

COMMONWEALTH OF KENTUCKY

Comprehensive Annual Financial Report



FISCAL YEAR ENDED
June 30, 2006



Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2006

Ernie Fletcher, Governor



Prepared by:
Finance and Administration Cabinet
John Farris, Secretary

Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Stuart Weatherford, Assistant Controller



Ernie Fletcher
Governor



COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

ERNIE FLETCHER
GOVERNOR

700 CAPITAL AVENUE
SUITE 100
FRANKFORT, KY 40601
(502) 684-2611
FAX (502) 684-2517

December 20, 2006

My Fellow Kentuckians:

I am pleased to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 2006. This report conforms to the highest standards of financial reporting and reflects our commitment to sound financial management and strengthening the financial condition of the Commonwealth.

This report has been prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, and audited by the independent Office of the Auditor of Public Accounts. It complies with accounting principles generally accepted in the United States of America for State Governments as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants for measuring and reporting the financial activity of the government.

The information contained herein fairly presents and fully discloses all appropriate financial information required for citizens, business leaders, investors, and creditors to understand and evaluate the Commonwealth's financial condition.

Sincerely,


Ernie Fletcher

CONTENTS
INTRODUCTORY SECTION

Letter of Transmittal 2

Controller’s Letter 8

Certificate of Achievement for Excellence in Financial Reporting 9

Organizational Chart and List of Principal Officials 10

FINANCIAL SECTION

Report of the Auditor of Public Accounts 12

Management’s Discussion and Analysis 16

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements

Statement of Net Assets 25

Statement of Activities 26

Governmental Funds Financial Statements

Balance Sheet-Governmental Funds 29

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets 30

Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds 31

Reconciliation of the Statement of Revenues, Expenditures, Changes in Fund Balances-
Governmental Funds to the Statement of Activities 32

Proprietary Funds Financial Statements

Statement of Fund Net Assets 34

Statement of Revenues, Expenses, and Changes in Fund Net Assets 36

Statement of Cash Flows 38

Fiduciary Funds Financial Statements

Statement of Fiduciary Net Assets-All Fiduciary Funds 41

Statement of Changes in Fiduciary Net Assets-All Fiduciary Funds 42

Component Units Financial Statements

Statement of Net Assets 44

Statement of Activities 46

Notes to Financial Statements 51

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

Schedule of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual (Budgetary Basis)-General Fund 104

Budget and Actual (Budgetary Basis)-Budgeted Special Revenue Funds 108

Notes to Required Supplementary Information

Budgetary Reporting	118
Budgetary Basis vs. GAAP	119
Infrastructure Assets Reported Using the Modified Approach	120
Entity Risk Pools-Claims Development Information	122

OTHER SUPPLEMENTARY INFORMATION**Combining Financial Statements****Non-Major Governmental Funds**

Combining Balance Sheet	126
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	128

Schedule of Fund Activities

Schedule of Revenues by Source-General Fund	131
Schedule of Expenditures by Function, Cabinet, and Object-General Fund	132
Schedule of Revenues and Expenditures by Type-Transportation Fund	134

Internal Service Funds

Combining Statement of Fund Net Assets	136
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	138
Combining Statement of Cash Flows	140

Capital Assets

Capital Assets Used in the Operation of Governmental Funds by Source	143
Capital Assets Used in the Operation of Governmental Funds Schedule by Function	144
Capital Assets Used in the Operation of Governmental Funds Schedule of Changes by Function	146

Pension (and Other Employee Benefit) Trust Funds

Combining Statement of Fiduciary Net Assets	148
Combining Statement of Changes in Fiduciary Net Assets	150

Agency Funds

Combining Statement of Fiduciary Net Assets	153
Combining Statement of Changes in Assets and Liabilities	154

Non-Major Component Units-Combining

Combining Statement of Net Assets-Non-Major Component Units	156
Combining Statement of Activities-Non-Major Component Units	157

Non-Major Component Units-Authorities

Combining Statement of Net Assets-Authorities	160
Combining Statement of Activities-Authorities	162
Combining Statement of Cash Flows-Authorities	164

Non-Major Component Units-Universities, Colleges, and Related Entities

Combining Statement of Net Assets-Universities, Colleges, and Related Entities	166
Combining Statement of Activities-Universities, Colleges, and Related Entities	168

STATISTICAL SECTION

Fund Balances – Governmental Funds-	
For the Last Ten Fiscal Years	172
Changes in Fund Balance-Governmental Funds-	
For the Last Ten Fiscal Years	174
Net Assets by Component	
For the Last Five Fiscal Years	177
Government-Wide Expenses, Program Revenues, and Net (Expense)/Revenue	
For the Last Five Fiscal Years	178
Personal Income Tax Information-Calendar Years 2000 - 2004	180
Assessed and Estimated Actual Value of Taxable Property	
For Calendar Years 1996-2005	183
Property Tax Levies and Collections	
For Calendar Years 1996-2005	183
Ratios of Outstanding Debt by Type for the Last Ten Fiscal Years	184
University and College Revenue Bond Coverage for the Last Ten Fiscal Years	186
Top 10 Manufacturers	186
Demographic Statistics for the Calendar Years 1996-2005	186
Sources of Personal Income for the Calendar Years 1996-2005	187
Operating Indicators By Function for the Fiscal Year 2006.....	188
Capital Asset Statistics By Function for the Fiscal Year 2006	189

INTRODUCTORY SECTION



ERNIE FLETCHER

GOVERNOR

OFFICE OF THE SECRETARY
Finance and Administration Cabinet

383 CAPITOL ANNEX
FRANKFORT, KENTUCKY 40601
(502) 564-4240
(502) 564-6785 Fax

JOHN R. FARRIS

Secretary

December 19, 2006

The Honorable Ernie Fletcher
Governor, Commonwealth of Kentucky
The Capitol Building
Frankfort, Kentucky 40601

Dear Governor Fletcher:

INTRODUCTION

Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.) requires the Finance and Administration Cabinet to submit a complete report of the financial transactions of the preceding year and of the financial condition of the Commonwealth as of the end of that fiscal year. In accordance with this statute, it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2006. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which assumes responsibility for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial condition and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes the transmittal letters, the 2005 Certificate of Achievement award, organizational chart and list of principal officials. The financial section includes: the auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis to the "Basic Financial Statements"; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data, which includes the combined financial statements and schedules. The statistical section includes such items as trend information, debt information and other selected economic and statistical data. Special attention should be given to the MD&A, which is designed to accompany the letter of transmittal. The Commonwealth's MD&A is located in the Financial Section directly following the Auditors' Report.

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The independent auditor concluded that the Commonwealth of Kentucky's financial statements for the year ended June 30, 2006, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP.) The report of the independent auditor appears elsewhere in this report.

PROFILE OF THE COMMONWEALTH OF KENTUCKY

The Reporting Entity and Its Services

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

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

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

The Commonwealth and Its Services

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

Budgetary Controls

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

ECONOMIC CONDITION AND OUTLOOK

National Economy

At the beginning of FY06, all the key economic indicators were poised to repeat the booming success of the previous year with even greater gusto. Then, two months into the fiscal year, came the destructive impact of Hurricane Katrina.

The shock was felt far beyond the New Orleans and Mississippi delta regions because of the disruption of oil and gas supplies. The one-time spike in energy prices later turned into a prolonged general increase in prices due to increased energy demands from developing economies. In spite of the energy-related shock, the net impact on the U.S. economy has been just a slight dampening in some key indicators.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 3.5 percent in FY06. During the next biennium, GDP growth is expected to slow slightly, posting gains of 2.7 percent in FY07 and 2.5 percent in FY08. This downshift is not enough to cause worry about the economy, it is a result of a downturn in the housing market and a more cautious consumer. Based on current trends, real GDP growth for the next five years is expected to average 3 percent annually with a 10 year annual average of 2.9 percent.

There are four broad components of the economy that drive overall growth: consumption, investment, government spending, and net exports. Consumption is by far the largest component, accounting for about 70 percent of the total. Real consumption (i.e. adjusted for inflation) was up 3.3 percent for the year. Consumption of durable goods slowed slightly in FY06 as energy costs claimed more of the consumers' dollar. The price of crude oil averaged \$64.12 per barrel, up 31 percent from a year ago. In the short-run, it is difficult for consumers' to drastically reduce their spending on energy. The net effect is usually a slight reduction in the consumption of other commodities.

With the upsurge in gasoline prices, there was a 4.6 percent decline in the purchase of motor vehicles for the year. The decline was more pronounced in the fourth quarter, down 6.9 percent, as gasoline prices peaked in May. The largest increase in spending was in furniture, up 11.4 percent, due primarily to the surge of home purchases.

The investment climate was favorable in FY06 in spite of steadily rising interest rates and the drag from oil prices. Real investments were up 6.4 percent for the fiscal year. As in the past, the largest investment increase was in computer equipment and software, up 9.7 percent for the year. The strong gains in this sector are critical for future economic growth because much of the recent prosperity in the U.S. economy is from gains in productivity driven by investment in computer equipment.

Government spending is less than a fifth of total GDP and grew by just 1.8 percent in FY06. Foreign trade activity, on the other hand, comprises almost 30 percent of total GDP. The weak dollar resulted in an increase in exports growth surpassing the increase in imports growth: 7.1 percent vs. 6 percent. However, the magnitude of imports continues to exceed that of exports. That means the foreign trade balance is still negative.

U.S. personal income was up 5.9 percent in FY06 and is forecasted to increase by 6.3 percent in FY07 and 6.2 percent in FY08. Over the next five years (FY07 to FY11), personal income is forecasted to grow by an average of 5.9 percent. The 10 year average is slightly lower at 5.5 percent.

The downside in the economy has been the steady rise in inflation. The outlook for inflation is closely tied to the energy market. Crude oil prices are forecasted to average a moderate \$52 per barrel over the next 10 years. Even though the Federal Government doesn't set an explicit inflation target, the implicit target is under two percent. In FY06, CPI inflation averaged 3.8 percent. Inflation is expected to be up 3.2 percent in FY07 and then settle down to 2.1 percent the following year. Over the next five years, inflation is expected to be just under two percent, and the 10 year average is 1.6 percent.

The employment picture improved substantially during FY06. U.S. nonfarm employment was up 1.5 percent, though employment in manufacturing was down 0.4 percent. Employment is expected to be up by just 1.1 percent during each of the next two years. The five-year forecast calls for employment to increase by 1.3 percent, and the average annual growth for the next ten years is 1 percent.

Kentucky's Economy

The performance of state economies is measured by personal income and employment. In terms of both of these statistics, the Kentucky economy had a good run in FY06.

Though the Kentucky economy has been expanding for three years in a row, gains in both income and employment are substantially less than the national average. The cause is the substantial reliance on manufacturing jobs. Excess manufacturing capacity abroad and increased productivity—without a concomitant increase in wages—has kept income from growing.

In FY06, personal income is estimated to have increased by 4.9 percent to \$121.7 billion. Wages and salaries comprise about 53 percent of total income. These were up by 4.4 percent during the year. Kentucky's personal income is expected to be up by 5.4 percent in FY07 and 5.2 percent in FY08. The five-year outlook calls for an average annual growth of 5.9 percent, followed by a slight downshift that averages 5.5 percent over a 10 year period.

Nonfarm employment in Kentucky increased by 1.3 percent in FY06, resulting in the addition of 24,400 jobs. During the year, Kentucky reached two historic milestones: employment gains finally canceled out the dip in jobs from the recession, and nonfarm employment reached an all time high of 1,835,500.

The service-providing sectors posted the largest gains during the year with an increase of 1.5 percent compared to 1 percent for the goods-producing sector. Government jobs account for 17 percent of total nonfarm employment and were up 1.1 percent for the year and 0.7 percent in the final quarter.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. However, employment is still dominated by manufacturing and construction. The goods-producing sector accounts for 20 percent of all jobs in Kentucky compared to the national average of 16 percent. In the last few years, this has been to Kentucky's disadvantage as manufacturing facilities have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity. During FY06, rising interest rates—from the Federal government's restrictive monetary policy—has had a ripple effect in dampening the economy, hence employment in the goods producing sectors.

In FY06, manufacturing employment was flat, but showed a slight gain near the end of the year with an increase of 0.3 percent in the fourth quarter. Manufacturing of transportation equipment accounts for over one-fifth of all manufacturing jobs and was flat. But the impact of high gas prices was seen in the 5.5 percent decline in employment in motor machinery manufacturing.

Kentucky's nonfarm employment is expected to grow by 0.9 percent in FY07 and 1.2 percent in FY08. The five-year forecast is for an average increase of 1.1 percent, followed by a slowdown in the next five years.

In percentage terms, most of the job growth is anticipated to come from the goods-producing sectors, which include mining, construction and manufacturing. These sectors account for one-fifth of all Kentucky employment.

During the next five years, the outlook for the coal mining industry continues to be promising. Employment is expected to increase by a robust 2.1 percent. However, as crude oil prices continue to drop the demand for Kentucky coal is expected to decline. Employment in coal mining is expected to drop by 2.4 percent over 10 years on an annual average basis.

Long-Term Financial Planning

Kentucky has by statute (KRS 48.705) a set goal of maintaining a Budget Reserve Trust Fund (BRTF) balance of 5 percent of general fund revenues. As of June 30, 2006, the BRTF was approximately \$300 million short of this goal. It is the policy of the current administration to earmark a portion of any year-end surplus to replenish the BRTF in order to achieve the desired balance. To that end, and as authorized by House Bill 267, we are increasing the BRTF by \$112,474,636 for a total of \$231,489,636 beginning with FY 2007.

Major Initiatives

Fiscal year 2006 was the second year of the Commonwealth's 2004-2006. The FY06 General Fund budget included an 8 percent spending increase over the budget for FY05. For the second year in a row, General Fund revenues exceeded budgeted estimates, reflecting an improved fiscal climate compared to the prior four years. Education spending increased 10 percent for elementary and secondary education, and 8 percent for postsecondary education.

Health care was also a primary source of increased spending. Medicaid spending increased by about 8 percent, and increased health insurance costs for the Commonwealth's public retirees, as well as for government and local school employees exceeded 30 percent. Spending for the Criminal Justice system was increased by about six percent.

In April 2006, the General Assembly enacted the Commonwealth's 2006-2008 biennial budget for the Executive Branch while meeting in Regular Session. Education spending in the 2006-08 biennium held the highest priority in the budget and it was increased by 14 percent, which included an initiative to raise teacher compensation to the average of the seven surrounding states, and a significant investment in education technology. The postsecondary education budget was increased by over 8 percent. Overall, General Fund appropriations were increased for the first fiscal year by about 5 percent, and 7 percent in the second fiscal year. One of the more notable initiatives in the budget was the unprecedented size of the capital program, mainly financed through the issuance of debt. The capital budget for the Executive Branch included \$2,010,528,000 in bond-funded capital projects, including \$1,392,991,000 supported from General Fund debt service; \$350,000,000 in road projects financed with bonds; and \$267,537,000 to be financed with restricted fund debt service. The largest proportion of new project activity, including bond-financed activity, was directed to Postsecondary Education. The second largest commitment of support is for local water and sewer infrastructure projects. The School Facilities Construction Commission, which aids local school districts in new construction and renovation projects, received \$150 million in new bonds from the 2006 General Assembly to support offers of assistance to local school districts. Also funded were a \$60 million parks development program and \$37.5 million in economic development investments.

During FY06, the Commonwealth initiated a Medicaid reform effort to begin in FY07, entitled Kentucky Health Choices, becoming one of the first states to take advantage of the new flexibility included in the federal Deficit Reduction Act passed by Congress in 2006. The 2006-2008 biennial budget incorporated a lower growth rate of increased spending based upon program improvements resulting from the reform effort.

General Fund revenues and expenditures were just under 10 percent higher in FY06. The Commonwealth ended the 2006 fiscal year with a budgeted surplus in the General Fund of \$136.5 million and \$39 million in the Road Fund. The General Fund surplus was due to higher than anticipated revenue receipts combined with the lapse of unexpended funds. The Road Fund surplus was the result of the lapse of unexpended funds. Governor Fletcher devoted \$112.5 million of the General Fund surplus to the Commonwealth's Budget Reserve Trust Fund, or Rainy Day fund, and \$12 million each to the Commonwealth's two public employee retirement systems. The addition to the Budget Reserve Trust Fund raised its balance to \$231.5 million; 2.8 percent of budgeted FY07 revenues.

Implementation of the major portions of the 2005 Tax Modernization legislation, the JOBS for Kentucky program, began during FY06. The legislation included a major restructuring of corporate and business taxes; repealing the corporate license tax; broadening the base of entities paying the corporate income tax; and lowering the corporation income tax rate. The personal income tax rate was reduced; a low-income tax credit was established; the intangible property tax was repealed; the cigarette tax was raised; wholesale alcohol taxes were increased; communications taxes were restructured; and a number of tax credits were established. In the spring of 2006, during a special session of the General Assembly, the corporate income tax changes made in 2005 were further modified. The primary focus was on providing relief to small businesses comprising of no liability for gross receipts or gross profits under \$3 million, and reduced liability for those between \$3 and \$6 million. The changes also established a new limited liability entity tax with a \$175 minimum; and returns to conformity on federal treatment.

FINANCIAL INFORMATION

The Accounting System

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

In developing and operating the Commonwealth's accounting system, management of the Commonwealth placed emphasis on the adequacy of internal accounting controls. The comprehensive internal control framework is designed

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

Debt Administration

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2006 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$448,026	2.6 %	\$850

No general obligation bonds were authorized or outstanding at June 30, 2006.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2006 is presented in Note 15.

OTHER INFORMATION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2005. This is the 19th consecutive year the Commonwealth has received this prestigious award.


In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Acknowledgments

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

Respectfully submitted,



John R. Farris
Secretary
Finance and Administration Cabinet



ERNIE FLETCHER
Governor

Commonwealth of Kentucky
FINANCE AND ADMINISTRATION CABINET
OFFICE OF THE CONTROLLER
Room 484, Capitol Annex
702 Capital Avenue
Frankfort, Kentucky 40601
(502) 564-2210
(502) 564-6597 Facsimile

JOHN FARRIS
Secretary

EDGAR C. ROSS
Controller

December 19, 2006

The Honorable John Farris
Secretary, Finance and Administration Cabinet
383 New Capitol Annex
Frankfort, Kentucky

Dear Secretary Farris:

Pursuant to Section 48.800 (3) of the Kentucky Revised Statutes, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2006, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB).

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

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Edgar C. Ross".

Edgar C. Ross, Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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



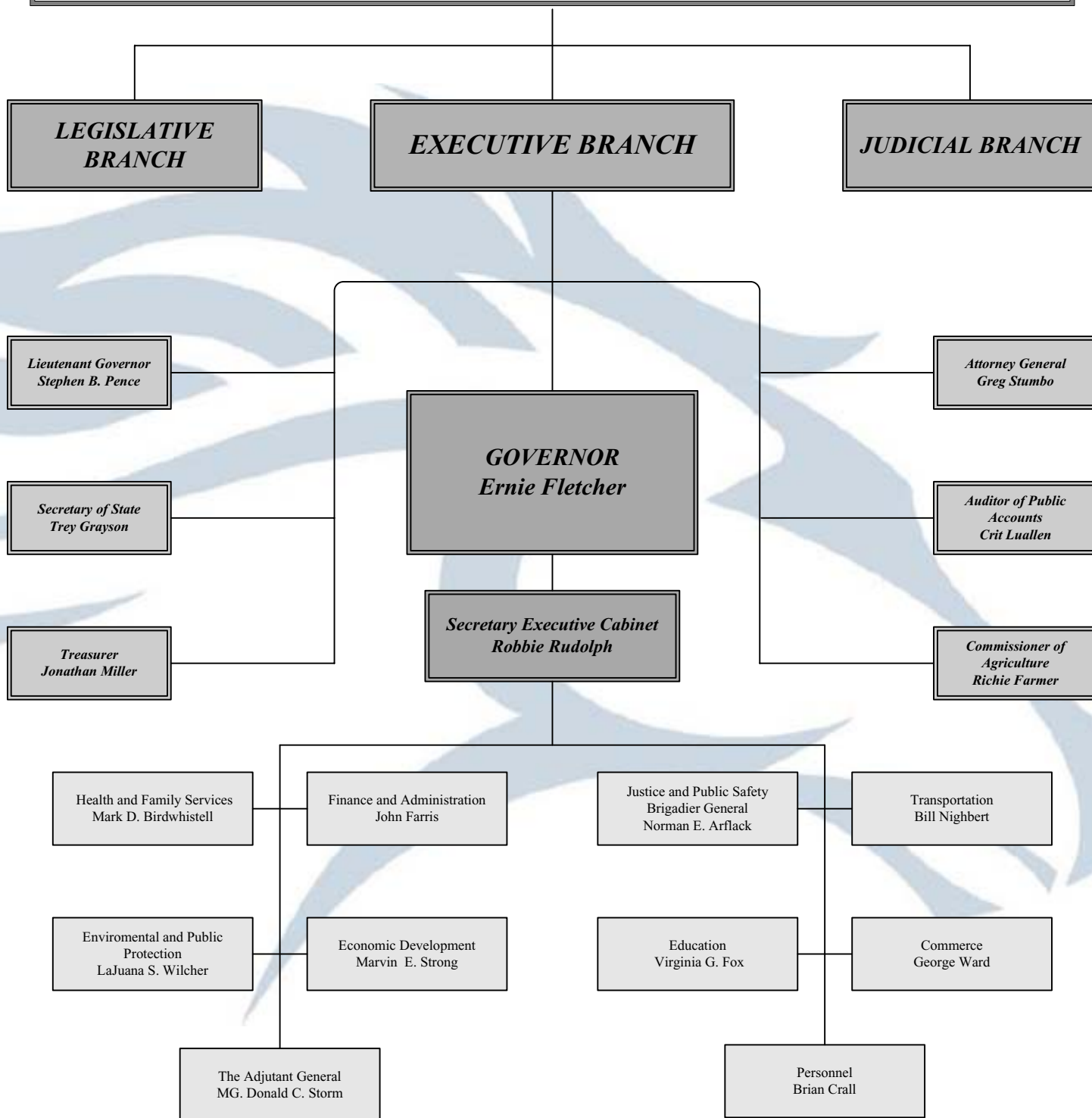
President

Executive Director

COMMONWEALTH OF KENTUCKY

ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



*Principal Officials at June 30, 2006

FINANCIAL SECTION



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Certain portions of the Governmental Funds including:

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

Certain portions of the Proprietary Funds including:

- Kentucky Lottery Corporation
- Kentucky Employees Health Plan
- Within the Insurance Administration Fund:
 - Kentucky Coal Workers' Pneumoconiosis Fund
 - Kentucky Workers' Compensation Fund
 - Petroleum Storage Tank Environmental Assurance Fund

Certain portions of the Risk Management funds within the Internal Service Funds:

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

Certain Fiduciary Funds including:

- Pension Trust Funds

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky
The Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Page 2

Component Units:

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

Component Units - Colleges and Universities and related entities:

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

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

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government - Governmental Activities	3.34%	1.18%
Primary Government - Business-Type Activities	56.35%	75.90%
Component Units	99.04%	97.52%
Fund Financial Statements:		
Governmental Funds - Non-Major Funds	45.02%	12.64%
Proprietary Funds - Business-Type Activities - Enterprise Funds	56.29%	76.08%
Proprietary Funds - Governmental Activities - Internal Service Funds	3.77%	16.41%
Fiduciary Funds - Pension Trust Funds	100.00%	100.00%
Component Units	99.04%	97.52%

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

To the People of Kentucky
The Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Page 3

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The audit report for Kentucky State University has not been released as of the date of this report and therefore those financial statements have not been audited. Kentucky State University's financial activities have been included in the basic financial statements as discretely presented component units and represent .66 percent of assets, 1.04 percent of net assets and .79 percent of revenues, of the Commonwealth's aggregate discretely presented component units.

The Management's Discussion and Analysis on pages 16 through 22, budgetary comparison schedules and corresponding notes on pages 104 through 119, and information about infrastructure assets reported using the modified approach on pages 120 and 121, and claims development information for entity risk pools on page 122, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky's basic financial statements. The combining financial statements, presented in this report on pages 126 through 169 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 1 through 10 and 172 through 189 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 19, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2006. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

The assets of the Commonwealth's governmental activities exceeded its liabilities at fiscal year ending June 30, 2006 by \$17.8 billion, an increase of \$431 million related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$34 million, an increase in net assets of \$231 million related to current year activity. Total net assets increased by \$662 million to \$17.9 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2006 by \$5.70 billion, an increase of \$474 million related to current year activity.

Fund Highlights:

As of the close of FY06, the Commonwealth's governmental funds reported combined ending fund balances of \$3.14 billion, an increase of \$527 million in comparison with the prior year. Of this total amount, \$781 million was reserved and the balance of approximately \$2.36 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$713 million at June 30, 2006.

Enterprise funds reported net assets of \$34 million, of which \$647 million was restricted or invested in capital assets, and the balance of \$(613) million was unrestricted.

Long-Term Debt:

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$491 million to \$4.10 billion during the current fiscal year. This increase is due to the issuance of new debt by the Commonwealth's Primary Government during FY06. Additional details of these activities can be found in Note 15 beginning on Page 90.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

These three types of activities are:

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

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

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

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

Fund Financial Statements

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

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

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

Table 1. Major Features of the Commonwealth of Kentucky's Government-Wide and Fund Financial Statements				
	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire government (except fiduciary funds) and the Commonwealth's component units.	The activities of the Commonwealth that are not proprietary or fiduciary.	Activities of the Commonwealth that are similar to private businesses.	Instances where the Commonwealth is the trustee for someone else's resources.
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fund Net Assets Statement of Revenues, Expenses, and Changes in Fund Net Assets Statement of Cash Flows	Statements of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources measurement	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial, and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of Inflow – Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$17.9 billion at the end of 2006, as compared to \$17.4 billion at the end of the previous year.

At \$17.9 billion, the largest portion of the Commonwealth's net assets is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.77 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$1.80 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2005 and June 30, 2006, derived from the government-wide Statement of Net Assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 3,921,376	\$ 4,063,002	\$ 807,905	\$ 571,300	\$ 4,729,281	\$ 4,634,302
Capital Assets	19,075,047	18,739,343	252,650	247,726	19,327,697	18,987,069
Other Assets	2,052,168	1,363,178	662,234	579,593	2,714,402	1,942,771
Total Assets	25,048,591	24,165,523	1,722,789	1,398,619	26,771,380	25,564,142
Non Current Liabilities	4,977,477	4,385,486	1,532,184	1,330,894	6,509,661	5,716,380
Other Liabilities	2,252,131	2,330,199	156,446	75,555	2,408,577	2,405,754
Total Liabilities	7,229,608	6,715,685	1,688,630	1,406,449	8,918,238	8,122,134
Invested in Capital Assets						
Net of Related Debt	17,633,886	17,188,142	254,623	249,728	17,888,509	17,437,870
Restricted	1,376,301	1,081,388	392,318	375,488	1,768,619	1,456,876
Unrestricted	(1,191,204)	(819,692)	(612,782)	(633,046)	(1,803,986)	(1,452,738)
Total Net Assets	\$ 17,818,983	\$ 17,449,838	\$ 34,159	\$ (7,830)	\$ 17,853,142	\$ 17,442,008

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during FY06. The Commonwealth received program revenues of \$8.7 billion and general revenues (including transfers) of \$10.0 billion for total revenues of \$18.7 billion during FY06. Expenses for the Commonwealth during FY06 were \$18 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$662 million, net of contributions, transfers and special items.

