SERIES TITLE		AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
General Fund Project & Funding Notes					
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	$222,055,000
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
	FUND TOTAL	**$1,233,560,000**			**$984,755,000**
Agency Fund Project Notes					
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	$98,600,000
2006 Series A-UK Gen Recpts		$66,305,000	10/2006	10/2022	$56,615,000
2007 Series A-UK Gen Recpts		$77,905,000	11/2007	10/2027	$75,170,000
2007 Series B-UK Gen Recpts		$80,245,000	11/2007	10/2027	$77,920,000
	FUND TOTAL	**$343,270,000**			**$317,490,000**
Federal Hwy Trust Fund Project Notes					
2005 1st Series		$139,635,000	6/2005	9/2017	$88,885,000
2007 1st Series		$277,910,000	9/2007	9/2019	$228,300,000
2010 1st Series		$89,710,000	3/2010	9/2022	$89,710,000
	FUND TOTAL	**$507,255,000**			**$406,895,000**
ALCo NOTES TOTAL		**$2,084,085,000**			**$1,709,140,000**

APPENDIX D

General Fund supported Bonds Authorized by the General Assembly permanently financed within the reporting period

State Property and Buildings Commission Revenue Bonds, Project No. 100

Project Description	Authorized Project Amount [1]
Project Description – 2005 Projects	
Cabinet for Economic Development	
Economic Development Bond Pool	$4,567,000
Project Description – 2006 Projects	
Cabinet for Economic Development	
New Economy High Tech Construction/Investment Pool	7,610,000 [2,3]
Project Description – 2008 Projects	
General Government	
Kentucky Infrastructure Authority-Infrastructure for Economic Development Fund for Non-Coal-Producing Counties	30,000,000 [2]
Kentucky Infrastructure Authority-Infrastructure for Economic Development Fund for Coal-Producing Counties	15,000,000 [2]
Project Description – 2010 Projects	
Cabinet for Economic Development	
Economic Development Bonds – Base Realignment and Closure (BRAC)	9,000,000 [2]
High Tech Construction/Investment Pool	5,000,000 [3]
Cabinet for Health and Family Services	
Behavioral Health, Developmental and Intellectual Disabilities - Oakwood Specialty Clinic	200,000 [2]
General Administration and Program Support-Maintenance Pool 2010-2012	850,000
Energy and Environment Cabinet	
Department for Environmental Protection-Petroleum Storage Tank Environmental Assurance Fund	25,000,000
Finance and Administration Cabinet	
Facilities and Support Services-Maintenance Pool 2010-2012	1,725,000
General Government	
Department of Veterans' Affairs–Western Ky Veterans' Center-Alzheimer's/General Care Unit-Additional	1,393,000
Justice and Public Safety Cabinet	
Adult Correctional Institutions-Maintenance Pool 2010-2012	2,750,000
General Government	
Kentucky Infrastructure Authority-Fund A-Federally Assisted Wastewater Program	2,300,000 [2]
Kentucky Infrastructure Authority-Fund F-Drinking Water Revolving Loan Program	3,000,000 [2]
Tourism, Arts and Heritage Cabinet	
Parks Department-Maintenance Pool 2010-2012	1,725,000
TOTAL OF ALL PROJECTS	**$110,120,000**

[1] Excludes allocable costs of issuance

[2] Less than full authorization.

[3] Funded with proceeds of Taxable Series B Bonds.

APPENDIX E

Debt Restructuring

The Commonwealth's General Fund and Road Fund debt service appropriations in the Executive Branch Budget for Fiscal Years 2011 and 2012 were predicated on the restructuring of certain debt service payments coming due in each Fiscal Year. Certain amounts of General Fund and Road Fund debt service were also restructured in Fiscal Years 2009 and 2010. The following tables illustrate the total cash-flow effect of the restructuring transactions undertaken to date.