Finance and Administration Cabinet

Page 3

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

	2006 Governmental Activities	2005 Governmental Activities	2006 Business-Type Activities	2005 Business-Type Activities	2006 Total	2005 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 964,033	\$ 1,025,399	\$ 1,952,078	\$ 1,268,185	\$ 2,916,111	\$ 2,293,584
Operating Grants and Contributions	5,139,428	4,915,115	45,573	49,509	5,185,001	4,964,624
Capital Grants and Contributions	597,282	520,194	112	33	597,394	520,227
General Revenues:						
Income Taxes	3,877,037	3,536,798			3,877,037	3,536,798
Sales Taxes	4,433,893	4,031,452			4,433,893	4,031,452
Property Taxes	492,532	479,815			492,532	479,815
Other Taxes	566,043	627,285			566,043	627,285
Investment Earnings	58,428	31,858	26,793	36,782	85,221	68,640
Other	505,017	458,572	25,930	47,881	530,947	506,453
Total Revenues	16,633,693	15,626,488	2,050,486	1,402,390	18,684,179	17,028,878
Expenses:						
Governmental Activities:						
General Government	2,714,165	2,234,111			2,714,165	2,234,111
Legislative and Judicial	305,466	282,389			305,466	282,389
Commerce	103,996	81,639			103,996	81,639
Education and Humanities	4,421,812	4,092,896			4,421,812	4,092,896
Human Resources	6,259,383	5,897,619			6,259,383	5,897,619
Justice	794,698	702,796			794,698	702,796
Natural Resources and Environmental Protection	207,369	164,498			207,369	164,498
Public Protection and Regulation	68,108	68,956			68,108	68,956
Transportation	1,263,891	1,191,512			1,263,891	1,191,512
Interest Expense	250,622	201,564			250,622	201,564
Business-type Activities:						
State Parks			90,283	92,193	90,283	92,193
Kentucky Lottery Corporation			558,435	552,410	558,435	552,410
Kentucky Horse Park			9,690	9,387	9,690	9,387
Kentucky Employees Health Plan			507,282		507,282	
Insurance Administration			70,683	101,312	70,683	101,312
Unemployment Compensation			396,052	429,007	396,052	429,007
Total Expenses	16,389,510	14,917,980	1,632,425	1,184,309	18,021,935	16,102,289
Increase (Decrease) in Net Assets Before Transfers	244,183	708,508	418,061	218,081	662,244	926,589
Transfers	187,101	141,338	(187,101)	(141,338)		
Change in Net Assets	431,284	849,846	230,960	76,743	662,244	926,589
Net Assets, July 1, as restated	17,387,699	16,599,992	(196,801)	(84,573)	17,190,898	16,515,419
Net Assets, June 30	\$ 17,818,983	\$ 17,449,838	\$ 34,159	\$ (7,830)	\$ 17,853,142	\$ 17,442,008

Governmental Activities:

As a result of the improving economy during the fiscal year, the net assets of governmental activities increased by \$431 million or 2.47 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 34 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

Table 4

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 2,714,165	\$ 668,519	\$ 2,045,646
Legislative and Judicial	305,466	15,542	289,924
Commerce	103,996	47,396	56,600
Education and Humanities	4,421,812	911,633	3,510,179
Human Resources	6,259,383	4,038,933	2,220,450
Justice	794,698	85,677	709,021
Natural Resources and Environmental Protection	207,369	91,425	115,944
Public Protection and Regulation	68,108	67,300	808
Transportation	1,263,891	774,318	489,573
Totals	\$ 16,138,888	\$ 6,700,743	\$ 9,438,145

Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities increased the Commonwealth's net assets by \$231 million. Program revenues generated by the operations of the State Parks and Kentucky Horse Park were not sufficient to cover program expenses. General revenues were needed to support expenses of these programs. Program revenues generated by the operations of the Kentucky Lottery Corporation, Kentucky Employees Health Plan, Insurance Administration, and Unemployment Insurance were sufficient to cover program expenses.

Table 5

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 90,283	\$ 52,955	\$ 37,328
Kentucky Lottery Corporation	558,435	742,312	(183,877)
Kentucky Horse Park	9,690	6,122	3,568
Kentucky Employees Health Plan	507,282	595,435	(88,153)
Insurance Administration	70,683	178,305	(107,622)
Unemployment Insurance	396,052	422,634	(26,582)
Totals	\$ 1,632,425	\$ 1,997,763	\$ (365,338)

Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2006 include the following:

- The assets of the State's governmental activities continue to exceed liabilities (net assets) at the close of the fiscal year by \$17.9 billion and the condition of the State's business-type activities improved so that assets exceed their liabilities by \$34 million.
- The State's total net assets increased during the year by \$662 million. Net assets of governmental activities increased by \$431 million, while net assets of business-type activities increased by \$231 million.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$3.14 billion, an increase of \$527 million in comparison with the prior year. The unreserved portion of fund balance (\$2.36 billion), which is the portion of fund balance available for spending in the coming year, has increased to 75% of the total fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending.

General Fund

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, total fund balance reached \$897 million, with an unreserved balance of \$713 million. This compares to a General Fund unreserved Fund Balance of \$593 million as of June 30, 2005. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance, of the Commonwealth's general fund, increased by \$226 million during the current fiscal year. This is a 33.8 percent increase in fund balance from the prior year. The contributing factors to this increase were continuing spending reduction efforts, an improving economy and tax reform. The following governmental funds experienced significant changes during the year:

Major Special Revenue Funds

The major special revenue funds had moderate increases in revenues and slight fluctuations in expenditures with no significant changes in fund balance. The major contributing factors include an increase in motor fuels tax receipts, in the Transportation Fund, increased benefit payments in the Federal Fund, and increased spending in the Transportation function in the Agency Revenue Fund.

Proprietary Funds - The Commonwealth's proprietary funds reported net assets of \$188 million, which included \$34 million in the enterprise funds and \$154 million in the internal service funds. This is a total increase in net assets of \$250 million from the previous year.

Two proprietary funds that contributed to this change were the Insurance Administration Fund and Kentucky Employees Health Plan. The Insurance Administration Fund's net assets at June 30, 2006 totaled (\$750) million, an increase of \$84 million during the fiscal year. Kentucky Employees Health Plan, a new self insurance plan was established January 1, 2006 the premiums collected exceed claims presented as of June 30, 2006.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues exceeded the final budgetary estimates by approximately \$150 million. Actual expenditures for the year were approximately \$295 million less than the budgeted amount. These factors increased Commonwealth's General fund balance, which enabled the budget stabilization "rainy day fund" to be increased in the new fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$20.2 billion, with accumulated depreciation of \$908 million, leaving a net book value of \$19.3 billion. This investment in capital assets includes land, improvements, buildings, equipment, construction in progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 1.8 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$2.5 billion for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$80 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the "Notes to the Financial Statements" of this report.

Infrastructure Assets – The Commonwealth has elected to utilize the "Modified Approach" option as it relates to guidelines set forth in the GASB (Government Accounting Standards Board), Statement Number 34. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 62,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition levels of the infrastructure assets.
- The asset condition level established by the Commonwealth has been met and exceeded for the past two years.
- There have been no significant differences between the amounts estimated to be necessary to maintain and preserve infrastructure assets at target condition levels and the actual amounts of expense incurred for that purpose during the current fiscal period.

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

Debt Administration - The authority of the Commonwealth to incur debt is described in Article X, Section 25, of the Kentucky Constitution. In 1987, the Commonwealth created the Executive Bond Oversight Commission and the Legislative Bond Oversight Commission. The commissions meet jointly to review all proposed debt issuance. Both commissions must approve each financing plan before obligations are issued. The legislation that created the bond oversight commissions also created the position of Commonwealth Bond Advisor, who advises the commissions and must approve the pricing and fees associated with any debt issuance.

The Commonwealth of Kentucky's bonded debt increased by \$310 million to \$3,546,468, an 9.57% increase during the current fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2006. The key factor in this increase was the issuance of new debt during fiscal year 2006.

Additional information on the Commonwealth's long-term debt obligations can be found in Note 15 of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Kentucky is currently 5.2 percent, which is substantially lower than the 6.4 percent a year ago in October 2005. The national unemployment rate is lower still at 4.4 percent.

Inflationary trends in the region compare favorably to national indices as well. These factors are considered by legislative leaders and management in preparing the Commonwealth's budget for future years.

A comprehensive budgetary dissertation is located in the "Letter of Transmittal – Major Initiatives" section of this report.

As a result of the combined economic factors, the overall economic condition of the Commonwealth has improved and is expected to continue improving.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	\$ 999,589	\$ 230,219	\$ 1,229,808	\$ 1,233,993
Cash with fiscal agents (Note 5)	39,751		39,751	
Restricted cash (Note 5)		104	104	
Investments, net of amortization (Note 5)	2,052,168	662,234	2,714,402	2,234,475
Invested security collateral	843,079		843,079	
Receivables, net (Note 4)	1,674,108	247,723	1,921,831	3,831,928
Notes receivable	24,860		24,860	
Capital lease receivable (Note 4)	248,070		248,070	
Internal balances	1,216	(1,216)		
Inventories	46,098	3,237	49,335	29,716
Prepaid expenses	11,179	734	11,913	11,699
Deferred charges	31,363		31,363	68,710
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		318,646	318,646	337,607
Investments (Note 5)		865	865	789,400
Capital assets (Note 6):				
Land	115,615	20,158	135,773	171,948
Improvements other than buildings	11,672	95,539	107,211	146,703
Buildings	1,051,063	211,257	1,262,320	3,934,053
Machinery and equipment	531,897	55,394	587,291	1,354,920
Other capital assets				1,523
Easements and other intangibles	53,633	2,322	55,955	
Less: Accumulated depreciation and amortization	(732,238)	(175,697)	(907,935)	(2,582,504)
Construction in progress	1,601,372	43,677	1,645,049	184,556
Infrastructure	16,442,033		16,442,033	
Total Capital Assets	19,075,047	252,650	19,327,697	3,211,199
Other assets	2,063	7,593	9,656	168,709
Total Assets	25,048,591	1,722,789	26,771,380	11,917,436
Liabilities				
Accounts payable (Note 4)	985,983	36,469	1,022,452	305,987
Tax refunds payable	278,954		278,954	
Unearned revenue	144,115	119,977	264,092	162,794
Other liabilities				83,330
Liabilities from restricted assets				9,129
Obligations under securities lending	843,079		843,079	
Noncurrent liabilities:				
Due within one year (Note 15)	451,932	259,269	711,201	269,319
Due in more than one year (Note 15)	4,525,545	1,272,915	5,798,460	5,361,494
Total Liabilities	7,229,608	1,688,630	8,918,238	6,192,053
Net Assets				
Invested in capital assets, net of related debt	17,633,886	254,623	17,888,509	2,345,821
Restricted for:				
Debt service	403,002		403,002	248,820
Capital projects	216,099	1,712	217,811	151,269
Highways	757,200		757,200	
Unemployment benefits		381,627	381,627	
Other purposes (Note 1)		8,979	8,979	2,144,310
Unrestricted	(1,191,204)	(612,782)	(1,803,986)	835,163
Total Net Assets	\$ 17,818,983	\$ 34,159	\$ 17,853,142	\$ 5,725,383

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 2,714,165	\$ 374,655	\$ 260,842	\$ 33,022
Legislative and judicial	305,466	13,667	1,875	
Commerce	103,996	34,390	13,006	
Education and humanities	4,421,812	102,783	808,850	
Human resources	6,259,383	106,238	3,931,700	995
Justice	794,698	33,185	47,122	5,370
Natural resources and environmental protection	207,369	33,205	58,220	
Public protection and regulation	68,108	63,341	3,959	
Transportation	1,263,891	202,569	13,854	557,895
Interest expense	250,622			
Total Governmental Activities	16,389,510	964,033	5,139,428	597,282
Business-Type Activities:				
State Parks	90,283	52,751	204	
Lottery Corporation	558,435	742,312		
Kentucky Horse Park	9,690	6,010		112
Kentucky Employees Health Plan	507,282	595,435		
Insurance Administration	70,683	178,305		
Unemployment Compensation	396,052	377,265	45,369	
Total Business-Type Activities	1,632,425	1,952,078	45,573	112
Total Primary Government	\$ 18,021,935	\$ 2,916,111	\$ 5,185,001	\$ 597,394
Component Units:				
Authorities:				
Kentucky Housing Corporation	\$ 238,820	\$ 90,120	\$ 135,575	\$
Kentucky Higher Education Assistance Authority	188,602	21,663	176,852	
Kentucky Higher Education Student Loan Corporation	201,005	149,159		
Kentucky School Facilities Construction Commission	39,403	10,083		
Universities, Colleges, & Related Entities:				
University of Kentucky	1,632,723	957,300	368,346	63,188
University of Louisville	684,221	318,433	189,726	3,435
Kentucky Community and Technical College System	452,452	72,360	181,828	
Other component units	1,274,182	467,435	349,408	19,645
Total Component Units	\$ 4,711,408	\$ 2,086,553	\$ 1,401,735	\$ 86,268
General Revenues (Note 1):				
Sales and gross receipt tax				
Individual income tax				
Corporate income tax				
Property tax				
License and privilege tax				
Severance tax				
Inheritance and estate tax				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Totals	
\$ (2,045,646)	\$	\$ (2,045,646)	
(289,924)		(289,924)	
(56,600)		(56,600)	
(3,510,179)		(3,510,179)	
(2,220,450)		(2,220,450)	
(709,021)		(709,021)	
(115,944)		(115,944)	
(808)		(808)	
(489,573)		(489,573)	
(250,622)		(250,622)	
(9,688,767)		(9,688,767)	
	(37,328)	(37,328)	
	183,877	183,877	
	(3,568)	(3,568)	
	88,153	88,153	
	107,622	107,622	
	26,582	26,582	
	365,338	365,338	
(9,688,767)	365,338	(9,323,429)	
			\$ (13,125)
			9,913
			(51,846)
			(29,320)
			(243,889)
			(172,627)
			(198,264)
			(437,694)
			(1,136,852)
4,433,893		4,433,893	
2,863,269		2,863,269	
1,013,768		1,013,768	
492,532		492,532	
73,679		73,679	
290,203		290,203	
40,498		40,498	
161,663		161,663	
723		723	163,790
58,428	26,793	85,221	210,901
4,637	30	4,667	239,107
499,657	25,900	525,557	997,042
187,101	(187,101)		
10,120,051	(134,378)	9,985,673	1,610,840
431,284	230,960	662,244	473,988
17,387,699	(196,801)	17,190,898	5,251,395
\$ 17,818,983	\$ 34,159	\$ 17,853,142	\$ 5,725,383

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Major Funds

General Fund

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

Transportation Fund

The Transportation Fund accounts for activities related to the construction, preservation, and maintenance of roads.

Federal Fund

The Federal Fund accounts for monies received from the federal government to be spent on specific programs and operations.

Agency Revenue Fund

The Agency Revenue Fund accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity. The General Assembly usually appropriates this fund.

Capital Projects Fund

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

Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page 126

COMMONWEALTH OF KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents (Note 5)	\$ 543,932	\$ 23,878	\$ 50,175	\$ 38,044	\$ 12,325	\$ 306,700	\$ 975,054
Cash with fiscal agents (Note 5)						25,800	25,800
Restricted cash (Note 5)		1,025		13,951			14,976
Investments, net of amortization (Note 5)	293,398	300,116		332,886	204,398	871,206	2,002,004
Invested security collateral	326,566	59,525		109,569	145,053	202,366	843,079
Receivables, net (Note 4)	766,695	113,978	696,047	50,394	4,373	62,415	1,693,902
Notes receivable				4,342			4,342
Capital lease receivable (Note 4)						248,070	248,070
Interfunds receivable (Note 7)	49,532	15,947	42,381	59,303	2,227	143,145	312,535
Inventories	6,238	34,612	129	2,285		27	43,291
Total Assets	<u>\$ 1,986,361</u>	<u>\$ 549,081</u>	<u>\$ 788,732</u>	<u>\$ 610,774</u>	<u>\$ 368,376</u>	<u>\$ 1,859,729</u>	<u>\$ 6,163,053</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable (Note 4)	\$ 262,662	\$ 65,153	\$ 546,445	\$ 37,212	\$ 6,528	\$ 13,638	\$ 931,638
Tax refunds payable	278,954						278,954
Interfunds payable (Note 7)	42,413	2,177	40,698	66,587	446	164,371	316,692
Obligations under securities lending (Note 15)	326,566	59,525		109,569	145,053	202,366	843,079
Deferred revenue	178,872	6,785	197,016	7,816	250	264,498	655,237
Total Liabilities	<u>1,089,467</u>	<u>133,640</u>	<u>784,159</u>	<u>221,184</u>	<u>152,277</u>	<u>644,873</u>	<u>3,025,600</u>
Fund Balances:							
Reserved for:							
Encumbrances		106,065			137,339		243,404
Statutory obligations	58,302	64,389					122,691
Budget stabilization	119,015						119,015
Inventories	6,238	34,612	129	2,285		27	43,291
Long-term receivables				4,342			4,342
Deposit with fiscal agents				13,951		25,800	39,751
Compensating balance with depositories		1,025					1,025
Capital outlay					207,863		207,863
Unreserved, reported in:							
General fund	713,339						713,339
Special revenue funds		209,350	4,444	369,012		811,827	1,394,633
Debt service fund						377,202	377,202
Capital projects fund					(129,103)		(129,103)
Total Fund Balances	<u>896,894</u>	<u>415,441</u>	<u>4,573</u>	<u>389,590</u>	<u>216,099</u>	<u>1,214,856</u>	<u>3,137,453</u>
Total Liabilities and Fund Balances	<u>\$ 1,986,361</u>	<u>\$ 549,081</u>	<u>\$ 788,732</u>	<u>\$ 610,774</u>	<u>\$ 368,376</u>	<u>\$ 1,859,729</u>	<u>\$ 6,163,053</u>

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

**RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds		\$	3,137,453
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Land and other non-depreciable assets	99,272		
Buildings, equipment, and other depreciable assets	1,266,342		
Infrastructure	16,442,033		
Accumulated depreciation	(514,841)		
Construction in progress	<u>1,561,718</u>		18,854,524
Certain revenues are earned but not available, and therefore, are deferred in the funds.			
			509,828
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
			36,817
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			
			154,131
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Capital lease obligations	(23,012)		
Compensated absences	(219,246)		
Judgements and contingencies	(13,942)		
Net pension obligations	<u>(288,379)</u>		(544,579)
Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:			
Bonds payable	(3,546,468)		
Notes payable	(554,790)		
Unamortized premiums and discounts	(172,261)		
Less deferred amounts on refundings	15,358		
Accrued interest payable	<u>(71,030)</u>		(4,329,191)
Net Assets of Governmental Activities		\$	<u>17,818,983</u>

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 8,006,399	\$ 1,030,597	\$	\$ 318,325	\$	\$ 110,464	\$ 9,465,785
Licenses, fees, and permits	27,040	129,180		126,996		11,359	294,575
Intergovernmental	9,842		5,598,047	36,119	15,518	2,586	5,662,112
Charges for services	87,740	15,150	11	489,189	642	188,373	781,105
Fines and forfeits	50,450	8		8,168		31,492	90,118
Interest and other investment income	41,207	7,851	1,295	6,719	17,584	37,238	111,894
Increase (decrease) in fair value of investments	350	(1,626)		(1,026)	(2,258)	(1,239)	(5,799)
Securities lending income	15,463	2,818		5,188	6,868	9,581	39,918
Other revenues	135,534	1,866	83,566	139,711	2,312	234,099	597,088
Total Revenues	8,374,025	1,185,844	5,682,919	1,129,389	40,666	623,953	17,036,796
Expenditures							
Current:							
General government	1,869,053		173,399	100,269		301,302	2,444,023
Legislative and judicial	283,151		2,889	16,253		10	302,303
Commerce	33,785		10,828	36,241		183	81,037
Education and humanities	3,458,041		831,927	37,196		68,784	4,395,948
Human resources	1,716,312		4,053,341	807,367		25,777	6,602,797
Justice	576,036		46,828	83,621		3,657	710,142
Natural resources and environmental protection	69,646		48,652	44,536		8,573	171,407
Public protection and regulation	16,244		2,512	48,573			67,329
Transportation	4,987	939,793	551,741	113,993		51,071	1,661,585
Debt service:							
Principal retirement						246,404	246,404
Interest and fiscal charges						174,972	174,972
Other expenditures						26,649	26,649
Securities lending expense	14,775	2,693		4,957	6,563	9,156	38,144
Capital outlay:							
Buildings					446,855		446,855
Total Expenditures	8,042,030	942,486	5,722,117	1,293,006	453,418	916,538	17,369,595
Excess (Deficiency) of Revenues over (under) Expenditures	331,995	243,358	(39,198)	(163,617)	(412,752)	(292,585)	(332,799)
Other Financing Sources (Uses)							
Transfers in	381,847	3,078	5,805	508,618	56,649	1,168,896	2,124,893
Transfers out	(491,980)	(151,511)	(48,450)	(416,553)	(106,606)	(754,106)	(1,969,206)
Capitalized leases	4,329	130	306	1,307		7	6,079
Issuance of bonds:							
New issues					224,115	221,235	445,350
Refunding issues							
Premiums					15,902	5,514	21,416
Discounts					(58)		(58)
Issuance of notes					231,820		231,820
Payments to refunded bond escrow agent							
Total Other Financing Sources (Uses)	(105,804)	(148,303)	(42,339)	93,372	421,822	641,546	860,294
Net Change in Fund Balances	226,191	95,055	(81,537)	(70,245)	9,070	348,961	527,495
Fund Balances at July 1, as Restated (Note 2)	669,977	316,840	86,129	461,785	207,029	865,911	2,607,671
Increase (decrease) in inventories	726	3,546	(19)	(1,950)		(16)	2,287
Fund Balances at June 30	\$ 896,894	\$ 415,441	\$ 4,573	\$ 389,590	\$ 216,099	\$ 1,214,856	\$ 3,137,453

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**
(Expressed in Thousands)

Net change in fund balances-total governmental funds	\$	527,495
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Assets disposed of, net book value	(111,658)	
Donated assets, fair market value	5,038	
Buildings, equipment, and other depreciable assets	40,483	
Infrastructure	432,306	
Accumulated depreciation	<u>(52,125)</u>	314,044
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		138,643
Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities:		
Prepaid Expenses	3,391	
Inventories	<u>2,287</u>	5,678
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities.		19,154
Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.		
Excess contributions to pension funds	(74,424)	
Capital lease payments	9,151	
Compensated absence payments	704	
Litigation payments	<u>5,445</u>	(59,124)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond proceeds and premiums received	(698,528)	
Repayment of bond principal	246,404	
Accrued interest	(63,151)	
Deferred issue costs	<u>669</u>	(514,606)
Change in net assets of governmental activities	\$	<u>431,284</u>

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Enterprise Funds (All Major)

State Parks Fund

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

Kentucky Lottery Corporation

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

Kentucky Horse Park Fund

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

Insurance Administration Fund

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

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

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

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

Mine Subsidence Insurance Program provides coverage against losses arising out of or due to mine subsidence within this state.

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

Kentucky Public Employees Health Insurance Fund

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

Unemployment Compensation Fund

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

Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page136

COMMONWEALTH OF KENTUCKY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 4,729	\$ 22,299	\$ 678
Cash on deposit with the Federal government (Note 5)			
Restricted cash (Note 5)			56
Investments, net of amortization (Note 5)		29,451	
Receivables, net (Note 4)	490	23,102	437
Interfunds receivable (Note 7)	246		
Inventories	2,576	95	566
Prepaid expenses	34	700	
Total Current Assets	8,075	75,647	1,737
Noncurrent assets:			
Restricted investments (Note 5)			
Investments, net of amortization (Note 5)	35,040	157,676	1,839
Receivables, net		5,291	26
Capital assets (Note 6):			
Land	15,282	423	4,453
Improvements other than buildings	77,058	373	18,108
Buildings	188,039	7,231	15,987
Machinery and equipment	12,201	39,312	1,292
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(114,960)	(34,962)	(23,727)
Construction in progress	42,954		723
Total Capital Assets	222,896	12,377	16,836
Other assets			2,276
Total Noncurrent Assets	257,936	175,344	20,977
Total Assets	266,011	250,991	22,714
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	4,142	13,009	368
Judgments payable	7		
Interfunds payable (Note 7)	570		3
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	97		23
Prize liability		50,241	
Compensated absences (Note 15)	2,334	888	277
Deferred revenue	4,343		121
Total Current Liabilities	11,493	64,138	792
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	131		56
Prize liability		150,423	
Compensated absences (Note 15)	3,110		323
Total Noncurrent Liabilities	3,241	150,423	379
Total Liabilities	14,734	214,561	1,171
Net Assets			
Invested in capital assets, net of related debt	222,672	12,377	19,034
Restricted for:			
Unemployment benefits			
Capital projects			1,712
Other purposes (Note 1)			
Unrestricted	28,605	24,053	797
Total Net Assets	\$ 251,277	\$ 36,430	\$ 21,543

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

Enterprise Funds				Governmental
Insurance Administration	Kentucky Employees Health Plan	Unemployment Compensation	Totals June 30, 2006	Activities- Internal Service Funds
\$ 54,223	\$ 114,009	\$ 4,830	\$ 200,768	\$ 23,509
		318,646	318,646	
48			104	
			29,451	
43,797	78,571	101,326	247,723	721
225		1	472	5,804
			3,237	2,806
			734	7,785
98,293	192,580	424,803	801,135	40,625
865			865	
402,537	63,264	1,878	662,234	50,164
			5,317	
			20,158	16,343
			95,539	2,928
			211,257	252,577
2,589			55,394	126,418
			2,322	
(2,048)			(175,697)	(217,397)
			43,677	39,654
541			252,650	220,523
			2,276	
403,943	63,264	1,878	923,342	270,687
502,236	255,844	426,681	1,724,477	311,312
314	422	18,214	36,469	4,907
305			312	
417	697	1	1,688	431
127,250	68,859		196,109	17,204
2,980	4,829		7,809	
			120	370
			50,241	
1,021	158		4,678	2,841
913	87,761	26,839	119,977	1,608
133,200	162,726	45,054	417,403	27,361
1,088,656			1,088,656	122,079
29,573			29,573	
			187	5,067
			150,423	
545	98		4,076	2,674
1,118,774	98		1,272,915	129,820
1,251,974	162,824	45,054	1,690,318	157,181
540			254,623	224,085
		381,627	381,627	
			1,712	
8,979			8,979	
(759,257)	93,020		(612,782)	(69,954)
\$ (749,738)	\$ 93,020	\$ 381,627	\$ 34,159	\$ 154,131

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Operating Revenues:			
Charges for sales and services:			
State parks sales and services	\$ 53,245	\$	\$
Lottery sales		742,312	
Horse park admissions and sales			6,010
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	288		939
Total Operating Revenues	<u>53,533</u>	<u>742,312</u>	<u>6,949</u>
Operating Expenses:			
Personal services	53,909		4,603
Utilities, rental, and other services	14,752	1,225	1,589
Commodities and supplies	12,834		518
Grants and subsidies			
Depreciation and amortization	8,406	3,217	617
Travel	393	102	26
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Prize expense		444,947	
Other expenses	(33)	90,451	2,335
Total Operating Expenses	<u>90,261</u>	<u>539,942</u>	<u>9,688</u>
Operating Income (Loss)	<u>(36,728)</u>	<u>202,370</u>	<u>(2,739)</u>
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of capital assets	(5)	30	
Interest and other investment income	21	13,442	
Increase (decrease) in fair value of investments	(392)	(12,803)	(26)
Interest expense	(17)	(11,703)	(2)
Other revenues (expenses)		(6,790)	1,502
Total Nonoperating Revenues (Expenses)	<u>(393)</u>	<u>(17,824)</u>	<u>1,474</u>
Income (Loss) before Capital Contributions and Transfers	(37,121)	184,546	(1,265)
Capital Contributions			112
Transfers in	71,849		2,645
Transfers out	(1,989)	(197,349)	(117)
Change in Net Assets	<u>32,739</u>	<u>(12,803)</u>	<u>1,375</u>
Net Assets at July 1, as Restated (Note 2)	218,538	49,233	20,168
Net Assets at June 30	<u>\$ 251,277</u>	<u>\$ 36,430</u>	<u>\$ 21,543</u>

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

Enterprise Funds				Governmental
Insurance Administration	Kentucky Employees Health Plan	Unemployment Compensation	Totals June 30, 2006	Activities- Internal Service Funds
\$	\$	\$	\$	\$
			53,245	
			742,312	
			6,010	
178,305	595,435		773,740	
		414,834	414,834	
				172,234
1,549			2,776	373
179,854	595,435	414,834	1,992,917	172,607
17,702	1,139		77,353	56,104
1,819	83	42	19,510	42,926
784	435	3,344	17,915	37,561
		390,955	390,955	1,111
308			12,548	15,739
278			799	730
				475
52,166	496,312		548,478	36,982
(2,395)	4,829		2,434	
			444,947	
4	949		93,706	
70,666	503,747	394,341	1,608,645	191,628
109,188	91,688	20,493	384,272	(19,021)
(17)			8	682
15,989	3,205	11,646	44,303	344
6,986		2	(6,233)	(450)
			(11,722)	(163)
16,144	(3,535)		7,321	51
39,102	(330)	11,648	33,677	464
148,290	91,358	32,141	417,949	(18,557)
			112	605
624	4,839	3,557	83,514	57,466
(65,145)	(3,177)	(2,838)	(270,615)	(20,360)
83,769	93,020	32,860	230,960	19,154
(833,507)		348,767	(196,801)	134,977
\$ (749,738)	\$ 93,020	\$ 381,627	\$ 34,159	\$ 154,131

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities -	
	State Parks	Kentucky Lottery Corporation
Cash Flows from Operating Activities		
Cash received from customers - public	\$ 54,164	\$ 740,750
Cash received from customers - state	30	
Cash payments to suppliers for goods and services	(27,851)	(536,009)
Cash payments for employee salaries and benefits	(54,750)	(13,428)
Cash payments for claims expense	288	
Cash payments from other sources	33	(2,328)
Net Cash Provided (Used) by Operating Activities	(28,086)	188,985
Cash Flows from Noncapital Financing Activities		
Transfers from other funds	71,849	
Transfers to other funds	(1,989)	(197,349)
Net Cash Provided (Used) by Noncapital Financing Activities	69,860	(197,349)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(14,848)	(950)
Principal paid on revenue bond maturities and equipment contracts	(131)	
Interest paid on revenue bonds and equipment contracts	(17)	
Proceeds from the sale of capital assets	(5)	30
Net Cash Provided (Used) for Capital and Related Financing Activities	(15,001)	(920)
Cash Flows from Investing Activities		
Purchase of investment securities	(28,109)	(3,344)
Proceeds from the sale of investment securities		14,137
Interest and dividends on investments	(371)	1,807
Net Cash Provided (Used) in Investing Activities	(28,480)	12,600
Net Increase (Decrease) in Cash and Cash Equivalents	(1,707)	3,316
Cash and Cash Equivalents at July 1	6,436	18,983
Cash and Cash Equivalents at June 30	\$ 4,729	\$ 22,299
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (36,728)	\$ 202,370
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	8,406	3,217
Miscellaneous nonoperating income (expense)		(2,228)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	(109)	(1,608)
Interfund receivables	(149)	
Inventories	46	57
Prepaid expenses	(2)	
Other assets		(140)
Increase (decrease) in liabilities:		
Accounts payable	(996)	231
Interfund payables	130	4,641
Claims liability		
Claims adjustment liability		
Compensated absences	164	86
Deferred revenue	1,207	
Other liabilities	(55)	(17,641)
Net Cash Provided (Used) by Operating Activities	\$ (28,086)	\$ 188,985
Noncash Investing, Capital, and Financing Activities		
Change in fair value of investments	\$ (392)	\$ (12,803)
Contributions of capital assets		44
Capital assets acquired through leases	124	
Accretion of investments held to fund grand prizes, which increased prize liability		11,703
Total Noncash Investing, Capital, and Financing Activities	\$ (268)	\$ (1,056)

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

Enterprise Funds					Governmental Activities - Internal Service Funds
Kentucky Horse Park	Insurance Administration	Kentucky Employees Health Plan	Unemployment Compensation	Totals June 30, 2006	
\$ 6,371	\$ 173,398	\$ 235,864	\$ 413,505	\$ 1,624,052	\$ 32,250
(3,961)	(3,886)	363,297		363,327	139,065
(4,533)	(17,379)	(1,177)	(6,918)	(579,802)	(83,786)
	(94,150)	(1,139)		(91,229)	(56,041)
1,502		(398,456)		(492,606)	(24,197)
	17,567	(31,463)		(29,673)	423
		5,480	(392,398)	(371,646)	(2,509)
(621)	75,550	172,406	14,189	422,423	5,205
2,645	624	4,839	3,557	83,514	57,466
(117)	(65,145)	(3,177)	(2,838)	(270,615)	(20,360)
2,528	(64,521)	1,662	719	(187,101)	37,106
(390)	(411)			(16,599)	(21,714)
(18)				(149)	(998)
(2)				(19)	(164)
				25	683
(410)	(411)			(16,742)	(22,193)
(1,480)	(40,772)	(63,217)	(1,089)	(138,011)	(26,262)
	222			14,359	
	15,824	3,158	11,648	32,066	(106)
(1,480)	(24,726)	(60,059)	10,559	(91,586)	(26,368)
17	(14,108)	114,009	25,467	126,994	(6,250)
717	68,379		298,009	392,524	29,759
\$ 734	\$ 54,271	\$ 114,009	\$ 323,476	\$ 519,518	\$ 23,509
\$ (2,739)	\$ 109,188	\$ 91,688	\$ 20,493	\$ 384,272	\$ (19,021)
617	308			12,548	15,739
1,502	16,681	(2,606)		13,349	51
31	1,350		7,004	6,668	1,896
(18)	(225)	(77,375)	3	(77,746)	(1,271)
				85	1,145
(10)	(6,432)	(1,181)		(2)	(2,006)
				(7,763)	
(297)	(197)	431	(1,443)	(2,271)	(982)
223	(417)		(3,532)	1,045	(1,954)
	(44,245)	68,859		24,614	12,786
	(135)	4,829		4,694	
17	187			454	367
		87,761	(8,336)	80,632	(1,545)
53	(513)			(18,156)	
\$ (621)	\$ 75,550	\$ 172,406	\$ 14,189	\$ 422,423	\$ 5,205
\$ (26)	\$ 6,986	\$	\$ 2	\$ (6,233)	\$ (450)
112				156	605
				124	
				11,703	
\$ 86	\$ 6,986	\$	\$ 2	\$ 5,750	\$ 155

FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) trust funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the State. Kentucky uses the following pension trust funds:

- Kentucky Employees Retirement System**
- County Employees Retirement System**
- Judicial Retirement Fund**
- State Police Retirement System**
- Kentucky Teachers' Retirement System**
- Legislators' Retirement System**
- Deferred Compensation System**

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

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 5)	\$ 1,319,280	\$ 201,543
Cash with fiscal agents (Note 5)		6,970
Investments, net of amortization (Note 5)		123,259
Pension trust fund investments (Note 5):		
Corporate and government bonds	8,150,842	
Common stocks	18,385,534	
Mortgages	1,040,001	
Mutual funds	1,257,944	
Real estate	396,874	
Invested security collateral	4,813,668	285,256
Receivables, net	284,236	45,380
Prepaid expenses	97	
Buildings	4,457	
Total Assets	<u>35,652,933</u>	<u>662,408</u>
Liabilities		
Accounts payable	73,758	243,009
Amounts held in custody for others		134,143
Obligations under securities lending	4,813,668	285,256
Total Liabilities	<u>4,887,426</u>	<u>662,408</u>
Net Assets		
Held in trust for:		
Employee retirement systems	28,564,885	
Retirees' health insurance	2,200,622	
Total Net Assets	<u>\$ 30,765,507</u>	<u>\$</u>

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 989,440
Member	727,748
Total Contributions	1,717,188
Other Contributions:	
Recovery Income	118
Medicare D Receipts	5,999
Total Other Income	6,117
Investment income:	
Net increase (decrease) in fair value of investments	1,338,407
Interest	736,083
Dividends	157,041
Real estate operating income, net	30,950
Securities lending income, net	185,328
Total Investment Income	2,447,809
Less: Investment expense	29,939
Less: Securities lending expense	175,473
Net Investment Income	2,242,397
Total Additions	3,965,702
Deductions	
Benefit payments	2,542,489
Refunds	41,344
Administrative expenses	74,627
Other deductions, net	21,684
Total Deductions	2,680,144
Change in Net Assets	1,285,558
Net Assets Held In Trust	
Net Assets at July 1	29,479,949
Net Assets at June 30	\$ 30,765,507

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

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Kentucky Housing Corporation

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

Kentucky Higher Education Assistance Authority

The Kentucky Higher Education Assistance Authority was established by KRS 164.742 to improve higher education opportunities by insuring eligible student loans and providing grants and scholarship awards to eligible students.

Kentucky Higher Education Student Loan Corporation

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

Kentucky School Facilities Construction Commission

The Kentucky School Facilities Construction Commission was established to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that ensures an equitable distribution of funds based upon unmet needs.

Universities, Colleges, and Related Entities Funds

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

University of Kentucky

University of Louisville

Kentucky Community and Technical College System

Non-Major Component Units

The non-major component units are presented beginning on page.....156

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	AUTHORITIES			
	Kentucky Housing Corporation	Kentucky Higher Education Assistance Authority	Kentucky Higher Education Student Loan Corporation	Kentucky School Facilities Construction Commission
Assets				
Current assets:				
Cash and cash equivalents (Note 5)	\$ 55,228	\$ 7,862	\$ 233,481	\$ 6,359
Restricted cash (Note 5)				
Investments, net of amortization (Note 5)	141,458	583	10,500	
Accounts receivable, net	2,271	9,751	1,723	
Interest receivable		84	40,763	
Inventories				
Prepaid expenses			433	3,000
Other current assets	41,969	450		
Total Current Assets	240,926	18,730	286,900	9,359
Noncurrent assets:				
Restricted cash (Note 5)		7,342		
Long-term investments (Note 5)	411,962	9,522		5,217
Restricted long-term investments (Note 5)				
Long-term receivables, net	1,400,127		1,485,239	
Deferred charges	32,536	197	35,697	
Capital assets (Note 6):				
Land	942			
Improvements other than buildings				
Buildings	4,892	11,993		
Machinery and equipment	6,614	5,888	13,352	
Other capital assets				
Less: Accumulated depreciation and amortization	(7,346)	(7,268)	(8,979)	
Construction in progress				
Total Capital Assets	5,102	10,613	4,373	
Other assets		11,804		
Total Noncurrent Assets, Net	1,849,727	39,478	1,525,309	5,217
Total Assets	2,090,653	58,208	1,812,209	14,576
Liabilities				
Current liabilities:				
Accounts payable and accruals	37,259	1,077	30,787	8,152
Current portion of long-term debt:				
Notes payable (Note 15)	17,289			
Bonds payable (Note 15)	40,565			65,965
Capital lease obligations (Note 10)		380		
Compensated absences (Note 16)		588	1,185	12
Claims liability				
Deferred revenues				
Payable from restricted assets				
Other current liabilities	37,381			
Total Current Liabilities	132,494	2,045	31,972	74,129
Noncurrent liabilities:				
Notes payable (Note 15)	3,871			
Bonds payable (Note 15)	1,686,819		1,697,250	640,951
Capital lease obligations (Note 10)		6,990		
Compensated absences (Note 16)				16
Other long-term liabilities	10,513		21,756	
Total Noncurrent Liabilities	1,701,203	6,990	1,719,006	640,967
Total Liabilities	1,833,697	9,035	1,750,978	715,096
Net Assets				
Invested in capital assets, net of related debt	5,102	3,472	4,373	
Restricted for:				
Debt service	191,481			
Capital projects				
Other purposes (Note 1)	14,276	45,701	41,368	
Unrestricted	46,097		15,490	(700,520)
Total Net Assets	\$ 256,956	\$ 49,173	\$ 61,231	\$ (700,520)

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

UNIVERSITIES, COLLEGES, AND RELATED ENTITIES				
University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2006
\$ 369,088	\$ 46,534	\$ 154,220	\$ 361,221	\$ 1,233,993
			36,752	36,752
32,109	57,182		130,992	372,824
150,695	71,786	16,892	77,967	331,085
4,215			7,688	52,750
20,222	1,760		7,734	29,716
2,806	192	346	4,922	11,699
1,774	4,685		39,883	88,761
580,909	182,139	171,458	667,159	2,157,580
172,627	17,816	41,978	61,092	300,855
172,128	786,248	20,670	455,904	1,861,651
767,693			21,707	789,400
35,872	46,725	13,241	466,889	3,448,093
			280	68,710
44,681	42,336	20,630	63,359	171,948
67,361	4,459	6,585	68,298	146,703
1,277,054	656,937	435,820	1,547,357	3,934,053
579,594	294,027	120,146	335,299	1,354,920
			1,523	1,523
(930,642)	(418,688)	(255,184)	(954,397)	(2,582,504)
43,108	28,759	42,697	69,992	184,556
1,081,156	607,830	370,694	1,131,431	3,211,199
1,663	2,916		63,565	79,948
2,231,139	1,461,535	446,583	2,200,868	9,759,856
2,812,048	1,643,674	618,041	2,868,027	11,917,436
126,320	48,079	6,302	48,011	305,987
2,607	195		2,719	22,810
17,560	16,931		39,145	180,166
5,111	1,796	518	17,230	25,035
473		9,689	17,873	29,820
			11,488	11,488
57,522	45,087	24,165	36,020	162,794
			9,129	9,129
19,750	1,568	12,323	12,308	83,330
229,343	113,656	52,997	193,923	830,559
801	115		21,463	26,250
243,020	154,910		379,469	4,802,419
167,624	12,323	7,961	125,663	320,561
2,777			1,067	3,860
66,381	53,333	3,688	52,733	208,404
480,603	220,681	11,649	580,395	5,361,494
709,946	334,337	64,646	774,318	6,192,053
763,476	423,646	362,215	783,537	2,345,821
4,171	25,918		27,250	248,820
76,815	13,887	40,839	19,728	151,269
649,964	372,609	52,738	967,654	2,144,310
607,676	473,277	97,603	295,540	835,163
\$ 2,102,102	\$ 1,309,337	\$ 553,395	\$ 2,093,709	\$ 5,725,383

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	AUTHORITIES			
	Kentucky Housing Corporation	Kentucky Higher Education Assistance Authority	Kentucky Higher Education Student Loan Corporation	Kentucky School Facilities Construction Commission
Expenses:				
Operating and other expenses	\$ 238,820	\$ 188,602	\$ 201,005	\$ 11,008
Depreciation				28,395
Interest on long-term debt				
Total Expenses	238,820	188,602	201,005	39,403
Program Revenues:				
Charges for services	90,120	21,663	149,159	10,083
Operating grants and contributions	135,575	176,852		
Capital grants and contributions				
Total Program Revenues	225,695	198,515	149,159	10,083
Net Program (Expense) Revenue	(13,125)	9,913	(51,846)	(29,320)
General Revenues:				
Unrestricted grants and contributions				
Unrestricted investment earnings				603
Gain on sale of capital assets				
Miscellaneous general				
Total General Revenues				603
Change in Net Assets	(13,125)	9,913	(51,846)	(28,717)
Net Assets at July 1, as Restated (Note 2)	270,081	39,260	113,077	(671,803)
Net Assets at June 30	\$ 256,956	\$ 49,173	\$ 61,231	\$ (700,520)

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

UNIVERSITIES, COLLEGES, AND RELATED ENTITIES

University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2006
\$ 1,632,723	\$ 684,221	\$ 452,452	\$ 1,271,739 2,443	\$ 4,680,570 2,443 28,395
<u>1,632,723</u>	<u>684,221</u>	<u>452,452</u>	<u>1,274,182</u>	<u>4,711,408</u>
957,300	318,433	72,360	467,435	2,086,553
368,346	189,726	181,828	349,408	1,401,735
63,188	3,435		19,645	86,268
<u>1,388,834</u>	<u>511,594</u>	<u>254,188</u>	<u>836,488</u>	<u>3,574,556</u>
<u>(243,889)</u>	<u>(172,627)</u>	<u>(198,264)</u>	<u>(437,694)</u>	<u>(1,136,852)</u>
56,946	57,727	11,421	37,696	163,790
119,067	59,802	4,998	26,431	210,901
		239,066	41	239,107
<u>306,822</u>	<u>161,411</u>		<u>528,809</u>	<u>997,042</u>
<u>482,835</u>	<u>278,940</u>	<u>255,485</u>	<u>592,977</u>	<u>1,610,840</u>
238,946	106,313	57,221	155,283	473,988
<u>1,863,156</u>	<u>1,203,024</u>	<u>496,174</u>	<u>1,938,426</u>	<u>5,251,395</u>
<u>\$ 2,102,102</u>	<u>\$ 1,309,337</u>	<u>\$ 553,395</u>	<u>\$ 2,093,709</u>	<u>\$ 5,725,383</u>



NOTES TO FINANCIAL STATEMENTS

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

Note 1	Significant Accounting Policies	51
Note 2	Changes in Accounting Principles, Reporting Practices, and Prior Period Adjustments	60
Note 3	Stewardship, Compliance, and Accountability	61
Note 4	Disaggregation of Accounts Payable and Accounts Receivable	62
Note 5	Equity in Pooled Cash and Investments, Cash, and Investments	64
Note 6	Capital Assets	74
Note 7	Interfund Transactions	76
Note 8	Pension Plans	78
Note 9	Employee Benefit Plan	83
Note 10	Lease Obligations	83
Note 11	Risk Management	84
Note 12	Risk Pools	85
Note 13	Defeasance of Long-Term Debt	88
Note 14	Related Organizations	89
Note 15	Short-Term and Long-Term Obligations	90
Note 16	Commitments and Contingencies	96
Note 17	Subsequent Events	97

Note 1**SIGNIFICANT ACCOUNTING POLICIES****A. Basis of Presentation**

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

B. Financial Reporting Entity

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

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

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, the Kentucky Grain Insurance Corporation, and the Kentucky School Facilities Construction Commission. (See pages 100 and 101 for a complete list of component units' addresses.)

Blended Component Units

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

Kentucky Lottery Corporation (KRS 154A.020)

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

Kentucky Retirement System (KRS 61.645)

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

Kentucky Teachers' Retirement System (KRS 161.220)

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

Judicial Form Retirement System (KRS 21.530)

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

Turnpike Authority of Kentucky (KRS 175.430)

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Administrative Entities

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

State Property and Buildings Commission (KRS 56.450)

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

Kentucky Asset/Liability Commission (KRS 56.861)

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

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

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

Kentucky Savings Bond Authority (KRS 293.030)

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

Board of Agriculture (KRS 246.120)

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

Discretely Presented Component Units

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

Kentucky River Authority (KRS 151.710)

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

Kentucky Housing Corporation (KRS 198A.030)

The Housing Corporation is a body corporate and politic that performs essential governmental and public functions in improving and promoting the health and welfare of the citizens of the Commonwealth by the production of residential housing in Kentucky. The board of directors consists of six ex officio members and eight members appointed by the Governor.

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

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

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the KY Cabinet for Economic Development in creating and expanding programs offering skills, training and education. The board of directors consists of six ex officio members and twelve members appointed by the Governor.

Kentucky School Facilities Construction Commission (KRS 157.617)

This commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

construction needs of the Commonwealth in a manner that will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the commission.

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate that accounts for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Three ex officio members and twelve members appointed by the Governor make up the fifteen-member board.

Kentucky Center for the Arts Corporation (KRS 153.410)

The Center for the Arts is a body corporate created by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The board consists of fifteen members appointed by the Governor.

Kentucky Educational Television Authority (KET) (KRS 168.030)

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

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

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

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

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. The authority is governed by a board of directors consisting of 15 members appointed by the governor. KHEAA also oversees the Kentucky Educational Savings Plan Trust and the Commonwealth Postsecondary Education Prepaid Trust Fund, also known as Kentucky's Affordable Prepaid Tuition (KAPT), both of which are component units of KHEAA.

Kentucky Council on Postsecondary Education (KRS 164.011)

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

Kentucky Infrastructure Authority (KRS 224A.030)

This authority is a body corporate and politic created to perform essential governmental functions and to serve the local public agencies of the Commonwealth with respect to the construction and acquisition of infrastructure projects. The board consists of five ex officio members and five members appointed by the Governor.

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

KAFC is a corporation that seeks to improve and promote the health and general welfare of the Commonwealth's people through the advancement of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor.

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

KGIC is a body politic created to promote the Commonwealth's welfare by improving the economic stability of agriculture and protecting grain producers in the event of a financial failure of a grain dealer or warehouseman. The board of directors consists of four ex officio members and six members appointed by the Commissioner of the Department of Agriculture.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Kentucky Health Care Improvement Authority (Kentucky Access) (KRS 304.17B-003)

The Kentucky Health Care Improvement Authority was created as a body corporate and politic and is funded by assessments on insurers, enrollment fees, and Tobacco Trust Funds. Consisting of 15 board members, this authority exists for administrative purposes in the Department of Insurance and administers the Kentucky Access program.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing, and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor.

Appalachian/Kentucky Artisans Gateway Center Authority (KRS 148.561)

This authority is an independent, de jure municipal corporation and is a body corporate and politic. It is governed by a board of directors consisting of thirteen members. The authority operates and manages the Kentucky Artisan Center at Berea.

Kentucky Horse Park Foundation, Inc.

This foundation is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park (the Park). Although the Park does not control the timing or amount to receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the Park. The Foundation's fiscal year ended May 31, 2006 and amounts included are for the year then ended.

Universities, Colleges, and Related Entities (KRS 164.350)

Each board of regents or board of trustees is appointed by the Governor, and constitutes a body corporate with the power to receive and administer revenue and property.

C. Government-Wide Financial Statements

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental

revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary component units are not included in government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

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

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

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

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

Restricted Net Assets

(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government	Component Units-Major
	Business Type Activities	
Loans	\$	\$ 27,155
Education		155,518
Instruction		105,806
Scholarships and Fellowships		180,454
Research		258,582
Claims	8,979	
Other		449,141
Totals	<u>\$ 8,979</u>	<u>\$ 1,176,656</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

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

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

D. Fund Financial Statements

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

Governmental Funds

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

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

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

A description of significant governmental funds follows:

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

Special Revenue Funds - a category of governmental funds that accounts for specific revenue sources, other than for major capital projects, dedicated to specific operations. Included in this category are such funds as the transportation fund, federal fund, and agency revenue fund.

Transportation Fund - a major fund that accounts for activities related to the preservation and maintenance of roads.

Federal Fund - a major fund that accounts for monies received from the federal government to be spent on specific programs and operations.

Agency Revenue Fund - a major fund that accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity.

The Special Revenue Fund - includes these non-major governmental funds:

Special Benefits - accounts for monies designated to be distributed for specific operations.

Other Special Revenue Fund - accounts for the revenues and expenses of restricted taxes, fees, and charges related to a certain function and is not appropriated.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Capital Projects Fund - a major fund that accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

Debt Service Fund - a non-major fund that accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related administrative costs.

Proprietary Funds

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

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

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

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

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

Kentucky Lottery Corporation - a blended component unit presented as a major fund, empowered by KRS 154A to administer the Kentucky state lottery, created pursuant to amended Section

226 of the Constitution of Kentucky as ratified by the voters of the Commonwealth.

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

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

Kentucky Employees Health Plan – a major fund that accounts for the revenues and expenses incurred in the commercial operation of the health insurance program for state employees, teachers, and retirees. This program went into effect on January 1, 2006; therefore, the information presented is for a six month period.

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

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

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

Specific activities reported under Internal Service Funds are:

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

Fiduciary Funds

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government’s own programs. This category of

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

funds includes pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

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

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

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

1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Fees Fund holding monies for Kentucky Counties with a population of 75,000 or more

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

E. Presentation of Component Units

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

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

Kentucky Community and Technical College System
Kentucky Housing Corporation
Kentucky Higher Education Assistance Authority
Kentucky Higher Education Student Loan Corporation
Kentucky School Facilities Construction Commission
University of Kentucky
University of Louisville

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

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

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2006, the primary government provided \$314,795,516 to the University of Kentucky, \$207,750,700 to the Kentucky Community and Technical College System, \$183,687,900 to the University of Louisville, and \$159,344,975 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$197,348,861 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2006 are \$1,783,454,757.

G. Investments

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

H. Securities Lending

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

I. Receivables

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

J. Interfund Transactions

The Commonwealth has the following types of interfund transactions:

Interfund services provided and used - Charges for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

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

Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund that expends the resources.

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

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

K. Inventories and Prepaid Expenses

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

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

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

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Cost by Asset type

(Expressed in Thousands)

Governmental Activities:

	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
Land	\$ 67,704	\$ 18,160	\$ 29,751	\$ 115,615
Improvements other than buildings	11,147	525		11,672
Buildings	707,812	49,320	293,931	1,051,063
Equipment	479,470	2,634	49,793	531,897
Easements and other intangibles	26,360	25,373	1,900	53,633
Construction in progress	1,601,372			1,601,372
Infrastructure	16,442,033			16,442,033
Totals	\$ 19,335,898	\$ 96,012	\$ 375,375	\$ 19,807,285

Business-Type Activities:

	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
Land	\$ 6,361	\$ 1,594	\$ 12,203	\$ 20,158
Improvements other than buildings	94,487	1,014	38	95,539
Buildings	160,700	1,801	48,756	211,257
Equipment	54,867	491	36	55,394
Easements and other intangibles	2,322			2,322
Construction in progress	43,677			43,677
Totals	\$ 362,414	\$ 4,900	\$ 61,033	\$ 428,347

L. Capital Assets and Depreciation

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

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is \$5,000 or greater. Intangible capital assets are capitalized when the cost is \$100,000 or more except software which has a threshold of \$500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

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

The primary government values capital assets at historical cost, estimated historical cost or fair market value at the time of donation. At June 30, 2006, the table above shows cost by asset type. The estimate of historical cost for the primary government was based on appraised value as of June 30 1986, indexed to the date of acquisition.

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

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

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

The Kentucky Center for the Arts Corporation's discretely presented component unit financial statements for Fiscal Year 2006, do not contain the Center's capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

M. Fund Equity Reserves and Designations

The Commonwealth's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure, or (2) legally segregated for a specific future use. Designated portions of fund balance represent tentative managerial plans for financial resource utilization in a future period.

N. Deferred Revenue

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

O. Long-Term Obligations

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

1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.
2. Compensated absences including accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 16.

Sick leave for the Primary Government is earned one day per month with unlimited accumulation. All of the qualifying retiring employees' sick leave balances, expressed in months, shall be added to their service credit for the purpose of determining their annual retirement.

There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 16 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

3. Outstanding capital lease obligations for governmental funds.
4. Judgments and contingent liabilities of governmental funds that will be paid with noncurrent resources.
5. Long-term liabilities of internal service funds.

Long-term obligations generally exclude those amounts reported as expenditures for compensated absences, judgments, contingencies, and employer pension contributions in the governmental funds

since these amounts would normally be liquidated with expendable available financial resources.

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

P. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$1,855,806,706 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

Note 2

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

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

Governmental Activities - Beginning net assets for the Commonwealth's governmental activities have been restated to include amounts which were omitted in the prior year. The net effect is a decrease of \$62,139,000.

Business Type Activities - Beginning net assets for the Commonwealth's business type activities have been restated for the reasons noted below in the section for Enterprise Funds. The net effect is an decrease of \$188,971,000 on the net assets of the business type activities.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Capital Projects Fund – The Capital Projects Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net decrease of \$11,764,000.

Special Revenue Fund – The Agency Revenue Fund and the Federal Fund within the Special Revenue Fund were restated for prior period errors. The restatements increased Agency Revenue Fund balances by \$404,000 and decreased the Federal Fund balance by \$18,000 respectively. The net effect of all restatements on the Special Revenue Fund balance is an increase of \$386,000.