In addition to these transactions, the Executive Branch Budget assumed the restructuring of approximately $130 million of General Fund debt service in Fiscal Year 2012 and also assumed the restructuring of approximately $52 million of Road Fund debt service in Fiscal Year 2011 and $53 million of Road Fund debt service in Fiscal Year 2012. House Bill 1 of the 2011 Extraordinary Session of the General Assembly restored the full Road Fund debt service appropriation needed for Fiscal Year 2011; therefore, the Road Fund debt restructuring budgeted for Fiscal Year 2011 was not needed. In addition, due to unused budgeted Road Fund debt service for bonds that have been authorized but unissued, the debt restructuring budgeted for Fiscal Year 2012 is also not anticipated.

All debt service restructurings have been undertaken with the principle objective of achieving the budgeted cash-flow relief while striving to minimize the additional long-term economic cost to the Commonwealth and taking into account market conditions and the overall debt amortization schedules of the General Fund and Road Fund.

Road Fund Debt Restructurings – Cashflow Savings/(Cost)

	June-10 TAK 2010 A
FY09	0
FY10	81,434,779
FY11	(3,180,756)
FY12	(3,128,613)
FY13	(8,723,612)
FY14	(21,453,738)
FY15	(21,455,687)
FY16	(21,461,088)
FY17	(11,660,687)
FY18	0
FY19	0
FY20	0
FY21	0
FY22	0
FY23	0
FY24	0
FY25	0
FY26	0
FY27	0
FY28	0
FY29	0
	(9,629,402)

APPENDIX E

General Fund Debt Restructurings - Cashflow Savings/(Cost)

	October-08	February-09	July-09	July-10	July-11	
	SPBC 90	SPBC 93	SPBC 95	SPBC 98	SPBC 100	Totals
FY09	42,172,965	580,593	0	0	0	42,753,558
FY10	(3,573,394)	51,075,657	111,681,870	0	0	159,184,133
FY11	(3,573,894)	(2,391,675)	(16,153,933)	139,828,140	0	117,708,638
FY12	(3,573,469)	(2,391,675)	(6,885,205)	(6,433,543)	127,343,240	108,059,348
FY13	(3,574,606)	(2,391,675)	(4,727,576)	(6,433,542)	(5,833,175)	(22,960,574)
FY14	(3,573,344)	(2,391,675)	(7,692,201)	(6,433,543)	(5,833,175)	(25,923,938)
FY15	(3,571,597)	(2,391,675)	(17,195,551)	(6,433,542)	(5,833,175)	(35,425,540)
FY16	(3,573,175)	(2,391,675)	(17,199,819)	(6,433,543)	(5,833,175)	(35,431,387)
FY17	(3,572,900)	(20,956,675)	(17,195,386)	(6,433,542)	(5,833,175)	(53,991,678)
FY18	(3,570,781)	(17,962,850)	(17,196,612)	(6,433,543)	(5,833,175)	(50,996,961)
FY19	(3,574,438)	(14,703,425)	(17,195,837)	(6,433,542)	(26,498,300)	(68,405,542)
FY20	(3,572,431)	0	(17,195,446)	(15,662,588)	(26,501,300)	(62,931,765)
FY21	(3,574,675)	0	(2,261,515)	(54,847,197)	(26,498,175)	(87,181,562)
FY22	(3,574,472)	0	0	(74,506,381)	(26,500,025)	(104,580,878)
FY23	(3,573,322)	0	0	0	(26,501,437)	(30,074,759)
FY24	(3,570,050)	0	0	0	0	(3,570,050)
FY25	(3,572,375)	0	0	0	0	(3,572,375)
FY26	(3,574,525)	0	0	0	0	(3,574,525)
FY27	(3,572,737)	0	0	0	0	(3,572,737)
FY28	(3,571,600)	0	0	0	0	(3,571,600)
FY29	(3,570,562)	0	0	0	0	(3,570,562)
	(29,285,382)	(16,316,750)	(29,217,211)	(56,656,366)	(40,155,047)	(171,630,756)

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Creating Financial Value for the Commonwealth