Enterprise Funds – The Insurance Administration Fund and the Horse Park Fund within the Enterprise Funds were restated to include amounts not reported last year. The effect on net assets is a decrease of \$189,279,000 and an increase \$308,000 respectively. The net effect of these restatements on the Enterprise Funds net assets is an decrease of \$188,971,000.

Internal Service Funds – The Property Management Fund within the Internal Service Funds was restated to include amounts which were not included in the past. The effect on net assets is an increase of \$8,972,000.

Component Units – Authorities:

Kentucky Higher Education Assistance Authority (KHEAA) – KHEAA previously included Kentucky Higher Education Student Loan Corporation as a blended component unit. The effect on net assets is a decrease of \$108,004,000.

Kentucky Higher Education Student Loan Corporation (KHESLC) – KHESLC was previously included in KHEAA's net assets as a blended component unit and also had a restatement of \$5,073,000 to include amounts which were not included in the past. The effect on net assets is an increase of \$113,077,000.

Kentucky Access – Kentucky Access restated net assets for a prior period adjustment. The effect on net assets is a decrease of \$37,000.

Kentucky Artisan Center – Kentucky Artisan Center restated net assets for a prior year adjustment. The effect on net assets is an increase of \$13,000.

Kentucky River Authority – To correct balances based on a re-valuation of capital assets, net assets for the Kentucky River Authority were restated. The effect on net assets is a decrease of \$18,993,000.

Restatement of all Component Units-Authorities results in an overall decrease in net assets of \$13,944,000.

Component Units – Universities, Colleges, and Related Entities:

Morehead State University – To record amounts not included in prior periods, net assets for Morehead State University were restated. The effect on net assets is a decrease of \$7,507,000.

Kentucky State University – To record amounts not included in prior periods, net assets for Kentucky State University were restated. The effect on net assets is a decrease of \$5,638,000.

Kentucky Community and Technical College System (KCTCS) – To record amounts not included in prior periods, net assets for KCTCS were restated. The effect on net assets is a decrease of \$23,653,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall decrease in net assets of \$36,798,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Enterprise Funds** – The Insurance Administration Fund has a net assets deficit of \$749,738,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.
- B. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$120,812,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured workers' compensation programs, and is to be funded in future periods. The Central Printing Fund has a net assets deficit of \$18,000.
- C. Component Units – Authorities** – The Kentucky School Facilities Construction Commission has a net assets deficit of \$700,520,000. The Commission finances local school district projects, and carries the liabilities but not the assets. The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of \$8,853,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future. The Bluegrass State Skills Corporation has a net asset deficit of \$25,000 from the recognition of long term compensated absence liability.

Note 4

**DISAGGREGATION OF ACCOUNTS PAYABLE
AND ACCOUNTS RECEIVABLE**

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2006. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2006. All receivables are reported net of an Allowance for

Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The "Current Taxes Receivable" for Governmental Activities and Business-Type Activities are described below.

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

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

	Governmental Activities			Total Governmental Activities	Business- Type Activities	
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	Total Primary Government
Current Payables						
Personal services	\$ 111,132	\$ 340	\$ 2,222	\$ 113,694	\$ 15,743	\$ 129,437
Utilities, rental and other services	19,390	624	1,157	21,171	748	21,919
Commodities and supplies	20,713	191	1,217	22,121	173	22,294
Grants and subsidies	673,299	10,015	105	683,419	17,599	701,018
Capital outlay	7,986	65	166	8,217	631	8,848
Travel	1,660	11	26	1,697	20	1,717
Interest Payable	71,031			71,031		71,031
Other	62,228	2,392	13	64,633	1,555	66,188
Total Current Payables	<u>\$ 967,439</u>	<u>\$ 13,638</u>	<u>\$ 4,906</u>	<u>\$ 985,983</u>	<u>\$ 36,469</u>	<u>\$ 1,022,452</u>
Current Receivables						
Charges for services	\$ 40,575	\$ 12,949	\$ 714	\$ 54,238	\$ 130,557	\$ 184,795
Taxes receivable	1,582,564	16,375		1,598,939		1,598,939
Investment receivable	14,401	2,313		16,714	4,897	21,611
Intergovernmental revenue	690,761	240		691,001	8,462	699,463
Other	76,065	33,528	7	109,600	109,361	218,961
Allowances for uncollectables	(792,110)	(4,274)		(796,384)	(5,554)	(801,938)
Total Current Receivables	<u>\$ 1,612,256</u>	<u>\$ 61,131</u>	<u>\$ 721</u>	<u>\$ 1,674,108</u>	<u>\$ 247,723</u>	<u>\$ 1,921,831</u>

**Taxes Receivable
(Expressed in Thousands)**

	Governmental Activities		Total Primary Government
	Major Funds	Non-Major Funds	
Current Taxes Receivable			
Sales and gross receipts	\$ 692,851	\$ 2,181	\$ 695,032
Individual income	523,134		523,134
Corporate	184,160		184,160
Property	103,334		103,334
License and privilege	7,685	4,164	11,849
Coal severance	52,068		52,068
Inheritance and estate	7,284	208	7,492
Miscellaneous	12,048	9,822	21,870
Total Current Taxes Receivable	<u>\$ 1,582,564</u>	<u>\$ 16,375</u>	<u>\$ 1,598,939</u>

COMMONWEALTH OF KENTUCKY**Notes to Financial Statements****June 30, 2006**

The State Property and Buildings Commission has issued revenue bonds and the Kentucky Asset Liability Commission has issued notes with both entering into lease agreements to finance capital projects for various component units of the Commonwealth. The debt issues are shown as liabilities of the Commonwealth in the entity wide financial statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

Future debt service payments for leases receivable as of June 30, 2006, are as follows (Expressed in Thousands):

	Principal	Interest	Total
2007	\$ 5,675	\$ 11,144	\$ 16,819
2008	5,875	10,939	16,814
2009	6,095	9,874	15,969
2010	29,945	10,179	40,124
2011	11,180	9,120	20,300
2012-2016	63,240	31,557	94,797
2017-2021	70,480	21,112	91,592
2022-2026	55,580	13,827	69,407
Total leases receivable	<u>\$ 248,070</u>	<u>\$ 117,752</u>	<u>\$ 365,822</u>

Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

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

PRIMARY GOVERNMENT

Custodial Credit Risk-Deposits – The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the Commonwealth's deposits for the Primary Government, excluding pension trust funds, was \$1,317,002,745 and the bank balance was \$1,339,409,923. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. Kentucky Employees Health Plan (KEHP) had deposits in the amount of \$26,198,581 that were uninsured and uncollateralized.

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

The Turnpike Authority of Kentucky (TAK) a blended component unit of the Primary Government has custodial credit risk for monies held by trustees in accordance with the official bond indentures. They consists of \$59,846 in deposits that are uninsured and

uncollateralized, \$123,991,177 in deposits that are uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name and \$246,475,621 in non-current cash and investments which are uninsurable and not registered in the name of the Commonwealth, and are held by the counterparty's trust department or agent but not in the Commonwealth's name.

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

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

Securities Lending Program – State statutes authorize the Commonwealth to enter into securities lending agreements, and it is the Commonwealth's policy to limit those amounts to \$200,000,000 per borrower. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth's securities (Treasuries, Agencies and Corporate Securities) in exchange for cash. The cash is invested in short-term securities. In the event that securities are received as collateral they cannot be sold unless the borrower defaults. After rebate and expenses the Commonwealth receives 80 percent with a 14 basis point minimum. The securities transferred are a part of the total investments reported. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$2,374,932 in securities lending income. On June 30, 2006, the fair value of the securities transferred, which approximate the book value, was \$1,109,808,656 and the fair value of the securities purchased by the Commonwealth was \$1,128,334,969. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth had no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Options - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation,

should the option be exercised. On June 30, 2006, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

Interest Rate Risk

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

The primary government's investments (excluding the pension trust funds) at June 30, 2006 are presented below. All investments are presented by investment type.

Cash And Investments By Type

Primary Government

I. Cash:

	Carrying Amount	Bank Balance
Cash	\$ 747,129,823	\$ 768,252,001
Cash with Fiscal Agents	172,058,879	174,184,879
Cash with Feds	318,645,978	318,645,978
Other:	79,168,065	78,327,065
Total Cash	<u>\$ 1,317,002,745</u>	<u>\$ 1,339,409,923</u>

II. Investments:

Investments managed based on maturities

Debt Securities

	Fair Value	< 1 year	1-5 Years	6-15 Years
Cash Equivalents	\$ 58,695,984	\$ 58,695,984	\$	\$
U.S. Government & Agency Obligations	474,713,434		381,960,879	92,752,555
Corporate Obligations	44,640,364			44,640,364
Other	2,069,503	2,189		2,067,314
Total	<u>\$ 580,119,285</u>	<u>\$ 58,698,173</u>	<u>\$ 381,960,879</u>	<u>\$ 139,460,233</u>

Investments Managed Based Upon Duration

Debt Securities

	Fair Value	Effective
Cash Equivalents	\$ 328,404,413	0.13
Fixed Income Mutual Funds	188,982,502	0.08
U.S. Government & Agency Obligations	996,028,976	1.17
Mortgage-Backed Securities	215,547,528	1.41
Corporate Obligations	233,064,013	1.09
Asset Backed Securities	307,052,871	0.25
Municipal Obligations	185,925,735	0.53
Other	11,317,434	5.88
Total Debt Securities	<u>\$ 2,466,323,472</u>	
Portfolio Effective Weighted Duration		<u>0.82</u>

Other Investments

Cash Equivalents	\$ 14,500,000
Fixed Income Mutual Funds	10,335,440
Common Stock	246,072,522
Preferred	995,426
Securities Lending Invest	1,128,334,969
Total Other Investments	<u>\$ 1,400,238,357</u>
Total Investments	<u>\$ 4,446,681,114</u>

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth is statutorily limited as to credit ratings. Commercial paper must be rated in the highest category by a nationally recognized rating agency. United States denominated corporate, Yankee, and Eurodollar securities must be rated in one of the three highest categories by a nationally recognized rating agency. Asset-backed securities must be rated in the highest category by a nationally recognized rating agency. Certificates of Deposit and Bankers acceptances must be rated in one of the three highest categories by

a nationally recognized rating agency. By regulation all mortgage pass-through securities and collateralized mortgage obligations must be issued by U.S. government agencies or by government sponsored entities.

The primary government's, excluding the pension trust funds, rated debt investments as of June 30, 2006 and the ratings are presented in the following table.

Investments and Credit Ratings
Primary Government

	Standard & Poor's/Moody's Credit Ratings				NA	Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	Unrated		
Cash Equivalents	\$ 349,998,896			\$ 37,101,501	\$ 14,500,000	\$ 401,600,397
Fixed Income Mutual Funds				188,982,502	10,335,440	199,317,942
U.S. Government & Agency Obligations	1,470,742,410					1,470,742,410
Mortgage-Backed Securities	215,547,528					215,547,528
Corporate Obligations	114,133,692	84,822,169	78,748,516			277,704,377
Common Stock					246,072,522	246,072,522
Preferred					995,426	995,426
Asset Backed Securities	307,052,871					307,052,871
Municipal Obligations	171,476,670	12,760,217	1,688,848			185,925,735
Securities Lending					1,128,334,969	1,128,334,969
Other	2,069,503			11,317,434		13,386,937
Total Investments	\$ 2,631,021,570	\$ 97,582,386	\$ 80,437,364	\$ 237,401,437	\$ 1,400,238,357	\$ 4,446,681,114

Concentration Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Regulation limits the amount owned of any given issuer of corporate and commercial paper to \$25,000,000. At June 30, 2006, the primary government had no investments which would constitute a concentration of credit risk.

At June 30, 2006, The Turnpike Authority of Kentucky (TAK) a blended component unit had investments of \$58,695,984 in JP Morgan which would constitute a concentration credit risk as it is more than 5% of TAK's total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The commonwealth's policy is to invest only in securities in U.S. denominations. The Commonwealth has no foreign currency risk.

PENSION TRUST FUNDS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the deposits for the Pension trust funds was \$50,242,656 and the bank balance was \$52,920,500.

Custodial credit risk for Investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Of the Pension Trust Funds, only Kentucky Retirement Systems has investments subject to custodial credit risk. The Investments are listed as Foreign Currency in the amount of \$4,772,902 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Interest Rate Risk

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

policies can be found in the notes to the audited financial statements of the various Pension Trust Funds.

The Pension Trust Funds investments at June 30, 2006 are presented below. All investments are presented by investment type.

Cash and Investments by Type Pension Trust Funds

I. Cash

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 15,644,628	\$ 18,322,472
Money Market	19,324,661	19,324,661
Other	15,273,367	15,273,367
Total Cash	\$ 50,242,656	\$ 52,920,500

II. Investments:

Investments Managed Based On Maturities

<u>Debt Securities</u>	<u>Fair Value</u>	<u>1-5 Years</u>	<u>6-15 Years</u>	<u>15-25 Years</u>
Fixed Income Mutual Funds	\$ 51,780,138	\$ 34,269,777	\$ 17,510,361	\$
U.S. Government & Agency Obligations	2,155,829,701	50,828,142	2,105,001,559	
Corporate Obligations	1,779,960,096	47,890,830	1,732,069,266	
Municipal Obligations	180,776,223		180,776,223	
Mortgage Loans	167,354,851			167,354,851
Total	\$ 4,335,701,009	\$ 132,988,749	\$ 4,035,357,409	\$ 167,354,851

Investments Managed Based Upon Duration

<u>Debt Securities</u>	<u>Fair Value</u>	<u>Effective</u>	<u>Modified</u>	<u>Macaulay</u>
U.S. Government & Agency Obligations	\$ 3,245,895,184	4.61		
U.S. Government & Agency Obligations	219,848,438		8.09	
Mortgage-Backed Securities	270,294,818	3.50		
Corporate Obligations	733,297,247	5.67		
Common Stock	6,102,105			
Asset Backed Securities	195,474,695	0.80		
Asset Backed Securities	406,726,263			3.15
Municipal Obligations	12,901,977	11.78		
Mortgage Loans	217,903,854	2.00		
Total Debt Securities	\$ 5,308,444,581			
Portfolio Weighted Effective Duration		4.45		
Portfolio Weighted Modified Duration			8.09	
Portfolio Weighted Macaulay Duration				3.15

Other Investments

Cash Equivalents	\$ 794,300,000
Common Stock	18,086,421,771
Limited Partnerships	299,109,380
Real Estate	396,739,371
Securities Lending	4,813,668,662
Other Investments	1,279,517,488
Total Other Investments	\$ 25,669,756,672
Total Investments	\$ 35,313,902,262

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each Pension Trust Fund has an investment policy that defines the types of investments and

ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The Pension Trust Funds, rated debt investments as of June 30, 2006 and the ratings are presented in the following table.

**Investments and Credit Ratings
Pension Trust Funds**

<u>Quality Rating</u>	<u>Amount</u>
AAA	\$ 2,460,599,447
AA+	229,138,104
AA	562,505,359
AA-	106,521,997
A+	117,467,811
A	826,772,527
A-	97,696,399
BBB+	93,215,626
BBB	208,290,650
BBB-	54,767,049
BB+	479,237
BB	26,657,704
Not Rated	104,104,572
Total Credit Risk Debt Securities	\$ 4,888,216,482
Cash Equivalents	\$ 794,300,000
U.S. Government & Agencies	4,701,936,174
Corporate Obligations	47,890,830
Common Stock	18,086,421,770
Pooled Investments	6,102,105
Limited Partnerships	299,109,380
Real Estate	396,739,371
Securities Lending	4,813,668,662
Other	1,279,517,488
Total Investments	\$ 35,313,902,262

Concentration Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of the Kentucky Public Employees Deferred Compensation Authority's (KPEDCA) there is a policy limiting the amount of investment in a single issuer to 5% or less of the investment portfolios fair value. The following KPEDCA Fund investment contracts represent 5% or more of investments held in trust for Plan benefits at June 30, 2006:

<u>Asset Description</u>	<u>Amount</u>
ING Life Ins. Annuity Co	\$83,320,637
JP Morgan Chase Bank	72,784,428
UBS AG	72,784,428

Foreign Currency Risk

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

With the exception of the KPEDCA fixed contract fund the Pension Trust Fund do not have a formal policy that addresses investments in foreign currency. Additional disclosures regarding the pension Trust Funds exposure to foreign currency risk can be found in the notes to the audited financial statements of the individual pension trust funds.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

The Pension Trust Funds, investments in foreign currency as of June 30, 2006 are presented in the following table.

Foreign Currency Risk
Pension Trust Funds

Foreign Currency	Equity	None Designated	Total
Australian dollar	\$ 94,817,706	\$	\$ 94,817,706
British pound sterling	423,004,009		423,004,009
Danish krone	8,390,544		8,390,544
Euro	669,897,083		669,897,083
Hong Kong dollar	25,458,151		25,458,151
Japanese yen	531,840,746		531,840,746
Norwegian krone	21,060,390		21,060,390
Singapore dollar	34,437,042		34,437,042
South African rand	2,950,033		2,950,033
Swedish krona	67,873,074		67,873,074
Swiss franc	157,392,012		157,392,012
International Equity Mutual Fund (Various Currencies)	508,273,254		508,273,254
American Funds Euro Pacific Growth Fund	42,667,729		42,667,729
Federated Int'l Small Co. Fund	9,267,972		9,267,972
Templeton Foreign Fund	6,307,575		6,307,575
Total Securities Subject To Foreign Currency Risk	2,603,637,320		2,603,637,320
USD (Securities Held By Int'l Investment Managers)		48,824,623	48,824,623
Total Int'l Investment Securities	\$ 2,603,637,320	\$ 48,824,623	\$ 2,652,461,943

Securities Lending Program

Kentucky Revised Statutes permit the retirement systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the retirement system's custodial bank(s) either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. At June 30, 2006, the retirement systems have no credit risk exposure to borrowers because the amounts the retirement systems owe the borrowers exceed the amounts the borrowers owe the retirement systems. The retirement systems cannot pledge or sell collateral securities unless the borrower defaults. More detail of individual policies may be found in the audited financial statements of each retirement system.

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

The following table summarizes the custodial credit risk maintained for investments held by the major discretely presented component units for the fiscal year ended June 30, 2006.

MAJOR DISCRETELY PRESENTED COMPONENT UNITS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the major discretely presented component units' deposits was \$1,112,534,752 and bank balance was \$1,105,964,623.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Custodial Risk

Discretely Presented Major Component Units

I. Deposits

Cash and Equivalents (original maturity 90 days or less):

Deposits are uninsured and

a) uncollateralized;	\$	9,467,911
b) collateralized with securities held by the pledging financial institution; or		15,003,036
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.		76,547,716

Total deposits subject to custodial credit risk	\$	101,018,663
--	-----------	--------------------

II. Non-Current Cash and Investments:

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

(a) the counterparty or	\$	792,556,635
(b) the counterparty's trust department or agent but not in the Commonwealth's name.		1,018,268,060

Total non-current cash and investments subject to custodial credit risk	\$	1,810,824,695
--	-----------	----------------------

Investment Types:

	Type A (counterparty)	Type B (trust or agent)
Debt Securities		
Cash Equivalents	\$	\$
Fixed Income Mutual Funds	3,036,725	8,736,091
U.S. Government & Agency Obligations	85,851,945	94,235,254
Mortgage Backed Securities	10,500,310	163,583,675
Corporate Obligations	36,097,000	55,000
Municipal Obligations	585,000	26,156,338
Total Debt Securities	136,070,980	292,766,358
Other Investments		
Cash Equivalents	\$	\$
Fixed Income Mutual Funds	200,000	1,972,289
Common Stock	291,410,000	
Pooled Real Estate Funds	224,932,000	560,074,020
Mortgage Loans		53,601,538
Limited Partnerships	64,268,000	805,676
Real Estate	17,897,000	
Funds Held In Trust By Others		44,407,000
Other Various	57,778,655	64,641,179
Total Other Investments	656,485,655	725,501,702
Total Type A	\$ 792,556,635	Total Type B
		\$ 1,018,268,060
Total non-current cash and investments subject to custodial credit risk		\$ 1,810,824,695

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Interest Rate Risk

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

The following table summarizes the investments held by the major discretely presented component units for the fiscal year ended June 30, 2006.

Cash And Investments By Type Discretely Presented Major Component Units

I. Cash

	Carrying Amount	Bank Balance
Cash	\$ 878,656,147	\$ 872,086,018
Money Market	194,030,907	194,030,907
US Treasury & Gov't Obligations	5,389,827	5,389,827
Government Mutual Funds	29,254,920	29,254,920
Other:	5,202,951	5,202,951
Total Cash	\$ 1,112,534,752	\$ 1,105,964,623

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	< 1 year	1-5 Years	6-10 Years	> 10 Years
Cash Equivalents	\$ 5,999,624	\$ 5,899,624	\$ 100,000	\$	\$
Fixed Income Mutual Funds	3,036,725	3,036,725			
U.S. Government & Agency Obligations	158,822,689	93,455,705	43,181,480	10,875,288	11,310,216
Mortgage Backed Securities	3,076,996				3,076,996
Corporate Obligations	13,414,649	1,445,000	6,796,000	5,173,649	
Guaranteed Investment Contracts	27,941,713	27,941,713			
Total	\$ 212,292,396	\$ 131,778,767	\$ 50,077,480	\$ 16,048,937	\$ 14,387,212

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective	Modified
Cash Equivalents	\$ 135,264,698	0.01	
Fixed Income Mutual Funds	5,370,255	4.45	
Fixed Income Mutual Funds	139,881,551		3.55
U.S. Government & Agency Obligations	105,746,972	4.84	
U.S. Government & Agency Obligations	62,623,579		5.74
Mortgage Backed Securities	199,943,273	5.40	
Corporate Debt	493,017	1.09	
Corporate Debt	26,156,338		4.35
Asset Backed Securities	649,531	0.25	
State and Municipal Obligations	393,302	0.53	
Guaranteed Investment Contract	126,223,000	0.01	
Other Investments	23,941	5.88	
Total Debt Securities	\$ 802,769,457		
Portfolio Effective Weighted Duration		2.82	
Portfolio Modified Weighted Duration			4.24

Other Investments

Fixed Income Mutual Funds	\$ 292,235,289
Common Stock	785,006,020
Pooled Real Estate Funds	53,601,538
Municipal Obligations	27,856,000
Mortgage Loans	805,676
Limited Partnerships	64,268,000
Real Estate	17,897,000
Funds Held In Trust By Others	44,407,000
Other	114,133,989
Total Other Investments	\$ 1,400,210,512
Total Investments	\$ 2,415,272,365

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Credit Risk of Debt Securities

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

Investments and Credit Ratings

Discretely Presented Major Component Units

The major discretely presented component units, investments as of June 30, 2006 and the ratings are presented in the following table.

	Standard & Poor's/Moody's Credit Ratings						Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	BBB/Baa	Unrated	NA	
Cash Equivalents	\$ 1,054,595	\$	\$ 2,670,053	\$	\$ 134,848,484	\$ 3,516,479	\$ 142,089,611
Fixed Income Mutual Funds	3,000,414	4,970,487			431,727,630		439,698,531
U.S. Government & Agency Obligations	199,940,049	212,303	126,423	644,643	107,493,430	28,399,695	336,816,543
Mortgage Backed Securities	203,020,269						203,020,269
Corporate Obligations	42,165,946	438,066	463,597	14,818,395	10,034,000		67,920,004
Common Stock					224,932,000	560,074,020	785,006,020
Asset Backed Securities	649,531						649,531
Pooled Real Estate Funds						53,601,538	53,601,538
Municipal Obligations	362,737	26,992	3,573				393,302
Guaranteed Investment Contracts						27,941,713	27,941,713
Limited Partnerships					64,268,000		64,268,000
Real Estate					17,897,000		17,897,000
Funds Held In Trust							
By Others					44,407,000		44,407,000
Other					170,888,970	60,674,333	231,563,303
Total Investments	\$ 450,193,541	\$ 5,647,848	\$ 3,263,646	\$ 15,463,038	\$ 1,206,496,514	\$ 734,207,778	\$ 2,415,272,365

Concentration Credit Risk

Concentration credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. All of the major discretely presented component units except the Kentucky Housing Corporation (KHC) and the Kentucky Higher Education Student Loan Corporation (KHESLC) have policies in place that limit the amount that can be invested in a single issuer to 5% of the total portfolio market value. KHC and KHESLC place no limit on the amount they may invest in any one issuer. More than five percent of the KHC's investments are in Fannie Mae, BlackRock Capital Management, Trinity Plus Funding, and Federal Home Loan Bank. These investments are 35%, 25%, 23%, and 17%, respectively, of the KHC's total investments. KHESLC's investments are in the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These investments are 72% and 28% respectively, of the KHESLC's total investments.

Foreign Currency Risk

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

The following table summarizes the foreign currency risk for the major discretely presented component units for the fiscal year ended June 30, 2006.

Foreign Currency Risk
Discretely Presented Major Component Units

	Investment Type		
	Equity	Debt	Total
Foreign Currency			
Pooled Fixed Income Funds	\$	\$ 4,928,662	\$ 4,928,662
Pooled Global Equity Funds	61,287,313		61,287,313
Pooled Non-U.S. Equity Funds	83,587,797		83,587,797
Mutual Funds	203,625,762		203,625,762
Total Securities Subject To Foreign Currency Risk	\$ 348,500,872	\$ 4,928,662	\$ 353,429,534



COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Note 6

CAPITAL ASSETS

*Capital asset activity for the year ended June 30, 2006
(Expressed in Thousands):*

	Primary Government		
	Beginning Balance Restated	Additions	Ending Balance
Primary Government:			
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 112,530	\$ 3,474	\$ 115,615
Construction in progress	1,796,831	1,748,582	1,601,372
Infrastructure	15,950,068	587,476	16,442,033
Total capital assets not being depreciated	<u>17,859,429</u>	<u>2,339,532</u>	<u>18,159,020</u>
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	11,073	599	11,672
Buildings	1,006,752	60,085	1,051,063
Machinery and Equipment	518,031	44,444	531,897
Easements and Other Intangibles	47,548	6,085	53,633
Total capital assets, being depreciated/amortized	<u>1,583,404</u>	<u>111,213</u>	<u>1,648,265</u>
<i>Less accumulated depreciation/amortization:</i>			
Improvements other than buildings	(5,007)	(400)	(5,407)
Buildings	(360,552)	(24,419)	(381,755)
Machinery and Equipment	(323,893)	(41,700)	(338,684)
Easements and Other Intangibles	(5,039)	(1,345)	(6,384)
Total accumulated depreciation	<u>(694,491)</u>	<u>(67,864)</u>	<u>(732,230)</u>
Total capital assets, being depreciated/amortized, net	<u>888,913</u>	<u>43,349</u>	<u>916,035</u>
Governmental activities capital assets, net	<u>\$ 18,748,342</u>	<u>\$ 2,382,881</u>	<u>\$ 19,075,055</u>
Business-type activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 19,627	\$ 531	\$ 20,158
Construction in progress	42,315	8,389	43,677
Total capital assets, not being depreciated	<u>61,942</u>	<u>8,920</u>	<u>63,835</u>
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	90,491	5,048	95,539
Buildings	204,591	6,970	211,257
Machinery and Equipment	52,919	3,327	55,394
Easements and Other Intangibles	2,322		2,322
Total capital assets, being depreciated/amortized	<u>350,323</u>	<u>15,345</u>	<u>364,512</u>
<i>Less accumulated depreciation for:</i>			
Improvements other than buildings	(48,377)	(1,982)	(50,359)
Buildings	(75,891)	(6,507)	(82,149)
Machinery and Equipment	(39,552)	(3,942)	(42,663)
Easements and Other Intangibles	(410)	(117)	(527)
Total accumulated depreciation	<u>(164,230)</u>	<u>(12,548)</u>	<u>(175,698)</u>
Total capital assets, being depreciated/amortized, net	<u>186,093</u>	<u>2,797</u>	<u>188,814</u>
Business-type activities capital assets, net	<u>\$ 248,035</u>	<u>\$ 11,717</u>	<u>\$ 252,649</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

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

(Expressed in Thousands)

	Governmental activities	Business-type activities
General Government	\$ 6,509	\$
Legislative and Judicial	933	
Commerce	1,804	
Education and Humanities	4,232	
Human Resources	3,541	
Justice	15,354	
Natural Resources and Environmental Protection	3,525	
Public Protection and Regulation	240	
Transportation	15,987	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	15,739	
State Parks		8,406
Lottery Corporation		3,217
Horse Park		617
Insurance Administration		308
Total depreciation expense by activities	\$ 67,864	\$ 12,548

Discretely presented major component units

Capital asset activity for the year ended June 30, 2006

(Expressed in Thousands):

	Component Units			
	Beginning Balance Restated	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 103,233	\$ 6,364	\$ (1,008)	\$ 108,589
Construction in progress	159,040	84,021	(128,497)	114,564
Totals, capital assets not being depreciated	262,273	90,385	(129,505)	223,153
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	68,685	9,899	(179)	78,405
Buildings	2,248,407	175,210	(36,921)	2,386,696
Machinery and Equipment	935,593	119,895	(35,867)	1,019,621
Easements and Other Intangibles				
Total capital assets, being depreciated/amortized	3,252,685	305,004	(72,967)	3,484,722
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(44,354)	(2,312)	38	(46,628)
Buildings	(877,708)	(61,849)	4,225	(935,332)
Machinery and Equipment	(592,823)	(79,567)	26,243	(646,147)
Easements and Other Intangibles				
Total accumulated depreciation	(1,514,885)	(143,728)	30,506	(1,628,107)
Total capital assets, being depreciated/amortized, net	1,737,800	161,276	(42,461)	1,856,615
Component units capital assets, net	\$ 2,000,073	\$ 251,661	\$ (171,966)	\$ 2,079,768

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

(Expressed in Thousands)

Kentucky Housing Corporation	\$ 648
Kentucky Higher Education Assistance Authority	1,028
Kentucky Higher Education Student Loan Corporation	2,455
Kentucky School Facilities Construction Commission	
University of Kentucky	83,760
University of Louisville	33,795
Kentucky Community and Technical College System	22,042
Total depreciation expense by activities	\$ 143,728

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Note 7

INTERFUND TRANSACTIONS

Interfund Transfers In and Out

The table below shows the interfund operating transfers for the fiscal year 2006
(Expressed in Thousands):

Transfers In	Transfers Out				
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	\$	\$	\$ 317	\$ 67,822	\$ 12,675
Transportation Fund			2,193	121	605
Federal Fund	87	46		5,063	
Agency Revenue Fund	41,971	467	28,313		951
Capital Projects Fund	9,133	4,248	4,778	14,658	
Non-Major Governmental Funds	406,358	146,750	8,213	324,591	688
State Parks Fund	29,728		203	2	37,500
Kentucky Horse Park Fund	1,693		79		298
Kentucky Employee Health Plan				3,909	
Insurance Administration Fund			614		10
Unemployment Compensation Fund			3,532	15	
Internal Service Funds	3,010		208	369	53,879
Fiduciary Funds				3	
Total	<u>\$ 491,980</u>	<u>\$ 151,511</u>	<u>\$ 48,450</u>	<u>\$ 416,553</u>	<u>\$ 106,606</u>

Reasons for transfers:

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

Interfund Receivables and Payables

The table below shows the interfund receivables and payables for the fiscal year 2006
(Expressed in Thousands):

Interfund Receivables	Interfund Payables			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$	\$ 10,827	\$ 12,318
Transportation Fund			109	15,259
Federal Fund	3,796	145		38,070
Agency Revenue Fund	14,581	273	25,306	
Capital Projects Fund	1,679		9	528
Non-Major Governmental Funds	18,317	70	4,365	273
State Parks Fund	209		15	16
Insurance Administration Fund	14			
Unemployment Compensation Fund				
Internal Service Funds	3,817	1,689	67	123
Totals	<u>\$ 42,413</u>	<u>\$ 2,177</u>	<u>\$ 40,698</u>	<u>\$ 66,587</u>

Reasons for interfund payables and receivables:

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Transfers Out									
Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Horse Park Fund	Kentucky Employee Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 35,787	\$	\$ 190,000	\$ 41	\$ 922	\$ 64,098	\$	\$ 7,028	\$ 3,157	\$ 381,847
159									3,078
89					468		52		5,805
435,946	42				525		401	2	508,618
11,502	101		2		54		8,313	3,860	56,649
270,187	1,846	7,349	74			2,838	1	1	1,168,896
426							3,990		71,849
							575		2,645
								930	4,839
									624
10									3,557
				2,255					57,466
				3,177					2,258
<u>\$ 754,106</u>	<u>\$ 1,989</u>	<u>\$ 197,349</u>	<u>\$ 117</u>	<u>\$ 3,177</u>	<u>\$ 65,145</u>	<u>\$ 2,838</u>	<u>\$ 20,360</u>	<u>\$ 7,950</u>	<u>\$ 2,268,131</u>

Interfund Payables								
Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Kentucky Employee Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Total
\$ 246	\$ 25,758	\$ 375	\$	\$	\$ 3	\$	\$ 5	\$ 49,532
	579							15,947
	314				3	1	52	42,381
25	17,832	50	1	697	392		146	59,303
	9				2			2,227
150	119,867	87			15		1	143,145
	1						5	246
							211	225
	1							1
25	10	58	2		2		11	5,804
<u>\$ 446</u>	<u>\$ 164,371</u>	<u>\$ 570</u>	<u>\$ 3</u>	<u>\$ 697</u>	<u>\$ 417</u>	<u>\$ 1</u>	<u>\$ 431</u>	<u>\$ 318,811</u>

Note 8**PENSION PLANS**

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

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

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

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

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

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

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

Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on years of service with the Systems, as follows:

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

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten (\$10) per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

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

The Judicial Retirement Plan is a single employer defined benefit plan, which provides retirement, disability and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125 percent benefit rate and the 60 month average earnings of the position held by the member at retirement. Contribution rates are established by KRS 21.525.

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925 percent benefit rate and the 60 month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

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

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

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

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

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

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

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

	Kentucky Legislators' Retirement Plan	Kentucky Judicial Retirement Plan
Contribution rates:		
State	20.10%	10.00%
Plan members	5.00%	5.00%
Portion of State Contribution for Health Insurance		
Annual pension costs (Thousands)	\$8	\$1,917
Contributions made (Thousands)		\$2,095
Actuarial valuation date	June 30, 2006	June 30, 2006
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Interest + 1% Unfunded past liability	Interest + 1% Unfunded past liability
Remaining amortization period	25 years	25 years
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Inflation Rate		
Projected salary increases	4.00%	4.00%
Increases in Health Insurance Cost	6% - 10%	6% - 10%
(Dollar amounts in thousands)		
ARC	\$	\$ 1,913
Interest on NPO	(67)	(80)
Adjustment to ARC	75	84
Annual pension cost	8	1,917
Contributions made		2,095
Increase (Decrease) in NPO	8	(178)
NPO beginning of year	(891)	(1,002)
NPO end of year	<u>\$ (883)</u>	<u>\$ (1,180)</u>

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

State Police Retirement System	Kentucky Employees Retirement System	Kentucky Teachers' Retirement System
21.58% 8.00%	5.89% - 18.84% 5% - 7%	14.39% - 17.84% 7.625% - 9.105%
21.58%	5.89% - 12.66%	0.75%
\$12,791	\$203,521	\$406,107
\$10,235	\$131,476	\$406,107
June 30, 2006	June 30, 2006	June 30, 2006
Entry age normal	Entry age normal	Projected unit credit
Level percent closed	Level percent closed	Level percent open
14 - 30 years	14 - 30 years	30 years
Five-year smoothing of investment gains and losses	Five-year smoothing of investment gains and losses	Five-year smoothed market
7.75%	7.75%	7.50%
3.50%	3.50%	4.00%
4.0 - 14.5%	4.0 - 14.5%	4.00% - 8.20%
7.5% - 12%	7.5% - 12%	12.4% - 12.5%
\$ 12,339	\$ 198,116	\$ 406,107
1,279	15,289	
(827)	(9,883)	
12,791	203,521	406,107
10,235	131,476	406,107
2,556	72,045	
16,506	197,272	
<u>\$ 19,062</u>	<u>\$ 269,317</u>	<u>\$</u>

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
June 30, 2004	\$ 6,000,513,743	\$ 7,049,613,171	\$ 1,049,099,428	85.1	\$ 1,645,412,496	63.8
June 30, 2005	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
<u>Hazardous</u>						
June 30, 2004	\$ 397,212,763	\$ 403,578,036	\$ 6,365,273	98.4	\$ 126,664,812	5.0
June 30, 2005	405,288,662	439,013,910	33,725,248	92.3	131,687,088	25.6
June 30, 2006	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
<u>State Police Retirement System</u>						
June 30, 2004	\$ 385,077,195	\$ 437,482,425	\$ 52,405,230	88.0	\$ 43,835,208	119.6
June 30, 2005	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
<u>Judicial Retirement Plan</u>						
June 30, 2004	\$ 247,388,763	\$ 218,117,389	\$ (29,271,374)	113.4	\$ 25,905,022	(113.0)
June 30, 2005	259,167,087	241,031,456	(18,135,631)	107.5	28,483,104	(63.7)
June 30, 2006	264,913,489	254,901,557	(10,011,932)	103.9	26,976,964	(37.1)
<u>Legislators' Retirement Plan</u>						
June 30, 2004	\$ 62,786,767	\$ 50,213,770	\$ (12,572,997)	125.0	\$ 2,585,000	(486.4)
June 30, 2005	65,537,351	62,619,568	(2,917,783)	104.7	3,545,131	(82.3)
June 30, 2006	67,029,901	59,829,316	(7,200,585)	112.0	3,636,218	(198.0)
<u>Kentucky Teachers' Retirement System</u>						
June 30, 2004	\$ 14,255,131,000	\$ 17,617,626,000	\$ 3,362,495,000	80.9	\$ 2,641,533,000	127.3
June 30, 2005	14,598,800,000	19,134,800,000	4,536,000,000	76.3	2,703,400,000	167.8
June 30, 2006	14,857,641,000	20,324,781,000	5,467,140,000	73.1	2,859,477,000	191.2

Membership of the retirement systems, at June 30, 2006, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Fund	Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TOTAL
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous					
Retirees and beneficiaries receiving benefits	32,140	1,980	33,102	4,712	1,067	267	143	38,497	111,908
Terminated plan members - vested	4,998	265	7,379	393	48	23	53	4,275	17,434
Terminated plan members - non-vested	24,145	2,236	42,667	1,562	218				70,828
Active plan members	46,707	4,320	83,694	9,635	1,028	245	123	73,740	219,492
Total Members	107,990	8,801	166,842	16,302	2,361	535	319	116,512	419,662
Number of participating employers	353		1,391		1	1	1	198	1,945

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Three year trend for contributions
(Expressed in thousands):

	Annual Required Contribution	Percentage Contributed
<u>Kentucky Employees Retirement System</u>		
<u>Non-Hazardous</u>		
2004	\$ 125,691	79.3%
2005	172,773	58.0%
2006	238,273	43.8%
<u>Hazardous</u>		
2004	\$ 24,543	100.8%
2005	25,343	99.3%
2006	30,734	88.0%
<u>State Police Retirement System</u>		
2004	\$ 9,611	100.0%
2005	12,339	76.8%
2006	16,559	61.8%
<u>Judicial Retirement Plan</u>		
2004	\$ 2,134	100.0%
2005	1,912	100.0%
2006	1,912	100.0%
<u>Legislator's Retirement Plan</u>		
2004	\$ 651	109.0%
2005	0	0.0%
2006	0	0.0%
<u>Kentucky Teachers' Retirement System</u>		
2004	\$ 364,351	100.0%
2005	383,700	100.0%
2006	406,100	100.0%

Note 9

EMPLOYEE BENEFIT PLAN

Deferred Compensation

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

Of the \$550,917,302 in the 457 Plan at June 30, 2006 \$258,202,297 was applicable to the Commonwealth, while the remaining \$292,715,005 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$763,617,561 at June 30, 2006 of which \$357,725,666 was applicable to the state while the remaining \$405,891,895 represents other participating jurisdictions.

Note 10

LEASE OBLIGATIONS

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

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

Changes in leases payable for the year ended June 30, 2006, are summarized in Note 15, Changes in Long-Term Obligations.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

At June 30, 2006, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):

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

Buildings
Equipment
Other
Total
Less: Accumulated depreciation
Total Net of Depreciation

Primary Government		
Governmental Activities	Business-Type Activities	Component Units-Major
\$ 5,890	\$	\$ 52,558
32,151	570	20,720
12,599		24,962
50,640	570	98,240
(10,029)	(248)	(9,060)
<u>\$ 40,611</u>	<u>\$ 322</u>	<u>\$ 89,180</u>

Future minimum rental commitments for capitalizable leases as of June 30, 2006, are as follows (Expressed in Thousands):

	Primary Government		Component Units-Major	Total
	Governmental Activities	Business-Type Activities	Universities, Colleges, and Related Entities	
2007	\$ 9,955	\$ 136	\$ 15,747	\$ 25,838
2008	8,075	96	21,756	29,927
2009	3,315	72	20,452	23,839
2010	1,967	32	24,133	26,132
2011	1,266	6	14,757	16,029
2012-2016	5,111		53,724	58,835
2017-2021	3,262		51,375	54,637
2022-2026	810		56,056	56,866
Total minimum lease payments	33,761	342	258,000	292,103
Less: Amount representing interest (1.50-33.43%)	(5,311)	(35)	(55,297)	(60,643)
Present value of future minimum lease payments	<u>\$ 28,450</u>	<u>\$ 307</u>	<u>\$ 202,703</u>	<u>\$ 231,460</u>

Note 11

RISK MANAGEMENT

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

Fire and Tornado Insurance:

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

The claims liability of \$185,000 reported in the Program at June 30, 2006, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2006 and 2005 were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 205,513	\$ 765,468
Incurred claims	2,808,947	1,984,940
Changes in estimates		
Claims payments	(2,829,460)	(2,544,895)
Balance at Fiscal Year End	<u>\$ 185,000</u>	<u>\$ 205,513</u>

Self-Insured Workers' Compensation:

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

The actuarially determined aggregate claims liability of \$118,902,645 reported in the Program at June 30, 2006, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2006 and 2005 were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 105,330,054	\$ 95,541,237
Claims and claims adjustments incurred:		
Current year	19,493,329	20,899,256
Prior year	10,892,900	3,431,137
Total Claims and Claims Adjustments Incurred:	30,386,229	24,330,393
Claims and claims adjustment payments:		
Current year	(4,131,291)	(4,519,389)
Prior year	(12,682,347)	(10,022,187)
Total Claims and Claims Adjustment Payments	(16,813,638)	(14,541,576)
Balance at Fiscal Year End	\$ 118,902,645	\$ 105,330,054

Transportation Cabinet Workers' Compensation:

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2006 and 2005 were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability \$	20,786,856	\$ 20,344,822
Claims and claims adjustments incurred	2,039,757	4,742,588
Changes in estimates	521,874	(1,123,662)
Claims and claims adjustment payments	(3,153,421)	(3,176,892)
Balance at Fiscal Year End	\$ 20,195,066	\$ 20,786,856

Note 12

RISK POOLS

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

Risk Pools - Enterprise Funds

Workers' Compensation Insurance:

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$850,664,774, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,735,140,859, discounted at 6.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$26,627,274, as reported in the financial statements is the present value is the aggregate actuarially determined liability of \$62,720,822, discounted at 6.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2006. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 1,873,652,937	\$ 2,131,840,811
Claims and claims adjustments incurred	1,115,108	3,715,646
Changes in estimates		(181,487,064)
Claims and claims adjustment payments	(76,906,364)	(80,416,456)
Balance at Fiscal Year End	\$ 1,797,861,681	\$ 1,873,652,937

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Coal Workers' Pneumoconiosis Fund:

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

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

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$11,992,805, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$17,696,099, discounted at 6.0 percent. The claims adjustment liability of \$777,383, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,147,075, discounted at 6.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 18,384,272	\$ 11,140,027
Claims and claims adjustments incurred	1,758,979	1,710,229
Changes in estimates		6,865,278
Claims and claims adjustment payments	(1,300,077)	(1,331,262)
Balance at Fiscal Year End	<u>\$ 18,843,174</u>	<u>\$ 18,384,272</u>

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

Petroleum Storage Tank Environmental Assurance Program:

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

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$336,705,000 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 359,090,000	\$ 173,266,000
Claims and claims adjustments incurred	19,024,000	213,296,000
Changes in estimates		
Claims and claims adjustment payments	(41,409,000)	(27,472,000)
Balance at Fiscal Year End	<u>\$ 336,705,000</u>	<u>\$ 359,090,000</u>

Bond Pool:

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

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

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$21,452,273, as reported in the financial statements, is the aggregate actuarially determined claims liability. There were no changes in claims adjustment liability during fiscal year 2006. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 21,452,273	\$ 21,452,273
Claims and claims adjustments incurred		45,622
Changes in estimates		
Claims and claims adjustment payments		(45,622)
Balance at Fiscal Year End	\$ 21,452,273	\$ 21,452,273

Mine Subsidence Insurance:

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

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability of \$240,000 as reported in the financial statements is the aggregate actuarially determined claims liability. Changes in the Program's claims liability amount in Fiscal Years 2006 and 2005 were:

	Fiscal Year 2006	Fiscal Year 2005
Beginning of fiscal year liability	\$ 9,500	\$ 155,000
Claims and claims adjustments incurred	290,873	
Changes in estimates		
Claims and claims adjustment payments	(60,373)	(145,500)
Balance at Fiscal Year End	\$ 240,000	\$ 9,500

Kentucky Employees Health Plan:

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

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

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

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

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

The Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and of claims that have been incurred but not yet reported. The claims liability \$73,687,555 that was reported in the financial statements is the aggregate actuarially determined claims liability. Changes in the aggregate liabilities for claims and claims adjustment expenses during 2006 are as follows:

	<u>Fiscal Year 2006</u>
Beginning of fiscal year liability	\$
Claims and claims adjustments incurred	472,143,107
Changes in estimates	
Claims and claims adjustment payments	<u>(398,455,552)</u>
Balance at Fiscal Year End	<u>\$ 73,687,555</u>

Risk Pools - Component Units

Kentucky Access:

Kentucky Access was created to ensure that health coverage is made available to each applying and qualifying Kentucky individual. As an implemented state sponsored "high risk" pool, Kentucky Access was established January 2, 2001 by KRS 304.17B-001 to 304.17B-031. Its purpose is that Kentucky may continue flexible regulation of health coverage.

In operating under the Division of Kentucky Access in the Department of Insurance, KRS 12.050 and KRS 304.2-060 guides the appointments of an appropriate division director as appointed by the commissioner of insurance. Also, the Guaranteed Acceptance Program, as established by KRS 304.17A-400 to 304.17A-480, helps participating insurance companies to recover losses from individuals who met the "high risk" pool category by transferring the funds to Kentucky Access.

Under this program, a referral fee is paid to Kentucky Access. A provider network is then established, or a provider network is created by contracting with an insurer for a statewide provider network. Under KRS 304.17B-011 the established provider network is available and limited only to Kentucky Access enrollees.

A third-party administrator chosen through the state bidding process administers Kentucky Access. The administrator develops and establishes policies and procedures for enrolled participants and potential enrollees. However, premium rates charged do not fully cover health care costs; thus, claims exceeding premium rates shall be covered by the Kentucky Access Fund.

Changes in the Program's claims liability amount in Fiscal Years 2006 and 2005 were:

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>
Beginning of fiscal year liability	\$ 7,910,980	\$ 7,910,980
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 7,910,980</u>	<u>\$ 7,910,980</u>

Grain Insurance:

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

No claims liability was reported in the Program at June 30, 2006, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2005 was also zero.

Note 13

DEFEASANCE OF LONG-TERM DEBT

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2006 the Commission issued the following refunding revenue bonds:

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Revenue refunding bonds dated June 15, 2005, were issued for the Corbin Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$148,708 maturing January 1, 2006 through July 1, 2016 and carrying interest rates from 3.10% to 3.60%.

Revenue refunding bonds dated June 15, 2005, were issued for the Hardin County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,239,529 maturing February 1, 2006 through February 1, 2020 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds dated July 1, 2005, were issued for the Henry County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$377,052 maturing May 1, 2006 through May 1, 2017 and carrying interest rates from 2.85% to 3.75%.

Revenue refunding bonds dated July 1, 2005, were issued for the Franklin County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$747,371 maturing May 1, 2006 through May 1, 2017 and carrying interest rates from 3.25% to 3.70%.

Revenue refunding bonds dated August 9, 2005, were issued for the Bowling Green Independent School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,270,292 maturing January 1, 2006 through January 1, 2020 and carrying an interest rate of 3.75%.

Revenue refunding bonds dated August 1, 2005, were issued for the Warren County School District Finance Corporation to refund a 1995 and a 1996 issue and partially refund a 2000 issue. The Commission's portion of the refunding issue was \$665,543 maturing December 1, 2005 through December 1, 2019 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds (Series B) dated July 15, 2005, were issued for the Marion County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$935,420 maturing October 1, 2005 through October 1, 2019 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds dated August 1, 2005, were issued for the Caldwell County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$144,294 maturing June 1, 2006 through June 1, 2020 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds dated August 1, 2005, were issued for the Taylor County School District Finance Corporation to refund 1995 and 1996 issues. The Commission's portion of the refunding issue was \$137,951 maturing February 1, 2006 through August 1, 2016 and carrying interest rates from 2.75% to 4.00%.

Revenue refunding bonds dated September 1, 2005, were issued for the Bourbon County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,155,231 maturing March 1, 2006 through March 1, 2020 and carrying interest rates from 2.80% to 3.80%.

Revenue refunding bonds dated September 29, 2005, were issued for the Pendleton County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$343,400 maturing December 1, 2006 through December 1, 2015 and carrying an interest rate of 3.45%.

Revenue refunding bonds (Series B) dated September 1, 2005, were issued for the Fayette County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$984,511 maturing March 1, 2006 through September 1, 2019 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds dated October 1, 2005, were issued for the Laurel County School District Finance Corporation to refund 1995, 1997, and 2000 Series issues. The Commission's portion of the refunding issue was \$569,354 maturing April 1, 2006 through April 1, 2017 and carrying interest rates from 3.50% to 3.75%.

Revenue refunding bonds dated October 1, 2005, were issued for the Floyd County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$1,057,972 maturing April 1, 2006 through April 1, 2017 and carrying interest rates from 3.125% to 4.00%.

Revenue refunding bonds dated March 1, 2006, were issued for the Russell County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$694,275 maturing March 1, 2007 through March 1, 2020 and carrying interest rates from 3.35% to 4.00%.

Note 14

RELATED ORGANIZATIONS

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

Note 15

SHORT-TERM AND LONG-TERM OBLIGATIONS

Short-Term Obligations

Short-term debt is comprised of tax revenue anticipation notes that are issued to smooth the cash flow from tax receipts.

The following chart shows changes in short-term debt during the period ending June 30, 2006:

Short-term Debt on July 1, 2005	Additions	Repayments	Short-term Debt on June 30, 2006
\$	\$ 600,000,000	\$ 600,000,000	\$
\$	\$ 600,000,000	\$ 600,000,000	\$

Long-Term Obligations

General Obligation Bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2006.

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

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky

Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax-exempt status of such municipal debt, whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by State Government in activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School Building Authority, and the Kentucky Infrastructure Authority, which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide debt service, principal and interest payments on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2006 the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

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

The Commission issued \$224,115,000 in revenue bonds as follows:

\$218,275,000, Project 85 Revenue Bonds, dated September 14, 2005, and maturing August 1, 2006 through August 1, 2025. The bonds carry interest rates of 3.00% to 5.00%.

\$5,840,000, Project 86 Revenue Bonds, dated September 14, 2005, and maturing May 1, 2007 through May 1, 2023. The bonds carry interest rates of 3.00% to 4.25%.

The Turnpike Authority of Kentucky was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of Transportation, Commissioner of Highways, State Highway Engineer, and Secretary

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

of Economic Development. The Director of the Office of Financial Management currently serves as the Authority's Treasurer.

The Authority issued \$221,235,000 in Economic Development Road Revenue Bonds as follows:

\$74,605,000, 2006 Series A Bonds, dated March 29, 2006, and maturing July 1, 2007 through July 1, 2026. The bonds carry interest rates of 4.00% to 5.00%.

\$146,630,000, 2006 Series B Bonds, dated June 21, 2006, and maturing July 1, 2012 through July 1, 2026. The bonds carry interest rates of 4.20% to 5.00%.

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

State supported universities issued \$34,455,000 in bonds as follows:

University of Kentucky issued \$11,495,000 Consolidated Educational Buildings Revenue Bonds, Series U, dated August 23, 2005. The bonds mature May 1, 2006 through May 1, 2025 and carry interest rates of 3.50% to 4.00%.

University of Kentucky issued \$7,160,000, General Receipts Bonds, 2005 Series A, dated December 13, 2005. The bonds mature October 1, 2006 through October 1, 2020 and carry interest rates of 3.50% to 4.125%.

Murray State University issued \$15,800,000, Housing and Dining System Revenue Bonds, Series Q, dated December 1, 2005. The bonds mature September 1, 2008 through September 1, 2027 and carry interest rates of 4.00% to 4.375%.

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

The Corporation issued \$458,225,000 in Housing Revenue Bonds which consisted of the following:

\$80,000,000 2005 Series E (AMT), Housing Revenue Bonds, dated August 18, 2005. The bonds consist of \$8,215,000 in serial bonds maturing January 1 and July 1 beginning in 2006 through 2016, and carrying interest rates of 2.65% to 4.20%; \$125,000, 4.30% term bonds maturing July 1, 2020; \$1,230,000, 4.50% term bonds maturing July 1, 2025; \$19,180,000 5.00% term bonds maturing July 1, 2030; \$41,250,000, 4.45% term bonds maturing July 1, 2034; and \$10,000,000, 4.70% term bonds maturing July 1, 2035.

\$79,315,000 Housing Revenue Bonds, dated October 11, 2005 consisting of: 2005 Series F, \$20,000,000 in serial bonds maturing biannually January 1 and July 1, 2007 through 2015; 2005 Series G \$37,390,000 - \$3,280,000 serial bonds maturing biannually July 1, 2015 through July 1, 2016, and \$11,665,000, 4.55% term bonds maturing January 1, 2026, \$15,445,000, 5.00% term bonds maturing July 1, 2030, \$7,000,000, 4.80% term bonds maturing July 1, 2030; and \$21,925,000 2005 Series H variable rate term bonds due July 1, 2036.

\$59,755,000 Housing Revenue Bonds, dated December 1, 2005 consisting of: 2005 Series I, \$22,940,000 in serial bonds maturing biannually January 1 and July 1, 2007 through 2015; 2005 Series J Bonds \$8,775,000 - \$520,000 serial bonds maturing July 1, 2013 through July 1, 2016, and \$1,010,000, 4.10% term bonds maturing July 1, 2017, \$2,515,000, 4.60% term bonds maturing July 1, 2030, \$4,730,000, 4.70% term bonds maturing July 1, 2034; 2005 Series K Bonds \$8,040,000 - \$5,555,000 5.00% term bonds due January 1, 2030, \$2,485,000 4.90% term bonds due July 1, 2036; and \$20,000,000 2005 Series L variable rate term bonds due July 1, 2036.

\$59,620,000 Housing Revenue Bonds, dated January 26, 2006 consisting of: 2006 Series A, \$1,530,000 in serial bonds maturing July 1, 2013 through 2017, \$2,515,000 4.75% term bonds maturing July 1, 2030 and \$4,730,000 4.85% term bonds maturing July 1, 2034; 2006 Series B \$4,800,000 4.80% term bonds maturing July 1, 2020, \$2,965,000 4.95% term bonds maturing January 1, 2023, and \$7,655,000 5.25% term bond maturing July 1, 2036; 2006 Series C \$15,425,000 (variable rate) Bonds maturing July 1, 2036 with interest rates determined weekly; and 2006 Series D, \$20,000,000 in (Taxable) (Non-callable) serial bonds maturing July 1, 2006 through July 1, 2015.

\$84,900,000 Housing Revenue Bonds, dated April 11, 2006 consisting of: 2006 Series E, \$1,805,000 in serial bonds maturing January 1, 2007 through January 1, 2016, \$2,480,000 5.00% term bond due July 1, 2035, \$10,000,000 4.75% term bond due January 1, 2036, and \$12,855,000 4.85% term bond due July 1, 2036; 2006 Series F Bonds (AMT) (Variable Rate) \$20,540,000 term bond due July 1, 2029; 2006 Series G Bonds \$12,835,000 Serial bonds maturing January 1, 2007 through January 1, 2017 and \$24,385,000 5.52% term bond due July 1, 2034.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

\$94,635,000 Housing Revenue Bonds consisting of: 2006 Series H Bonds dated April 25, 2006, \$2,730,000 Serial bonds maturing July 1, 2016 through July 1, 2018, \$18,135,000 4.95% term bond due July 1, 2029, \$11,470,000 5.00% term bond due January 1, 2036 and \$9,160,000 5.00% term bond due July 1, 2036; 2006 Series I Bonds dated April 25, 2006, \$23,750,000 Variable Rate Bonds (determined weekly); 2006 Series J Bonds dated June 7, 2006, \$16,390,000 Serial Bonds maturing January 1, 2007 through July 1, 2017, and \$13,000,000 5.92% term bond due July 1, 2034.

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

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

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

The Corporation issued \$400,000,000 in Student Loan Revenue Bonds, maturing June 1, 2035. The bonds all carry variable interest rates that change based on specified indices.

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

The Kentucky School Facilities Construction Commission was created by act of the 1985 Extraordinary Session of the Kentucky General Assembly as the successor agency to the Kentucky School Building Authority (KSBA) and empowered pursuant to KRS 157.640 with all rights of successorship necessary to assure all legal and contractual functions and liabilities associated with the outstanding bonds issued in the name of the Authority, including refunding of then existing Authority debt. The Commission is an independent corporate agency and instrumentality of the Commonwealth pursuant to KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of local school districts to issue bonds in the name of the Commission and to enter into lease agreements with local boards of education to finance construction of new facilities or major renovation of existing facilities; (2) enter into agreements which may provide for a percentage discount, on a biennially renewable basis, of annual lease agreements due the Commission for those districts which participate; and (3) enter into lease agreements with the Department of Education to build State-owned facilities operated by the Department of Education.

During the fiscal year ended June 30, 2006, the Commission sold 56 school building revenue and revenue refunding bond issues having aggregate state participation of \$103,264,163 maturing through June 30, 2026, at interest rates of 2.75% to 4.50%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2006, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 484 Capitol Annex, Frankfort, Kentucky 40601.

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

The Corporation issued no bonds during the year ended June 30, 2006.

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

The Authority issued no bonds during the fiscal year ended June 30, 2006.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2006, are as follows (Expressed in Thousands):

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 2,265,368	2.00%-7.65%	2026
Turnpike Authority of KY	1,281,100	2.00%-8.60%	2026
Total	<u>\$ 3,546,468</u>		

Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2006, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2007	\$ 225,390	\$ 175,495	\$ 400,885
2008	289,683	157,455	447,138
2009	280,935	138,532	419,467
2010	378,850	122,315	501,165
2011	201,995	112,546	314,541
2012-2016	930,790	425,333	1,356,123
2017-2021	852,845	194,754	1,047,599
2022-2026	369,635	35,628	405,263
2027-2031	16,345		16,345
Total	<u>\$ 3,546,468</u>	<u>\$ 1,362,058</u>	<u>\$ 4,908,526</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky School Facilities Construction Commission *	\$ 711,810	2.75-4.5%	2027
Kentucky Housing Corporation *	1,725,383	1.30-6.05%	2037
Kentucky Infrastructure Authority *	172,385	2.25-6.0%	2024
Kentucky Higher Education Student Loan Corporation	1,697,250	3.5-5.42%	2035
Kentucky Local Correctional Facilities Construction Authority *	19,825	2.25-5.25%	2014
University of Kentucky *	260,580	1.15-5.375%	2025
University of Louisville	171,841	1.50-5.40%	2035
Eastern Kentucky University	37,150	3.0-5.4%	2024
Western Kentucky University *	97,290	1.08-4.90%	2030
Murray State University *	29,240	1.10-5.6%	2028
Morehead State University	25,485	2.0-5.75%	2024
Kentucky State University	6,190	2.78-4.87%	2014
Northern Kentucky University	31,905	3.0-7.8%	2023
Total Component Unit Revenue Bonds Payable	<u>\$ 4,986,334</u>		

* Amounts reflect original issue

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2006, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2007	\$ 180,986	\$ 210,731	\$ 391,717
2008	170,465	207,015	377,480
2009	296,261	197,496	493,757
2010	166,027	187,827	353,854
2011	152,458	181,394	333,852
2012-2016	690,763	811,565	1,502,328
2017-2021	590,246	673,999	1,264,245
2022-2026	491,864	545,881	1,037,745
2027-2031	987,030	396,042	1,383,072
2032-2036	248,009	28,879	276,888
2037-2041	1,012,225	123,158	1,135,383
Total	<u>\$ 4,986,334</u>	<u>\$ 3,563,987</u>	<u>\$ 8,550,321</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

NOTES PAYABLE:

At June 30, 2006, the following entities had notes payable as follows:

The General Fund and Transportation-related special revenue fund will generally liquidate other claims and judgments attributable to the governmental activities.

The Kentucky Asset/Liability Commission, created by House Bill 5 enacted by the 1997 Extraordinary Session of the Kentucky General Assembly, develops policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and liabilities. It is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency. The Commission has \$650,000,000 in General Fund Project Notes and \$225,720,000 in Agency Fund Project Notes authorized but not issued at June 30, 2006.

The commission issued \$231,820,000 in project notes as follows:

\$24,280,000 Kentucky Asset/Liability Commission Project Notes, 2005 Agency Fund Second Series A-1, A-2, A-3, and A-4, variable rate debt with weekly rate changes. The final maturity on these notes is April 2, 2009.

\$107,540,000 University of Kentucky General Receipts Project Notes, 2005 Series A, dated November 1, 2005. The notes carry interest rates of 3.30% to 5.00% with final maturity October 1, 2025.

\$100,000,000 Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series A-1, dated November 2, 2005. The notes mature November 1, 2025 and are a Commercial Paper Mode with variable rate interest that periodically resets.

The Component Units of the Commonwealth reported notes payable of \$49,060,000 in their individual audited financial statements, details concerning their notes payable are presented in the notes to those financial statements. A copy of their individual financial statements may be obtained from the component unit, at the address shown on pages 100 and 101.

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

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

***Future debt service requirements for aggregated Notes Payable for the Primary Government
at June 30, 2006, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2007	\$ 49,070	\$ 24,664	\$ 73,734
2008	18,340	23,116	41,456
2009	12,795	21,207	34,002
2010	65,340	20,795	86,135
2011	33,195	18,362	51,557
2012-2016	121,965	62,432	184,397
2017-2021	87,255	51,087	138,342
2022-2026	166,830	35,423	202,253
Total	<u>\$ 554,790</u>	<u>\$ 257,086</u>	<u>\$ 811,876</u>

***Future debt service requirements for aggregated Notes Payable for the Component Units at
June 30, 2006, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2007	\$ 22,810	\$ 1,129	\$ 23,939
2008	4,712	1,241	5,953
2009	5,744	820	6,564
2010	1,169	777	1,946
2011	958	632	1,590
2012-2016	4,420	2,646	7,066
2017-2021	2,823	1,832	4,655
2022-2026	2,254	1,335	3,589
Thereafter	4,170	815	4,985
Total	<u>\$ 49,060</u>	<u>\$ 11,227</u>	<u>\$ 60,287</u>

Changes in long-term liabilities for the fiscal year ended June 30, 2006, are summarized as follows (Expressed in Thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
Governmental Activities						
Compensated absences	\$ 225,095	\$ 5,472	\$ (2,902)	\$ 227,665	\$ 120,082	\$ 107,583
Capital leases	32,518	6,080	(10,148)	28,450	8,619	19,831
Claims liability	126,324	35,757	(22,798)	139,283	17,204	122,079
Notes payable	373,990	231,820	(51,020)	554,790	49,070	505,720
Bonds payable	3,296,501	445,350	(195,383)	3,546,468	225,389	3,321,079
Unamortized premiums	180,068	21,416	(12,802)	188,682	11,992	176,690
Unamortized discounts	(21,688)	(58)	5,326	(16,420)	(1,043)	(15,377)
Deferred amount on refunding	(14,950)	1,307	(1,715)	(15,358)	(976)	(14,382)
Judgments and contingent liabilities	33,585	11,238	(9,285)	35,538	21,595	13,943
Unfunded employer pension contributions	213,778	74,601		288,379		288,379
Total Governmental Activities	<u>\$ 4,445,221</u>	<u>\$ 832,983</u>	<u>\$ (300,727)</u>	<u>\$ 4,977,477</u>	<u>\$ 451,932</u>	<u>\$ 4,525,545</u>
Business-Type Activities						
Compensated absences	\$ 7,993	\$ 1,836	\$ (1,075)	\$ 8,754	\$ 4,678	\$ 4,076
Capital leases	275	185	(153)	307	120	187
Claims and claims adjustment liability	1,103,561	714,491	(495,905)	1,322,147	203,918	1,118,229
Prize liability	218,305	11,983	(29,624)	200,664	50,241	150,423
Judgments and contingent liabilities	760	83	(531)	312	312	
Total Business-Type Activities	<u>\$ 1,330,894</u>	<u>\$ 728,578</u>	<u>\$ (527,288)</u>	<u>\$ 1,532,184</u>	<u>\$ 259,269</u>	<u>\$ 1,272,915</u>
Total Primary Government	<u>\$ 5,776,115</u>	<u>\$ 1,561,561</u>	<u>\$ (828,015)</u>	<u>\$ 6,509,661</u>	<u>\$ 711,201</u>	<u>\$ 5,798,460</u>
Component Units (Major)						
Compensated absences	\$ 13,842	\$ 11,621	\$ (10,723)	\$ 14,740	\$ 11,947	\$ 2,793
Capital leases	85,062	127,610	(9,969)	202,703	7,805	194,898
Notes payable	40,668	213,614	(229,404)	24,878	20,091	4,787
Bonds payable	3,712,928	1,224,089	(373,046)	4,563,971	141,021	4,422,950
Total Component Units	<u>\$ 3,852,500</u>	<u>\$ 1,576,934</u>	<u>\$ (623,142)</u>	<u>\$ 4,806,292</u>	<u>\$ 180,864</u>	<u>\$ 4,625,428</u>

Note 16

COMMITMENTS AND CONTINGENCIES

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

The Kentucky Retirement Systems (KRS), a blended component unit of the Commonwealth, is involved in litigation claiming age discrimination. The case challenges Kentucky's civil service retirement laws and seeks restitution on behalf of all public retirees who received a normal pension rather than a disability pension. The KRS has prevailed in the court decisions and legal council is confident they will continue to prevail. Should the previous decisions be reversed, KRS cannot estimate the impact on the liability and future funding requirements.

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

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

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

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions

of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business, similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2006 and 2005 amounted to \$96.7 million and \$94.7 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences – Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2006, the estimated liability for annual and compensatory leave was \$227,665,000 for the governmental activities, and \$8,754,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$14,740,000 at June 30, 2006.

Sick Leave - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2006. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$340,171,000 and \$12,613,000 respectively.

Construction Projects - The Transportation Cabinet, at June 30, 2006, had contractual commitments of approximately \$870,886,355 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 25 percent

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

State funds, 48 percent Federal funds, and the remaining 27 percent with proceeds from the sale of revenue bonds.

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

Note 17

SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2006, and prior to December 31, 2006, and reported other subsequent events for the same period, as described below.

The Kentucky Asset/Liability Commission issued the following notes:

\$150,000,000 General Fund Tax and Revenue Anticipation Notes, 2006 Series A, to finance General Fund cash flow requirements of the Commonwealth for the fiscal year ending June 30, 2007. These notes are dated July 1, 2006, bear interest at 4.50% with a yield of 3.70%, and are due to mature June 28, 2007. Principal and interest are payable at maturity.

University of Kentucky General Receipt Notes consisting of:

\$66,305,000 General Receipts Refunding Project Notes, 2006 Series A, dated October 1, 2006. These notes mature October 1, 2022 and carry interest rates from 3.50% to 5.00%.

\$2,200,000 General Receipts Taxable Refunding Project Notes 2006 Series B, dated October 1, 2006. These notes mature October 1, 2007 and carry an interest rate of 5.125% with an effective yield of 5.112%.

The Kentucky Housing Corporation issued a total of \$197,670,000 bonds after June 30, 2006. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth. Bonds issued include the following:

\$87,670,000 Housing Revenue Bonds dated August 18, 2006 consisting of \$9,585,000 2006 Series K (NON-AMT); \$19,085,000 2006 Series L (AMT); \$21,000,000 2006 Series M (AMT) (Variable Rate); \$8,965,000 2006 Series N (Taxable); and \$29,035,000 2006 Series O (Taxable) (Variable Rate). These bonds have fixed interest rates from 3.85% to 6.06%, and the variable rate bonds bear interest at a Weekly Rate from their date of issuance and delivery until maturity. The final maturity date on the bonds is January 1, 2036.

\$110,000,000 Housing Revenue Bonds dated September 27, 2006 consisting of \$8,210,000 2006 Series P (NON-AMT); \$41,790,000 2006 Series Q (AMT); \$21,700,000 2006 Series R (Taxable); \$15,000,000 2006 Series S (Taxable Pass Through); and \$23,300,000 2006 Series T (Taxable) (Variable Rate). These bonds have fixed interest rates from 3.80% to 5.88%, and the variable rate bonds bear interest at a Weekly Rate from their date of issuance and delivery until maturity. The final maturity date on the bonds is July 1, 2037.

\$90,000,000 in Housing Revenue Bonds, with a delivery date of November 29, 2006 consisting of \$45,000,000 2006 Series U (AMT) \$6,530,000 serial bonds, maturing semiannually through July 1, 2016 and carrying interest rates of 3.65% to 4.40%; \$6,645,000 4.70% term bonds due July 1, 2022; \$7,720,000 4.85% term bonds due July 1, 2027; \$10,475,000 4.90% term bonds due July 1, 2037 (Priced at 99.524%). \$6,620,000 Series V (Taxable) bonds; \$2,345,000 serial bonds maturing semiannually to July 1, 2016 and carrying interest rates of 5.35% to 5.57% and \$4,275,000 5.33% term bonds due July 1, 2014 \$38,380,000 Series W (Taxable) (Variable Rate) due July 1, 2037.

Kentucky School Facilities Construction Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2006, and maturing as to principal through 2026 is displayed in the spreadsheet on Page 99.

Kentucky Higher Education Student Loan Corporation

The Corporation issued the following Student Loan Revenue Bonds after June 30, 2006: \$28,175,000 Senior Series 2006A-1 (Tax-Exempt Auction Rate Certificates) dated August 17, 2006; \$42,825,000 Senior Series 2006A-2 (Taxable Auction Rate Certificates) dated August 17, 2006; \$100,000,000 Senior Series 2006A-3 (Taxable Auction Rate Certificates) dated October 3, 2006; \$60,000,000 Senior Series 2006A-4 (Taxable Auction Rate Certificates) dated December 5, 2006; and \$29,000,000 Subordinate Series 2006B-1 (Tax-Exempt Auction Rate Certificates); and \$90,000,000 Senior Series 2006 A -5 (Taxable Auction Rate Certificates) dated December 7, 2006.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

University of Kentucky

The University issued \$24,325,000 of General Receipts Bonds (Student Health Facility Project), 2006 Series A, dated August 3, 2006. The bonds carry interest rates of 4.000% to 4.375% and have final maturity of October 1, 2026.

On October 5, the University sold \$77,905,000 General Receipts Project Notes, 2007 Series A at a net interest cost of 4.55%. These bonds were sold with a forward delivery date of November 1, 2007. The proceeds of this bond issue will provide additional funding for the construction of the University's new hospital care facility – Phase 1.

Western Kentucky University

The University issued \$10,000,000 General Receipts Bonds, 2006 Series A dated December 19, 2006. \$6,765,000 term bonds carry interest rates of 3.625% to 3.800%, and maturing annually to September 1, 2021; \$1,220,000 3.875% term bonds due September 1, 2023; and \$2,015,000 3.875% term bonds due September 1, 2026.

Turnpike Authority of Kentucky

The Turnpike Toll Road Bonds were defeased early, when the Authority made the debt service payment, which was due January 1, 2007 on November 1, 2006. This was the last debt service payment to be made from State funds. The final payment on the bonds, which is due July 1, 2007, will be paid from funds held in the Debt Service Reserve account with the fiscal agent. With the defeasance of the bonds the tolls were removed from the last two toll roads on Wednesday, November 22, 2006.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Allen County	08/23/06	\$ 565,000	\$ 565,000	4.100
Ashland Independen	07/06/06	9,080,000	784,596	3.600 - 4.200
Barren County	09/14/06	12,040,000	2,088,851	3.500 - 4.375
Boone County	07/12/06	17,065,000	1,004,736	4.000 - 4.500
Boone County	12/12/06	23,310,000	1,660,381	3.875
Bourbon County	08/10/06	2,720,000	1,568,363	4.000 - 4.200
Bulter County	11/08/06	2,440,000	545,280	3.750 - 4.000
Campbell County	07/31/06	18,015,000	1,062,500	4.000 - 5.000
Carroll County	08/02/06	725,000	725,000	4.250
Casey County	07/19/06	9,730,000	9,007,107	4.150 - 4.200
Clinton County	11/30/06	935,000	122,706	3.500 - 3.750
Dawson Springs Independent	08/03/06	2,235,000	2,235,000	3.800 - 4.250
Fairview Independent	08/10/06	270,000	213,579	4.300
Fleming County	07/18/06	1,545,000	1,545,000	3.650 - 4.300
Frankfort Independent	07/27/06	3,065,000	878,650	3.700 - 4.400
Ft. Thomas Independent	07/05/06	1,160,000	1,113,748	3.500 - 4.200
Grant County	11/02/06	1,930,000	857,171	3.500 - 4.000
Harlan County	08/02/06	31,920,000	16,392,495	4.250 - 4.500
Harlan Independent	07/25/06	1,643,000	1,633,375	3.800 - 4.400
Hart County	07/27/06	1,560,000	344,600	4.000 - 4.600
Henry County	11/29/06	2,010,000	1,264,279	3.500 - 3.900
Hopkins County	12/14/06	1,545,000	1,545,000	3.400 - 4.000
Jefferson County	07/20/06	41,000,000	13,739,314	4.000 - 5.000
Kenton County	11/09/06	8,220,000	1,565,085	3.625 - 4.250
LaRue County	07/25/06	10,725,000	8,918,710	4.000 - 4.500
Laurel County	08/10/06	14,510,000	1,444,051	4.500 - 4.625
Leslie County	10/04/06	1,520,000	1,520,000	3.750 - 4.000
Lewis County	11/14/06	1,450,000	791,195	3.600 - 4.100
Madison County	11/02/06	2,350,000	1,523,990	3.875
Magoffin County	09/06/06	18,800,000	13,060,244	3.750 - 4.250
McLean County	07/26/06	1,230,000	1,230,000	3.750 - 4.400
Meade County	09/01/06	18,060,000	733,810	3.500 - 4.250
Middlesboro Independent	07/31/06	1,965,000	382,625	3.900 - 4.400
Monticello Independent	07/03/06	365,000	311,781	4.125
Perry County	07/19/06	3,015,000	2,067,024	3.700 - 4.375
Pike County	12/01/06	5,460,000	2,250,856	3.500 - 3.800
Powell County	08/22/06	3,290,000	1,743,287	3.650 - 4.250
Pulaski County	11/21/06	940,000	361,529	3.500 - 3.700
Rockcastle County	07/12/06	1,600,000	666,101	3.650 - 4.250
Rowan County	07/11/06	2,305,000	1,812,645	4.000 - 4.200
Russell County	10/10/06	3,590,000	462,194	3.750 - 4.000
Russell Independent	10/05/06	3,750,000	1,905,846	3.750 - 4.000
Simpson County	08/16/06	5,880,000	4,074,709	4.100
Trigg County	07/03/06	855,000	855,000	3.750 - 4.150
Walton-Verona Independent	08/31/06	10,825,000	1,299,555	3.500 - 4.250
		<u>\$ 307,213,000</u>	<u>\$ 109,876,968</u>	

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2006

Audited financial statements may be requested at the following addresses:

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

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

Turnpike Authority of Kentucky
Room 92, Capitol Annex Building
Frankfort, Kentucky 40601

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

Kentucky Transportation Cabinet
501 High Street
Room 808
Frankfort, Kentucky 40622

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

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

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

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

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

Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

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

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

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

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

Kentucky Horse Park
4089 Iron Works Parkway
Lexington, Kentucky 40511

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2006

Audited financial statements may be requested at the following addresses:

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

Kentucky Personnel Cabinet
Workers' Compensation Branch
200 Fair Oaks Lane, Suite 511
Frankfort, KY 40601

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

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

Office of Public Employees Health Insurance
200 Fair Oaks Lane
Frankfort, KY 40601

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

Kentucky Community and Technical College System
PO Box 14092
2760 Research Park Drive
Convention Building
Lexington, Kentucky 40512-4092

Kentucky Access
Office of Insurance
215 West Main Street
Frankfort KY 40601

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort KY 40601

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

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

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

Kentucky Public Employees'
Deferred Compensation Authority
105 Sea Hero Road, Suite 1
Frankfort, KY 40601-8862



REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 7,514,450	\$ 7,897,510	\$ 8,031,095	\$ 133,585
Licenses, fees, and permits	27,180	26,998	26,884	(114)
Intergovernmental	8,305	9,445	10,342	897
Charges for services	4,000	4,200	9,670	5,470
Fines and forfeits	55,305	55,798	50,448	(5,350)
Interest and other investment income	1,000	8,900	18,682	9,782
Lottery proceeds	167,005	189,998	190,000	2
Other revenues	47,792	44,498	38,962	(5,536)
Tobacco Settlement	108,600	91,300	103,039	11,739
Subtotal of Budgeted Revenues	7,933,637	8,328,647	8,479,122	150,475
Other Budgeted Financial Resources:				
Transfers in (interfund)	184,197	273,681	269,907	(3,774)
Total Budgeted Revenues	8,117,834	8,602,328	8,749,029	146,701
Non-Budgeted:				
Other revenues				
Transfers in (interfund)				
Transfers in (intrafund)				
Total Non-Budgeted Revenues				
Total Revenues	8,117,834	8,602,328	8,749,029	146,701
Expenditures				
General Government:				
Executive Office of the Governor	9,705	9,903	9,625	278
Kentucky Infrastructure Authority	4,462	4,462	4,234	228
Department of Veterans Affairs	15,459	16,587	16,580	7
Office of State Budget Director	4,324	4,433	4,343	90
State Planning Fund	125	125	25	100
Unified Prosecutorial System: Commonwealth Attorneys	28,851	29,618	29,618	
County Attorneys	24,504	25,362	25,361	1
Department of Agriculture	19,021	19,580	19,520	60
Office of the Attorney General	13,736	14,090	14,089	1
Auditor of Public Accounts	5,531	5,835	5,835	
Registry of Election Finance	1,410	1,447	1,447	
Military Affairs	11,127	24,739	20,221	4,518
Governor's Office of Agriculture Policy	1,898	28,898	12,398	16,500
Governor's Office for Local Development	14,893	15,142	14,305	837
Local Government: Economic Assistance Fund	41,978	56,552	56,552	
Economic Development Fund	32,510	47,280	47,279	1
Area Development Fund	810	810	810	
Secretary of State	2,224	2,308	2,308	
Secretary of Treasury	1,942	2,008	1,959	49
Board of Elections	4,146	4,652	4,595	57
Personnel Board	584	631	621	10
School Facilities Construction Commission	111,142	111,153	91,249	19,904
Executive Branch Ethics Commission	352	423	393	30
Commission on Human Rights	1,904	1,964	1,796	168
Commission on Women	263	267	241	26
Council on Postsecondary Education	189,387	70,040	68,840	1,200
Emergency Medical Services Board	2,392	2,421	2,381	40
Budget Reserve Trust Fund	28,765	119,015		119,015
Personnel Cabinet:				
General Operations	4,178	4,519	4,508	11
State Salary Compensation Fund	14,100	106		106
State Group Health Insurance	38,459	5,845	4,838	1,007

	Original	Final	Actual	Variance
Cabinet for Universities:				
Eastern Kentucky University	\$ 73,922	\$ 77,471	\$ 77,471	\$
Kentucky State University	24,568	25,248	25,248	
Morehead State University	42,376	44,840	44,840	
Murray State University	52,381	54,954	54,954	
Northern Kentucky University	46,806	51,334	51,334	
University of Kentucky	303,071	314,796	314,796	
University of Louisville	176,109	183,688	183,688	
Western Kentucky University	71,963	78,039	78,039	
Kentucky Community and Technical College System	195,006	207,751	207,751	
Finance and Administration:				
General Administration & Support	11,938	12,316	12,060	256
Special Accounts - Capital Construction	6,141	6,141	6,141	
Debt Service	275,214	275,214	237,911	37,303
Office of the Controller	10,832	11,048	10,534	514
The Commonwealth Office of Technology	293			
Department for Facilities Management	7,243	9,223	9,223	
Kentucky Retirement Systems	11,952	11,952	11,852	100
Kentucky Higher Education Assistance Authority	86,590	161,740	159,345	2,395
Special Accounts - Tobacco Settlement		103,039	103,039	
Finance - County Costs	18,682	18,886	18,815	71
Department of Revenue: General Operations	62,861	64,620	61,332	3,288
Office of Property Valuation Administrators	30,533	31,769	31,769	
Appropriations Not Otherwise Classified:				
Judgements	211	1,411	1,364	47
Master Commissioners Social Security	365			
Master Commissioners Employers Retirement	200			
Board of Claims Awards	1,000	1,425	1,409	16
Guardian Ad Litem	5,900	8,355	8,354	1
Prior Year Claims	400	400	266	134
Unredeemed Checks Refunded	1,500	1,750	1,682	68
Involuntary Commitments	60	60	56	4
Blanket Employee Bonds	100	100	66	34
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	2	3	2	1
Police and Firemen Life Insurance	250	775	682	93
Attorney General Expense	225	225	203	22
Medical Malpractice Liability Insurance Reimbursements	185	185	147	38
Total General Government	2,149,256	2,389,168	2,180,539	208,629
Legislative and Judicial:				
General Assembly	23,909	23,910	19,788	4,122
Legislative Research Commission	28,576	29,330	27,872	1,458
Judicial Retirement System	2,303	2,303	2,303	
Court of Justice - Court Facility Use	533	444		444
Court of Justice - Operation and Administration	164,913	170,316	170,315	1
Court of Justice - Local Facility Support	68,002	68,090	62,295	5,795
Total Legislative and Judicial	288,236	294,393	282,573	11,820

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Original	Final	Actual	Variance
Commerce:				
Economic Development:				
Office of the Secretary	\$ 11,533	\$ 11,388	\$ 9,945	\$ 1,443
Financial Incentives	11,761	11,793	2,874	8,919
Existing Business Development	3,377	3,468	2,688	780
New Business Development	1,556	1,833	1,590	243
Commerce Cabinet: Office of the Secretary	4,973	5,279	5,279	
Breaks Interstate Park	191	191	191	
Kentucky State Fair Board	2,725	2,725	2,725	
Kentucky Horse Park	1,693	1,693	1,693	
Department of Parks	27,768	29,730	29,728	2
Department of Travel	8,606	8,723	8,031	692
Berea Artisans Center	184	220	156	64
Total Commerce	<u>74,367</u>	<u>77,043</u>	<u>64,900</u>	<u>12,143</u>
Education:				
General Administration and Program Support	2,325	2,425	2,325	100
Commission on the Deaf and Hard of Hearing	821	850	845	5
Kentucky Heritage Council	934	967	911	56
Kentucky Arts Council	4,211	4,259	4,099	160
Department of Education:				
Support Education Excellence In KY (SEEK)	2,594,893	2,594,893	2,594,893	
Executive Policy and Management	688	709	663	46
Bureau of Support Services	14,813	35,432	32,312	3,120
Learning Results Services	788,849	718,026	683,277	34,749
Kentucky Educational Television	14,194	14,582	14,257	325
Kentucky Historical Society	6,042	6,307	6,126	181
Kentucky Center for the Arts	1,724	1,724	1,724	
Education Professional Standards Board	10,943	11,018	10,702	316
Libraries and Archives -				
Direct Local Aid	6,431	6,431	6,431	
General Operations	6,869	7,144	7,013	131
Teachers' Retirement System	130,800	130,800	130,800	
Workforce Investment:				
Office of the Blind	1,306	1,338	1,308	30
Technical Education	31,399	32,793	30,539	2,254
Vocational Rehabilitation	12,672	12,840	12,771	69
Total Education and Humanities	<u>3,629,914</u>	<u>3,582,538</u>	<u>3,540,996</u>	<u>41,542</u>
Human Resources:				
Health and Family Services:				
Administrative Services	29,062	29,401	29,400	1
Department for Community Based Services	300,237	317,125	317,125	
Office of the Inspector General	6,301	6,841	6,841	
Office of Health Policy		724	633	91
Department for Public Health	66,858	66,674	66,292	382
Department for Mental Health and Mental Retardation	166,374	168,979	168,978	1
Department for Human Support Services	30,470	82,371	82,287	84
Office of the Ombudsman	3,767	3,808	3,617	191
Department for Medicaid Services	17,067	39,804	39,760	44
Medicaid Services Benefits	925,395	988,097	987,666	431
Office Of Certificate Of Need	118			
Commission for Children With Special Health Care Needs	5,490	5,616	5,492	124
Total Human Resources	<u>1,551,139</u>	<u>1,709,440</u>	<u>1,708,091</u>	<u>1,349</u>

	Original	Final	Actual	Variance
Justice:				
Office of the Secretary	\$ 13,526	\$ 13,694	\$ 13,376	\$ 318
Department of State Police	80,869	85,653	85,653	
Kentucky Vehicle Enforcement		138		138
Department of Juvenile Justice	82,940	85,338	79,729	5,609
Department for Public Advocacy	25,264	25,987	25,924	63
Department of Corrections:				
Management	28,695	7,777	7,539	238
Adult Institutions	200,872	226,168	226,166	2
Local Jail Allotment	16,273	16,274	16,225	49
Community Services and Local Facilities	99,262	101,457	101,457	
Total Justice	547,701	562,486	556,069	6,417
Natural Resources and Environmental Protection:				
General Administration & Support	10,174	10,584	9,396	1,188
Kentucky River Authority	369	387	297	90
Environmental Quality Commission	150	154	43	111
Kentucky Nature Preserves Commission	1,049	1,092	1,008	84
Environmental Protection	23,642	25,000	23,580	1,420
Petroleum Storage Tank	1,719	1,719	1,719	
Department for Natural Resources	14,299	16,395	15,479	916
Mine Safety and Licensing	9,022	9,523	9,460	63
Surface Mining Reclamation and Enforcement	10,295	10,474	9,661	813
Total Natural Resources and Environmental Protection	70,719	75,328	70,643	4,685
Public Protection and Regulation:				
Board of Claims and Crime Victims Compensation	813	848	848	
Board of Tax Appeals	486	499	429	70
Kentucky Racing Commission	510	510	510	
Public Service Commission	13,672	13,830	8,557	5,273
Mine Safety Review Commission	230	233	198	35
Department - of Alcoholic Beverage Control	1,381	1,441	1,441	
of Housing, Buildings, and Construction	2,115	2,524	2,381	143
Labor - Workplace Standards	2,349	2,621	2,602	19
Total Public Protection and Regulation	21,556	22,506	16,966	5,540
Transportation:				
Public Transportation	7,097	7,098	4,310	2,788
Total Transportation	7,097	7,098	4,310	2,788
Total Expenditures	8,339,985	8,720,000	8,425,087	294,913
Excess of Revenues Over (Under) Expenditures	(222,151)	(117,672)	323,942	441,614
Fund Balance at July 1		541,721	541,721	
Non-Budgeted Items			(5,147)	(5,147)
Fund Balance at June 30	\$ (222,151)	\$ 424,049	\$ 860,516	\$ 436,467

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 989,379	\$ 1,017,364	\$ 1,011,151	\$ (6,213)
Licenses, fees, and permits	116,312	129,085	129,531	446
Charges for services	15,476	15,229	14,983	(246)
Fines and forfeits	5	6	8	2
Interest and other investment income	3,295	3,800	7,671	3,871
Other revenues	2,633	4,216	2,066	(2,150)
Total Budgeted Revenues	1,127,100	1,169,700	1,165,410	(4,290)
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Transfers in (interfund)			3,078	3,078
Transfers in (intrafund)				
Total Non-Budgeted Revenue			3,078	3,078
Total Revenues	1,127,100	1,169,700	1,168,488	(1,212)
Expenditures				
General Government:				
Executive Office of the Governor	350	350	75	275
Kentucky Infrastructure Authority				
Office of State Budget Director				
Executive Branch Ethics Commission				
Department of Veterans Affairs				
Unified Prosecutorial System: Commonwealth Attorneys				
County Attorneys				
Department of Agriculture				
Office of the Attorney General				
Auditor of Public Accounts				
Registry of Election Finance				
Military Affairs				
Governor's Office of Agricultural Policy:				
Agricultural Development - Statewide Phase				
Governor's Office for Local Development				
Secretary of State				
Secretary of Treasury	250	250	181	69
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Dentistry				
Dietitians and Nutritionists				
Elections				
Embalmers and Funeral Home Directors				
Architects				
Landscape Architects				
Examiners of Psychologists				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
						323,986	
						124,496	
		5,702,665				34,145	
		11				2,260,191	
						8,147	
		1,285				38,148	
		81,102				217,563	
		5,879				612,792	
		28,114				1,526,239	
		5,819,056				5,145,707	
		5,819,056				5,145,707	
40,000	40,000	39,636	364	425	1,535	534	1,001
50,339	50,339	657	49,682	4,814	4,814	2,501	2,313
				237	437		437
				2	2		2
				23,017	23,702	23,473	229
633	633	232	401	312	312	146	166
392	392	378	14	24	24	6	18
4,813	4,813	4,132	681	3,910	4,931	4,144	787
2,715	2,715	2,437	278	2,687	3,567	3,086	481
				3,306	3,906	3,882	24
				118	118		118
61,871	91,871	41,523	50,348	59,441	59,441	22,432	37,009
				516	516	500	16
52,431	52,431	40,052	12,379	743	1,759	1,389	370
				803	803	746	57
				793	793	755	38
				604	604	335	269
				67	67	57	10
				397	397	339	58
				237	250	238	12
				201	201	191	10
				56	56	53	3
				7	8	2	6
				31	31	29	2
				618	618	498	120
				77	78	61	17
1,000	22,800	19,129	3,671	57	968	135	833
				249	269	268	1
				265	356	356	
				59	59	48	11
				176	176	139	37

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Board of: (Continued)	\$	\$	\$	\$
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Emergency Medical Services				
Geologists				
Pharmacy				
Physical Therapists				
Podiatry				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Ky. Board of Investigators				
Massage Therapy				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
Commission on Women				
Personnel Cabinet:				
General Operations				
Public Employee Deferred Compensation Authority				
Office of Government Training				
Universities, Colleges, and Related Entities:				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
Finance and Administration:				
General Administration and Support	2,788	2,788	2,788	
Office of the Controller				
The Commonwealth Office of Technology	125	125	125	
Kentucky Higher Education Assistance Authority				
Finance - County Costs				
Kentucky Retirement Systems				
Department of Revenue: General Operations	1,418	1,418	1,418	
Office of Property Valuation Administrators				
Department for Facilities Management				
Total General Government	<u>4,931</u>	<u>4,931</u>	<u>4,587</u>	<u>344</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	145	106	39
				998	1,049	1,048	1
				55	55	52	3
				149	179	155	24
				76	76	62	14
				2,120	2,135	2,135	
				4,674	4,874	4,376	498
				63	63	54	9
				164	164	164	
				11	11	7	4
				86	86	75	11
				140	140	140	
				83	83	65	18
437	997	913	84	172	212	192	20
				135	135	93	42
				897	987	987	
				265	265	239	26
				22	22	16	6
				1,379	1,379	1,107	272
				92	98	97	1
				238	238	162	76
				64	73	72	1
				63	68	62	6
				2,179	2,299	2,178	121
				589	589	521	68
213	390	390		10	11	7	4
19,099	19,099	12,625	6,474	1,851	10,210	9,459	751
				21	21		21
				13,369	15,220	12,624	2,596
				5,649	5,649	5,167	482
				1,574	1,574	1,273	301
				156,787	171,787	171,760	27
				27,436	32,436	32,185	251
				95,260	95,260	70,094	25,166
				77,544	77,544	75,893	1,651
				112,132	112,132	100,283	11,849
				1,142,848	1,142,848	1,024,652	118,196
				477,827	477,827	56,043	421,784
				177,080	177,080	112,841	64,239
				375,634	375,634	121,601	254,033
				3,259	3,324	2,314	1,010
2,250	2,250	229	2,021	2,196	2,196	1,854	342
628	3,037	2,468	569	840	150	49	101
1,726	1,726	1,469	257	107,595	39,322	33,321	6,001
				1,925	1,925	1,444	481
				19,965	21,200	20,621	579
				3,198	4,398	4,222	176
				3,510	3,510	3,381	129
				989	996	900	96
238,547	293,493	166,270	127,223	2,927,607	2,898,477	1,942,496	955,981

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

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

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	705	705	92	613
				1,786	1,786		1,786
				21	224	135	89
3,263	5,508	2,955	2,553	24,810	28,427	16,076	12,351
3,264	5,509	2,955	2,554	27,322	31,142	16,303	14,839
				2,667	2,667	1,364	1,303
				2,267	2,267	1,985	282
155	155	136	19	441	441	266	175
				580	580	241	339
2,383	2,383	561	1,822	2,084	7,624	2,292	5,332
	1,152	550	602				
					8,195	4,346	3,849
				1,795	2,046	1,973	73
10,864	10,864	9,940	924	27,942	28,442	27,956	486
13,402	14,554	11,187	3,367	37,776	52,262	40,423	11,839
				252	257	255	2
				187	187	187	
588	669	628	41	622	892	228	664
686	759	735	24	553	589	452	137
190	190	169	21	5,691	6,191	5,450	741
627,223	678,723	667,741	10,982	1,801	4,345	3,039	1,306
28	8,528	7,732	796	2,704	2,205	1,353	852
700	700	574	126	1,076	1,805	1,382	423
1,225	1,225	695	530	727	727	480	247
4,379	4,379	1,790	2,589	1,130	1,130	664	466
424	514	514		9	9	3	6
1,955	2,115	2,078	37	1,896	1,896	1,310	586
				8,614	8,614	6,751	1,863
8,638	9,138	7,054	2,084	1,834	1,971	1,630	341
119,338	119,338	100,330	19,008	3,394	3,394	1,680	1,714
15,180	15,180	14,026	1,154	19,970	19,971	19,279	692
47,194	47,194	40,296	6,898	2,893	2,893	2,104	789
827,748	888,652	844,362	44,290	53,353	57,076	46,247	10,829

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Human Resources:				
Health and Family Services:				
Administrative Support	\$	\$	\$	\$
Department for Disability Determination Services				
Department for Community Based Services				
Office of Inspector General				
Office of Health Policy				
Department for Public Health				
Department for Mental Health and				
Mental Retardation				
Office of the Ombudsman				
Department for Medicaid Services				
Medicaid Services Benefits				
Office of Certificate Of Need				
Commission for Children with Special				
Health Care Needs				
Department for Human Support Services				
Total Human Resources				
Justice:				
Office of the Secretary				
Department of State Police	29,769	29,769	29,769	
Kentucky Vehicle Enforcement	12,999	12,999	12,999	
Department for Public Advocacy				
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Correctional Institutions				
Community Service and Local Facilities				
Total Justice	42,768	42,768	42,768	
Natural Resources and Environmental				
Protection:				
General Administration & Support				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection				
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
Total Natural Resources and				
Environmental Protection				
Public Protection and Regulation:				
Office of the Commissioner				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
Department - of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
Labor: Workplace Standards				
Total Public Protection and Regulation				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 29,964	\$ 29,964	\$ 27,485	\$ 2,479	\$ 8,257	\$ 8,707	\$ 8,017	\$ 690
44,692	44,692	39,876	4,816	66	66	55	11
485,621	517,109	470,461	46,648	118,780	124,246	118,087	6,159
12,642	13,555	12,681	874	1,907	2,299	1,206	1,093
					706	575	131
160,982	168,482	166,249	2,233	71,532	71,532	68,456	3,076
42,802	42,803	36,230	6,573	180,339	202,714	197,174	5,540
2,612	2,612	2,502	110	400	400	1	399
40,976	86,347	67,176	19,171	18,306	18,306	12,258	6,048
2,903,675	3,220,763	3,202,289	18,474	376,760	404,837	399,987	4,850
				206			
4,587	4,725	4,589	136	4,666	6,781	5,170	1,611
24,449	24,449	23,142	1,307	646	826	811	15
3,753,002	4,155,501	4,052,680	102,821	781,865	841,420	811,797	29,623
8,837	11,748	11,745	3	3,443	3,850	3,223	627
13,445	13,445	12,083	1,362	10,765	14,803	14,329	474
3,787	6,868	3,951	2,917	723	724	722	2
1,570	1,770	1,651	119	7,614	7,666	7,654	12
15,069	15,569	15,182	387	12,200	13,500	12,946	554
3,915	3,915	2,785	1,130	40,379	41,546	40,942	604
	40		40	190	190	190	
365	1,707	1,016	691	6,000	6,000	5,999	1
	75	71	4	371	461	424	37
46,988	55,137	48,484	6,653	81,685	88,740	86,429	2,311
1,728	1,728	1,469	259	3,177	4,281	4,030	251
				1,408	1,408	589	819
				108	109	87	22
70	206	37	169	333	429	416	13
15,603	19,419	16,711	2,708	50,868	63,234	33,538	29,696
7,489	9,166	5,023	4,143	6,929	7,649	6,396	1,253
603	1,124	898	226	525	569	131	438
17,008	17,672	14,869	2,803	5,375	5,375	2,169	3,206
22,000	22,000	10,410	11,590				
64,501	71,315	49,417	21,898	68,723	83,054	47,356	35,698
				1,513	1,513	986	527
540	540	492	48	2,856	2,856	1,001	1,855
				13,175	28,212	9,396	18,816
				100	100	100	
257	257	200	57	1,024	1,024	403	621
				4,379	4,379	3,352	1,027
	36		36	3,470	3,470	2,919	551
				8,595	8,595	7,060	1,535
	6	6		14,946	14,946	12,743	2,203
	267	267		22,804	22,804	14,159	8,645
3,233	3,583	3,031	552				
4,030	4,689	3,996	693	72,862	87,899	52,119	35,780

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Transportation:				
Administration & Support	\$ 66,530	\$ 65,934	\$ 61,919	\$ 4,015
Revenue Sharing	290,057	302,947	238,105	64,842
Air Transportation				
Highways	787,882	817,055	574,416	242,639
Public Transportation				
Vehicle Regulation	16,293	16,656	16,103	553
Debt Service	166,841	166,841	137,486	29,355
Transfers to Capital Projects	4,248	4,248	4,248	
1990 Economic Development Bond Projects				
Total Transportation	<u>1,331,851</u>	<u>1,373,681</u>	<u>1,032,277</u>	<u>341,404</u>
Total Expenditures	<u>1,379,550</u>	<u>1,421,380</u>	<u>1,079,632</u>	<u>341,748</u>
Excess of Revenues over (under)				
Expenditures	<u>(252,450)</u>	<u>(251,680)</u>	<u>88,856</u>	<u>340,536</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(252,450)	(251,680)	88,856	340,536
Fund Balances at July 1, as Restated		252,725	252,725	
Non-Budgeted Items			(16,850)	(16,850)
Fund Balances at June 30	<u>\$ (252,450)</u>	<u>\$ 1,045</u>	<u>\$ 324,731</u>	<u>\$ 323,686</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$ 26	\$ 55	\$	\$ 55
15	630	12	618	11,142	150,000	49,103	100,897
1,109,773	1,337,594	521,712	815,882	673,752	11,142	5,412	5,730
55,161	55,161	17,409	37,752	509	550,506	148,392	402,114
895	1,180	282	898	5,866	509	437	72
					6,667	5,591	1,076
				5,501	5,501	826	4,675
1,165,844	1,394,565	539,415	855,150	696,796	724,380	209,761	514,619
6,117,326	6,883,415	5,718,766	1,164,649	4,747,989	4,864,450	3,252,931	1,611,519
		100,290				1,892,776	
						226,905	
						226,905	
		100,290				2,119,681	
		234,204				1,263,363	
		(52,160)				(2,101,095)	
\$	\$	\$ 282,334	\$	\$	\$	\$ 1,281,949	\$

Budgetary Reporting

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

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose. A budget bill shall not be effective past July 1 of the year in which the next regular session takes place.

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

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

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

The funds allotted for each purpose of expenditure shall be used for no other purpose, except when the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a joint budget resolution or for expenditure for any other purpose than specified in a joint budget resolution and a budget memorandum. However, budgetary funds except for that of the General Fund and the Transportation Fund may be amended in an amount up to the actual receipts (not to exceed 5%) by an Advice of Change Order from the Secretary of the Finance and Administration Cabinet. No supplemental appropriations were required during this fiscal year.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures.

All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Transportation Fund, which has a project length budget. Encumbrances are carried forward as revisions to appropriations.

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

COMMONWEALTH OF KENTUCKY
Required Supplementary Information
June 30, 2006

Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2006, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Financial statement funds (same as budgetary funds)	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
Fund balance				
June 30, 2006:				
Budgetary basis	\$ 860,516	\$ 324,731	\$ 282,334	\$ 1,281,949
Adjustments:				
Accrued revenues	307,729	103,273	298,311	45,077
Accrued expenditures	(225,877)	(65,174)	(434,024)	(33,541)
Accrued transfers (net)	(16,174)	15,809	(6,929)	(8,040)
Total Accruals (1)	<u>65,678</u>	<u>53,908</u>	<u>(142,642)</u>	<u>3,496</u>
Reclassifications and other adjustments:				
Inventory balances (1)	4,388	34,612	129	2,285
To reclassify financial and other resources into financial statement fund types (2)	(1,688)	2,190	(135,248)	(912,091)
To record financial resources available as non-budgeted funds (3)	<u>(32,000)</u>			<u>13,951</u>
Fund Balance				
Fund balance June 30, 2006:				
GAAP Basis	<u>\$ 896,894</u>	<u>\$ 415,441</u>	<u>\$ 4,573</u>	<u>\$ 389,590</u>
(1) Basis differences				
(2) Perspective differences				
(3) Entity differences				

COMMONWEALTH OF KENTUCKY
Required Supplementary Information
June 30, 2006

Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 62,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth is responsible to maintain.

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

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

Pavements

Measurement Scale

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

<u>Condition</u>	<u>PCI</u>
Good	Greater than +0.4
Fair	Between 0.0 and 0.4
Poor	Less than 0.0

Established Minimum Condition Level

No more than 30% of the pavements shall be rated as “poor.”

Assessed Conditions

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

<u>Condition</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Good	50.40%	45.3%	42.0%	48.3%	50.4%
Fair	35.70%	39.5%	38.2%	34.4%	29.0%
Poor	13.90%	15.2%	19.8%	17.3%	20.6%

Bridges

Measurement Scale

KYTC utilizes the National Bridge Inspection Program to monitor the condition of the nearly 9,000 bridges under its jurisdiction. The National Bridge Inspection Program rates bridges, including the deck, superstructure and substructure, using a 0 to 9 point scale. The ratings are based on the following descriptions:

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Established Minimum Condition Level

No more than 7% of the bridges shall be rated as “structurally deficient.”

COMMONWEALTH OF KENTUCKY
Required Supplementary Information
June 30, 2006

Assessed Conditions

“Structurally deficient” results when a rating of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck, superstructure, or substructure). The following table reports the percentage of bridges whose condition was assessed as “structurally deficient” in the stated year:

<u>Calendar Year</u>	<u>Structurally Deficient</u>
2005	6.20%
2004	5.70%
2003	5.28%
2002	5.20%
2001	5.30%
2000	4.90%

Estimated and Actual Costs to Maintain

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

	<u>Roadways</u>	<u>Bridges</u>	<u>Total</u>
<u>Fiscal Year 2007:</u>			
Estimated	\$ 700.0	\$ 120.0	\$ 820.0
<u>Fiscal Year 2006:</u>			
Estimated	\$ 690.0	\$ 110.0	\$ 800.0
Actual	\$ 734.5	\$ 64.5	\$ 799.0
<u>Fiscal Year 2005:</u>			
Estimated	\$ 665.0	\$ 100.0	\$ 765.0
Actual	\$ 542.2	\$ 89.9	\$ 632.1
<u>Fiscal Year 2004:</u>			
Estimated	\$ 645.0	\$ 100.0	\$ 745.0
Actual	\$ 642.8	\$ 100.3	\$ 743.1
<u>Fiscal Year 2003:</u>			
Estimated	\$ 601.7	\$ 93.3	\$ 695.0
Actual	\$ 630.2	\$ 93.8	\$ 724.0
<u>Fiscal Year 2002:</u>			
Estimated	N/A	N/A	N/A
Actual	\$ 576.1	\$ 96.6	\$ 672.7
<u>Fiscal Year 2001:</u>			
Estimated	N/A	N/A	N/A
Actual	\$ N/A	N/A	\$ 700.6

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

State Workers' Compensation										
	Fiscal and Policy Year Ended									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Earned Premiums	\$ 14,095	\$ 16,121	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812
Administrative Expense	554	404	513	526	533	545	777	480	385	1,149
Incurred Claims as Originally Estimated	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493
Claims Paid (Cumulative) as of:										
End of Fiscal Year	2,615	2,819	2,702	3,128	3,790	3,846	3,733	3,656	4,520	4,131
One Year Later	5,626	5,697	5,833	6,332	7,216	7,320	7,449	7,225	7,233	
Two Years Later	7,156	7,179	7,604	7,811	8,987	9,260	9,330	8,596		
Three Years Later	8,173	8,017	8,726	8,678	10,252	10,414	10,627			
Four Years Later	8,824	8,653	9,305	9,441	11,254	11,236				
Five Years Later	9,211	9,313	9,818	9,976	11,945					
Six Years Later	9,685	9,707	10,211	10,320						
Seven Years Later	9,971	10,117	10,622							
Eight Years Later	10,334	10,405								
Nine Years Later	10,504									
Re-estimation of Incurred Claims:										
End of Fiscal Year	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493
One Year Later	13,006	12,876	13,623	16,584	19,315	20,172	20,514	19,209	18,824	
Two Years Later	12,627	13,473	15,543	16,033	19,186	18,805	19,888	18,694		
Three Years Later	12,762	14,416	15,617	16,189	19,067	19,198	19,894			
Four Years Later	14,270	14,492	15,497	15,449	19,382	19,546				
Five Years Later	14,050	15,001	15,039	15,626	19,532					
Six Years Later	14,657	14,870	15,524	15,720						
Seven Years Later	14,196	14,987	15,786							
Eight Years Later	14,593	15,217								
Nine Years Later	14,629									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	(352)	1,974	2,488	396	435	45	(1,447)	(1,626)	(2,075)	

SOURCE: Compilation Report

Kentucky Employees Health Plan

	2006
Earned Premiums	\$ 578,263
Administrative Expense	31,604
Incurred Claims as Originally Estimated	472,143
Claims Paid (Cumulative) as of:	
End of Fiscal Year	(398,456)
Re-estimation of Incurred Claims:	
End of Fiscal Year	472,143
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	0

SOURCE: Audited Financial Statements

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Debt Service Fund

In the **Debt Service Fund**, the **Primary Government** accounts for the payment of principal, interest, and administrative fees due on general long-term issues of the Commonwealth and for the accumulation of financial resources used to make such payments.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

Special Revenue Funds

The **Other Special Revenue Fund** accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity, but not usually appropriated by the General Assembly.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

The **Special Benefits Fund** accounts for other fiduciary monies that will be expended for designated operations.

COMMONWEALTH OF KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Assets		
Cash and cash equivalents	\$	\$ 3,711
Cash with fiscal agents	25,800	
Investments, net of amortization	5,789	246,476
Invested security collateral		
Receivables, net		5,093
Capital lease receivable	248,070	
Interfund receivables		119,751
Inventories		
Total Assets	<u>\$ 279,659</u>	<u>\$ 375,031</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$	\$ 1,351
Interfund payables	2,267	
Interfund loan payable		
Obligations under securities lending		
Deferred revenue	248,070	
Total Liabilities	<u>250,337</u>	<u>1,351</u>
Fund Balances:		
Reserved for:		
Inventories		
Deposit with fiscal agents	25,800	
Unreserved, reported in:		
Special revenue funds		
Debt service fund	3,522	373,680
Total Fund Balances	<u>29,322</u>	<u>373,680</u>
Total Liabilities and Fund Balances	<u>\$ 279,659</u>	<u>\$ 375,031</u>

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 18,530	\$ 150,875	\$ 133,584	\$ 306,700
			25,800
208,926	311,256	98,759	871,206
56,336		146,030	202,366
51,200	87	6,035	62,415
			248,070
1,419		21,975	143,145
27			27
<u>\$ 336,438</u>	<u>\$ 462,218</u>	<u>\$ 406,383</u>	<u>\$ 1,859,729</u>
\$ 4,363	\$ 708	\$ 7,216	\$ 13,638
32,514	119,751	9,839	164,371
56,336		146,030	202,366
16,246		182	264,498
<u>109,459</u>	<u>120,459</u>	<u>163,267</u>	<u>644,873</u>
27			27
			25,800
226,952	341,759	243,116	811,827
<u>226,979</u>	<u>341,759</u>	<u>243,116</u>	<u>377,202</u>
<u>\$ 336,438</u>	<u>\$ 462,218</u>	<u>\$ 406,383</u>	<u>\$ 1,859,729</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Revenues		
Taxes	\$	\$
Licenses, fees, and permits		
Intergovernmental		
Charges for services	44,611	
Fines and forfeits		
Interest and other investment income	1,454	11,368
Increase (decrease) in fair value of investments	1	
Securities lending income		
Other revenues		656
Total Revenues	46,066	12,024
Expenditures		
Current:		
General government		
Legislative and judicial		
Commerce		
Education and humanities		
Human resources		
Justice		
Natural resources and environmental protection		
Transportation		
Securities lending expense		
Debt service:		
Principal retirement	164,621	81,783
Interest and fiscal charges	127,149	47,823
Other expenditures	24,990	1,659
Total Expenditures	316,760	131,265
Excess (Deficiency) of Revenues over (under) Expenditures	(270,694)	(119,241)
Other Financing Sources (Uses)		
Transfers in	273,748	209,504
Transfers out	(5)	(4,864)
Capitalized leases		
Proceeds from the sale of bonds:		
New issues		
Refunding issues		
Premiums		
Payments to refunded bond escrow agent		
Total Other Financing Sources (Uses)	273,743	204,640
Net Change in Fund Balances	3,049	85,399
Fund Balances at July 1, as Restated	26,273	288,281
Increase (Decrease) in Inventory		
Fund Balances at June 30	\$ 29,322	\$ 373,680

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 110,342	\$	\$ 122	\$ 110,464
1,210		10,149	11,359
1,138		1,448	2,586
59,486		84,276	188,373
28,599		2,893	31,492
7,031	3,586	13,799	37,238
(795)		(445)	(1,239)
2,667		6,914	9,581
150,505	63,283	19,655	234,099
360,183	66,869	138,811	623,953
110,103	118,186	73,013	301,302
9		1	10
183			183
52,345		16,439	68,784
222		25,555	25,777
		3,657	3,657
794		7,779	8,573
2		51,069	51,071
2,549		6,607	9,156
			246,404
			174,972
			26,649
166,207	118,186	184,120	916,538
193,976	(51,317)	(45,309)	(292,585)
370,924	144,630	170,090	1,168,896
(443,528)	(209,504)	(96,205)	(754,106)
7			7
	221,235		221,235
	5,514		5,514
(72,597)	161,875	73,885	641,546
121,379	110,558	28,576	348,961
105,616	231,201	214,540	865,911
(16)			(16)
\$ 226,979	\$ 341,759	\$ 243,116	\$ 1,214,856

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES BY SOURCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed In Thousands)

Revenues by Source	June 30, 2006
Taxes:	
Sales and gross receipts	\$ 3,184,327
Income:	
Individual	2,873,706
Corporations	1,011,639
Property	567,737
Coal severance	284,639
Licenses and privileges	41,039
Inheritance and estate	40,015
Miscellaneous	3,297
Total Taxes	8,006,399
Licenses, fees, and permits	27,040
Intergovernmental	9,842
Charges for services	87,740
Fines and forfeits	50,450
Interest and other investment income	41,557
Securities lending income	15,463
Increase (decrease) in fair value of investments	
Other revenues	135,534
Total Revenues by Source	\$ 8,374,025

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed In Thousands)

	June 30, 2006
General Government:	
Personal services	\$ 241,266
Utilities, rentals, and other services	41,197
Commodities and supplies	24,528
Grants and subsidies	1,524,672
Capital outlay	1,371
Travel	3,144
Judgments and contingent liabilities	8,770
Other	24,105
Total General Government	1,869,053
Legislative and Judicial:	
Personal services	189,676
Utilities, rentals, and other services	71,089
Commodities and supplies	13,358
Grants and subsidies	2,464
Capital outlay	2,440
Travel	4,119
Judgments and contingent liabilities	5
Total Legislative and Judicial	283,151
Commerce:	
Personal services	16,791
Utilities, rentals, and other services	2,317
Commodities and supplies	1,168
Grants and subsidies	13,124
Capital Outlay	47
Travel	338
Total Commerce	33,785
Education and Humanities:	
Personal services	87,801
Utilities, rentals, and other services	12,305
Commodities and supplies	8,441
Grants and subsidies	3,346,569
Capital outlay	616
Travel	2,309
Total Education and Humanities	3,458,041
Human Resources:	
Personal services	198,716
Utilities, rentals, and other services	26,390
Commodities and supplies	5,776
Grants and subsidies	1,478,801
Capital Outlay	667
Travel	5,932
Judgments and contingent liabilities	30
Total Human Resources	1,716,312
Justice:	
Personal services	323,956
Utilities, rentals, and other services	36,012
Commodities and supplies	25,328
Grants and subsidies	181,013
Capital outlay	3,846
Claims	6
Travel	2,871
Judgments and contingent liabilities	3,004
Total Justice	576,036

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed In Thousands)

	June 30, 2006
Natural Resources and Environmental Protection:	
Personal services	\$ 58,568
Utilities, rentals, and other services	5,638
Commodities and supplies	2,711
Grants and subsidies	1,739
Capital outlay	572
Travel	411
Judgments and contingent liabilities	7
Total Natural Resources and Environmental Protection	69,646
Public Protection and Regulation:	
Personal services	14,611
Utilities, rentals, and other services	873
Commodities and supplies	222
Grants and subsidies	196
Capital outlay	49
Travel	218
Judgments and contingent liabilities	75
Total Public Protection and Regulation	16,244
Transportation:	
Personal services	464
Utilities, rentals, and other services	223
Grants	4,300
Total Transportation	4,987
Securities Lending Expense	14,775
Total Expenditures	\$ 8,042,030

SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE
TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed In Thousands)

	June 30, 2006
Revenues:	
Licenses, fees and permits	\$ 129,180
Intergovernmental	0
Taxes	1,030,597
Charges for services	15,150
Fines and forfeits	8
Interest and other investment income	7,851
Increase (decrease) in fair value of investments	(1,626)
Securities lending income	2,818
Other revenues	1,866
Total Revenues	<u>1,185,844</u>
Expenditures:	
Transportation:	
General administration and support	39,406
Motor vehicle regulation	16,153
Justice - state police	42,615
Highways	838,753
Securities lending expense	2,693
Other	2,866
Total Expenditures	<u>942,486</u>
Excess of Revenues over (under) Expenditures	243,358
Other financing sources (uses):	
Operating transfers in	3,078
Operating transfers out	(151,511)
Capitalized leases	130
Total Other Financing Sources (Uses)	<u>(148,303)</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	95,055
Fund Balance at July 1	316,840
Increase (decrease) in inventories	3,546
Fund Balance at June 30	<u><u>\$ 415,441</u></u>

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies of the Commonwealth. Kentucky uses the following Internal Service Funds:

Fleet Management Fund accounts for expenses incurred and reimbursements received by the Transportation Cabinet for the management and maintenance of the State's motor vehicle fleet.

Computer Services Fund accounts for expenses incurred and reimbursements received by the Governor's Office for Technology for computer and related data processing services.

Prison Industries Fund accounts for expenses incurred and reimbursements received by the Department of Corrections' industrial prison operations.

Central Printing Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Division of Printing.

Property Management Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's space rental and maintenance operation.

Risk Management Fund accounts for the self-insurance operations of the State which include:

Fire and Tornado Insurance Program accounts for monies received by the Department of Insurance from State agencies and expended for insuring State property against loss from fires, tornadoes, etc.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,187	\$ 5,006	\$ 857
Receivables, net	7	379	327
Interfunds receivable	692	4,337	702
Inventories	22	271	2,438
Prepaid expenses	25	2,426	
Total Current Assets	<u>1,933</u>	<u>12,419</u>	<u>4,324</u>
Noncurrent assets:			
Investments, net	907	8,677	451
Land			725
Improvements other than buildings			
Buildings		1,978	4,061
Machinery and equipment	87,770	31,132	3,771
Less: Accumulated depreciation	(59,224)	(26,651)	(4,641)
Construction in progress			48
Total Capital Assets	<u>28,546</u>	<u>6,459</u>	<u>3,964</u>
Total Noncurrent Assets, Net	<u>29,453</u>	<u>15,136</u>	<u>4,415</u>
Total Assets	<u>31,386</u>	<u>27,555</u>	<u>8,739</u>
Liabilities			
Current liabilities:			
Accounts payable	233	1,994	1,465
Interfund payables	11	58	7
Claims liability			
Capital lease obligations		31	7
Compensated absences	61	1,788	337
Deferred revenue		1,474	
Total Current Liabilities	<u>305</u>	<u>5,345</u>	<u>1,816</u>
Noncurrent liabilities:			
Claims liability			
Capital lease obligations		48	10
Compensated absences	101	1,645	325
Total Noncurrent Liabilities	<u>101</u>	<u>1,693</u>	<u>335</u>
Total Liabilities	<u>406</u>	<u>7,038</u>	<u>2,151</u>
Net Assets			
Invested in capital assets, net of related debt	28,546	6,380	3,947
Unrestricted	2,434	14,137	2,641
Total Net Assets	<u>\$ 30,980</u>	<u>\$ 20,517</u>	<u>\$ 6,588</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2006
\$ 56	\$ 3,473	\$ 12,930	\$ 23,509
8			721
40	30	3	5,804
75			2,806
		5,334	7,785
179	3,503	18,267	40,625
33	39,233	863	50,164
	15,618		16,343
	2,928		2,928
	246,538		252,577
2,188	1,557		126,418
(1,977)	(124,904)		(217,397)
	39,606		39,654
211	181,343		220,523
244	220,576	863	270,687
423	224,079	19,130	311,312
87	720	408	4,907
135	8	212	431
		17,204	17,204
	332		370
67	568	20	2,841
	134		1,608
289	1,762	17,844	27,361
		122,079	122,079
	5,009		5,067
152	432	19	2,674
152	5,441	122,098	129,820
441	7,203	139,942	157,181
211	185,001		224,085
(229)	31,875	(120,812)	(69,954)
\$ (18)	\$ 216,876	\$ (120,812)	\$ 154,131

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Operating Revenues:			
Charges for services	\$ 27,483	\$ 60,186	\$ 16,646
Other revenues	234	49	1
Total Operating Revenues	27,717	60,235	16,647
Operating Expenses:			
Personal services	1,725	31,525	5,066
Utilities, rentals, and other services	2,547	18,248	1,139
Commodities and supplies	14,586	4,881	10,294
Grants and subsidies		14	1,097
Depreciation and amortization	7,576	1,811	211
Travel		623	30
Reinsurance expense			
Claims expense			
Total Operating Expenses	26,434	57,102	17,837
Operating Income (Loss)	1,283	3,133	(1,190)
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of fixed assets	361		321
Interest and other investment income			
Increase (decrease) in fair value of investments	1	(61)	1
Interest expense		(20)	(1)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	362	(81)	321
Income (Loss) before Capital contributions and Transfers	1,645	3,052	(869)
Capital contributions	605		
Transfers in		204	102
Transfers out	(2,501)	(332)	(297)
Change in Net Assets	(251)	2,924	(1,064)
Net Assets at July 1, as Restated	31,231	17,593	7,652
Net Assets at June 30	\$ 30,980	\$ 20,517	\$ 6,588

Central Printing	Property Management	Risk Management	Totals June 30, 2006
\$ 3,058	\$ 28,197	\$ 36,664	\$ 172,234
8	81		373
3,066	28,278	36,664	172,607
1,834	12,689	3,265	56,104
1,047	15,516	4,429	42,926
419	7,353	28	37,561
			1,111
55	6,086		15,739
1	34	42	730
		475	475
	8	36,974	36,982
3,356	41,686	45,213	191,628
(290)	(13,408)	(8,549)	(19,021)
			682
		344	344
	(391)		(450)
(1)	(141)		(163)
		51	51
(1)	(532)	395	464
(291)	(13,940)	(8,154)	(18,557)
			605
135	57,025		57,466
(139)	(12,284)	(4,807)	(20,360)
(295)	30,801	(12,961)	19,154
277	186,075	(107,851)	134,977
\$ (18)	\$ 216,876	\$ (120,812)	\$ 154,131

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Cash Flows from Operating Activities			
Cash received from customers - public	\$	\$	\$
Cash received from customers - state	26,912	458	3,688
Cash payments to suppliers for goods and services	(16,991)	57,672	12,741
Cash payments for employee salaries and benefits	(1,582)	(25,990)	(10,143)
Cash payments for claims expense		(31,989)	(5,085)
Cash payments from other sources	234	48	1
Cash payments to other sources		(13)	(1,097)
Net Cash Provided (Used) by Operating Activities	8,573	186	105
Cash Flows from Noncapital Financing Activities			
Transfers from other funds		204	102
Transfers to other funds	(2,501)	(332)	(297)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,501)	(128)	(195)
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(6,790)		(235)
Principal paid on revenue bond maturities and equipment contracts		(531)	(7)
Interest paid on revenue bonds and equipment contracts		(21)	(1)
Proceeds from the sale of capital assets	361		322
Net Cash Provided (Used) for Capital and Related Financing Activities	(6,429)	(552)	79
Cash Flows from Investing Activities			
Purchase of investment securities	(488)	(1,469)	(245)
Proceeds from the sale of investment securities			
Interest and dividends on investments	1	(61)	
Net Cash Provided (Used) in Investing Activities	(487)	(1,530)	(245)
Net Increase (Decrease) in Cash and Cash Equivalents	(844)	(2,024)	(256)
Cash and Cash Equivalents at July 1	2,031	7,030	1,113
Cash and Cash Equivalents at June 30	\$ 1,187	\$ 5,006	\$ 857
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 1,283	\$ 3,133	\$ (1,190)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,576	1,811	211
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	2	134	63
Interfund receivables	(572)	(646)	(280)
Inventories	7	37	1,012
Prepaid expenses	(26)	(719)	
Increase (decrease) in liabilities:			
Accounts payable	173	(1,852)	274
Interfund payables	(12)	(326)	4
Claims liability			
Compensated absences	142	159	11
Deferred revenue		(1,545)	
Net Cash Provided by Operating Activities	\$ 8,573	\$ 186	\$ 105
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	\$ 1	\$ (61)	\$ 1
Contributions of capital assets	605		
Capital assets acquired through leases			
Total Noncash Investing, Capital, and Financing Activities	\$ 606	\$ (61)	\$ 1

Central Printing	Property Management	Risk Management	Totals June 30, 2006
\$	\$	\$	\$
3,192	28,104	36,703	32,250
(1,210)	1,845	(5,167)	139,065
(1,909)	(24,285)	(2,866)	(83,786)
	(12,610)	(24,189)	(56,041)
	(8)	51	(24,197)
8	81	(1,399)	423
		3,133	(2,509)
81	(6,873)		5,205
135	57,025		57,466
(139)	(12,284)	(4,807)	(20,360)
(4)	44,741	(4,807)	37,106
	(14,689)		(21,714)
(32)	(428)		(998)
(1)	(141)		(164)
			683
(33)	(15,258)		(22,193)
(26)	(23,638)	(396)	(26,262)
	(391)	345	(106)
(26)	(24,029)	(51)	(26,368)
18	(1,419)	(1,725)	(6,250)
38	4,892	14,655	29,759
\$ 56	\$ 3,473	\$ 12,930	\$ 23,509
\$ (290)	\$ (13,408)	\$ (8,549)	\$ (19,021)
55	6,086	51	15,739
			51
(1)	1,686	12	1,896
135	66	26	(1,271)
89		(1,261)	1,145
			(2,006)
32	268	123	(982)
135	(1,684)	(71)	(1,954)
		12,786	12,786
(74)	113	16	367
			(1,545)
\$ 81	\$ (6,873)	\$ 3,133	\$ 5,205
\$	\$ (391)	\$	\$ (450)
			605
\$	\$ (391)	\$	\$ 155

CAPITAL ASSETS

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE
JUNE 30, 2006
(Expressed In Thousands)

	June 30, 2006
Governmental Funds Capital Assets	
Land	\$ 99,272
Improvements other than buildings	8,744
Buildings	798,486
Machinery and equipment	405,479
Other intangibles	2,841
Easements	50,792
Construction in progress	1,561,718
Infrastructure	16,442,033
Total Governmental Funds Capital Assets	\$ 19,369,365
 Investments in Governmental Funds Capital Assets by Source	
General Fund	\$ 110,260
Special Revenue Funds	1,828,252
Donations	95,400
Other	7,851
Capital Projects Fund:	
State appropriations	58,560
Revenue bonds	444,401
Federal grants	119,712
Other	27,571
Infrastructure (A)	16,442,033
Capital assets acquired prior to July 1, 1984 (A)	154,266
Capital assets acquired after July 1, 1984 (A)	81,059
Total Governmental Funds Capital Assets	\$ 19,369,365

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

(A) Capital assets with an undetermined funding source.

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION
JUNE 30, 2006
(Expressed in Thousands)

FUNCTION	Improvements		
	Land	Other Than Buildings	Buildings
General Government	\$ 11,970	\$ 3,895	\$ 166,924
Legislative & Judicial	55		
Commerce	48,570	1,997	24,585
Education & Humanities	1,285	399	40,563
Human Resources	1,786	578	74,089
Justice	3,972	1,875	332,393
Natural Resources and Environmental Protection	16,039		1,086
Public Protection and Regulation			
Transportation	15,595		158,846
Total Governmental Funds Capital Assets	<u>\$ 99,272</u>	<u>\$ 8,744</u>	<u>\$ 798,486</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

<u>Machinery and Equipment</u>	<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2006</u>
\$ 34,950	\$ 2,841	\$ 30,044	\$ 36,797	\$	\$ 287,421
11,374					11,429
21,660			752		97,564
34,057		11,484	396		88,184
19,658			4,468		100,579
78,422			162,222		578,884
35,010		9,264	465		61,864
3,411					3,411
166,937			1,356,618	16,442,033	18,140,029
<u>\$ 405,479</u>	<u>\$ 2,841</u>	<u>\$ 50,792</u>	<u>\$ 1,561,718</u>	<u>\$ 16,442,033</u>	<u>\$ 19,369,365</u>

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
General Government	\$ 256,080	\$ 65,546	\$ 34,205	\$ 287,421
Legislative & Judicial	10,563	1,325	459	11,429
Commerce	95,719	3,294	1,449	97,564
Education & Humanities	88,221	1,247	1,284	88,184
Human Resources	98,191	3,947	1,559	100,579
Justice	593,494	29,361	43,971	578,884
Natural Resources and Environmental Protection	59,155	5,476	2,767	61,864
Public Protection and Regulation	4,501	335	1,425	3,411
Transportation	17,816,044	2,317,918	1,993,933	18,140,029
Total Governmental Funds Capital Assets	<u>\$ 19,021,968</u>	<u>\$ 2,428,449</u>	<u>\$ 2,081,052</u>	<u>\$ 19,369,365</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Pension trust funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the State. Kentucky uses the following Pension Trust Funds:

Kentucky Employees Retirement System Fund accounts for revenues and expenses of the retirement system, which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the System.

State Police Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all regular full-time officers of the Kentucky State Police.

County Employees Retirement System Fund accounts for the revenues and expenses of the retirement system that covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

Kentucky Teachers' Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

Judicial Form Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

Legislators' Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all members of the General Assembly.

Deferred Compensation accounts for the monies withheld from employees, as an Internal Revenue Code Section 401 or 457 deferred compensation plan, by placing amounts with third party administrators and overseeing the investment activities of such monies.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System
Assets			
Cash and short-term investments:			
Cash	\$ 2,099	\$ 97	\$ 1,079
Short-term investments	241,094	21,176	212,467
Total Cash and Short-Term Investments	243,193	21,273	213,546
Receivables:			
Investments - accounts receivable	27,973	1,839	34,112
Interest receivable			
Accounts receivable	29,642	1,668	63,879
Total Receivables	57,615	3,507	97,991
Investments at fair value:			
Corporate and government bonds	1,768,084	115,693	2,172,404
Common stocks	4,333,803	301,773	5,009,168
Mortgages	334,067	20,933	490,536
Mutual funds			
Real estate	4,319	488	4,873
Total Investments at Fair Value	6,440,273	438,887	7,676,981
Invested security collateral	1,385,524	133,662	2,437,850
Capital assets, net	473	8	796
Prepaid expenses			
Total Assets	8,127,078	597,337	10,427,164
Liabilities			
Investments - accounts payable			
Accounts payable	28,348	374	14,973
Obligations under securities lending	1,385,524	133,662	2,437,850
Total Liabilities	1,413,872	134,036	2,452,823
Net Assets			
Net assets held in trust for:			
Employee retirement benefit	5,877,163	352,841	6,720,222
Retiree's health insurance	836,043	110,460	1,254,119
Total Net Assets	\$ 6,713,206	\$ 463,301	\$ 7,974,341

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2006
\$ 9,629	\$ 529	\$ 115	\$ 2,097	\$ 15,645
794,300	3,492	3,386	27,720	1,303,635
803,929	4,021	3,501	29,817	1,319,280
65,115				129,039
	1,366	257		1,623
36,748	61	10	21,566	153,574
101,863	1,427	267	21,566	284,236
3,990,736	83,223	15,495	5,207	8,150,842
8,531,994	163,975	44,821		18,385,534
194,465				1,040,001
			1,257,944	1,257,944
387,194				396,874
13,104,389	247,198	60,316	1,263,151	29,231,195
856,632				4,813,668
3,180				4,457
97				97
14,870,090	252,646	64,084	1,314,534	35,652,933
27,581				27,581
2,335			147	46,177
856,632				4,813,668
886,548			147	4,887,426
13,983,542	252,646	64,084	1,314,387	28,564,885
\$ 13,983,542	\$ 252,646	\$ 64,084	\$ 1,314,387	\$ 30,765,507

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System
Additions			
Contributions:			
Employer	\$ 136,131	\$ 11,124	\$ 334,532
Employee	125,521	4,819	157,890
Total Contributions	261,652	15,943	492,422
Other Contributions:			
Recovery Income			
Medicare D Receipts			
Total Other Income			
Investment income:			
Net increase (decrease) in fair value of investments	458,922	39,527	493,377
Interest	183,060	12,180	218,353
Dividends			
Real estate operating income, net			
Securities lending income, net	54,887	5,359	96,617
Total Investment Income	696,869	57,066	808,347
Less: Investment expense	9,424	638	11,217
Less: Securities lending expense	51,561	5,031	91,225
Net Investment Income	635,884	51,397	705,905
Total Additions	897,536	67,340	1,198,327
Deductions			
Benefit payments	686,209	41,954	511,921
Refunds	12,810	201	15,488
Administrative expenses	26,023	698	30,847
Other deductions, net	20,000		
Total Deductions	745,042	42,853	558,256
Change in Net Assets	152,494	24,487	640,071
Net Assets Held in Trust			
Net Assets at July 1	6,560,712	438,814	7,334,270
Adjustment to net assets			
Net Assets at June 30	\$ 6,713,206	\$ 463,301	\$ 7,974,341

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2006
\$ 500,241	\$ 2,924	\$ 174	\$ 4,314	\$ 989,440
310,162	2,096	462	126,798	727,748
810,403	5,020	636	131,112	1,717,188
118				118
5,999				5,999
6,117				6,117
282,573	1,697	982	61,329	1,338,407
262,391	4,547	897	54,655	736,083
153,567	2,719	755		157,041
30,950				30,950
28,465				185,328
757,946	8,963	2,634	115,984	2,447,809
6,157	231		2,272	29,939
27,656				175,473
724,133	8,732	2,634	113,712	2,242,397
1,540,653	13,752	3,270	244,824	3,965,702
1,200,649	12,483	2,223	87,050	2,542,489
12,839		6		41,344
11,464	218	160	5,217	74,627
	1,126	558		21,684
1,224,952	13,827	2,947	92,267	2,680,144
315,701	(75)	323	152,557	1,285,558
13,667,841	252,721	63,761	1,161,830	29,479,949
\$ 13,983,542	\$ 252,646	\$ 64,084	\$ 1,314,387	\$ 30,765,507

AGENCY FUNDS

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

Commonwealth Choice accounts for flexible benefits spending accounts.

County Fees Fund accounts for monies held by the Commonwealth for those counties with a population greater than 70,000.

Special Deposit Trust Fund accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Commonwealth Choice Program	County Fees Trust Fund	Special Deposit Trust Fund	Totals June 30, 2006
Assets				
Cash and cash equivalents	\$	\$	\$	\$
Cash with fiscal agents	6,970	185	201,358	201,543
Investments, net of amortization			123,259	123,259
Invested security collateral			285,256	285,256
Receivables, net		3,239	42,141	45,380
Total Assets	<u>\$ 6,970</u>	<u>\$ 3,424</u>	<u>\$ 652,014</u>	<u>\$ 662,408</u>
Liabilities				
Accounts payable	\$	\$	\$	\$
Obligations under securities lending			243,009	243,009
Amounts held in custody for others	6,970	3,424	285,256	285,256
Total Liabilities	<u>\$ 6,970</u>	<u>\$ 3,424</u>	<u>\$ 123,749</u>	<u>\$ 134,143</u>
			<u>\$ 652,014</u>	<u>\$ 662,408</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Balances June 30, 2005	Additions	Deductions	Balances June 30, 2006
<u>COMMONWEALTH CHOICE PROGRAM</u>				
<u>Assets</u>				
Cash with fiscal agents	\$ 9,096	\$ 22,302	\$ 24,428	\$ 6,970
Total assets	<u>\$ 9,096</u>	<u>\$ 22,302</u>	<u>\$ 24,428</u>	<u>\$ 6,970</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 9,096	\$ 22,302	\$ 24,428	\$ 6,970
Total liabilities	<u>\$ 9,096</u>	<u>\$ 22,302</u>	<u>\$ 24,428</u>	<u>\$ 6,970</u>
<u>COUNTY FEES TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 184	\$ 101,650	\$ 101,649	\$ 185
Accounts Receivable	4,435	6	1,202	3,239
Total assets	<u>\$ 4,619</u>	<u>\$ 101,656</u>	<u>\$ 102,851</u>	<u>\$ 3,424</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 4,619	\$ 101,656	\$ 102,851	\$ 3,424
Total liabilities	<u>\$ 4,619</u>	<u>\$ 101,656</u>	<u>\$ 102,851</u>	<u>\$ 3,424</u>
<u>SPECIAL DEPOSIT TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 237,457	\$ 815,354	\$ 851,453	\$ 201,358
Investments	76,012	47,247		123,259
Invested security collateral	387,006		101,750	285,256
Accounts receivable	43,503		1,362	42,141
Total assets	<u>\$ 743,978</u>	<u>\$ 862,601</u>	<u>\$ 954,565</u>	<u>\$ 652,014</u>
<u>Liabilities</u>				
Accounts payable	\$ 199,205	\$ 43,804	\$	\$ 243,009
Obligations under securities lending	387,006		101,750	285,256
Amounts held in custody for others	157,767	817,435	851,453	123,749
Total liabilities	<u>\$ 743,978</u>	<u>\$ 861,239</u>	<u>\$ 953,203</u>	<u>\$ 652,014</u>
<u>ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 237,641	\$ 917,004	\$ 953,102	\$ 201,543
Cash with fiscal agents	9,096	22,302	24,428	6,970
Investments	76,012	47,247		123,259
Invested security collateral	387,006		101,750	285,256
Accounts receivable	47,938	6	2,564	45,380
Total assets	<u>\$ 757,693</u>	<u>\$ 986,559</u>	<u>\$ 1,081,844</u>	<u>\$ 662,408</u>
<u>Liabilities</u>				
Accounts payable	\$ 199,205	\$ 43,804	\$	\$ 243,009
Obligations under securities lending	387,006		101,750	285,256
Amounts held in custody for others	171,482	941,393	978,732	134,143
Total liabilities	<u>\$ 757,693</u>	<u>\$ 985,197</u>	<u>\$ 1,080,482</u>	<u>\$ 662,408</u>

NON-MAJOR COMPONENT UNITS - COMBINING

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2006
Assets			
Current assets:			
Cash and cash equivalents	\$ 156,704	\$ 204,517	\$ 361,221
Restricted cash	5,380	31,372	36,752
Investments, net of amortization	114,064	16,928	130,992
Accounts receivable, net	15,484	62,483	77,967
Interest receivable	7,185	503	7,688
Inventories	1,101	6,633	7,734
Prepaid expenses	1,012	3,910	4,922
Other current assets	31,482	8,401	39,883
Total Current Assets	332,412	334,747	667,159
Noncurrent assets:			
Restricted cash	651	60,441	61,092
Long-term investments, net	185,269	270,635	455,904
Restricted long-term investments	7,009	14,698	21,707
Long-term receivables	439,807	27,082	466,889
Deferred charges	280		280
Land	26,424	36,935	63,359
Improvements other than buildings	359	67,939	68,298
Buildings	343,856	1,203,501	1,547,357
Machinery and equipment	69,980	265,319	335,299
Other capital assets	1,523		1,523
Less: Accumulated depreciation and amortization	(194,602)	(759,795)	(954,397)
Construction in progress	16,176	53,816	69,992
Total Capital Assets	263,716	867,715	1,131,431
Other assets	21,637	41,928	63,565
Total Noncurrent Assets	918,369	1,282,499	2,200,868
Total Assets	1,250,781	1,617,246	2,868,027
Liabilities			
Current liabilities:			
Accounts payable and accruals	7,051	40,960	48,011
Current portion of long-term debt:			
Notes payable	24	2,695	2,719
Bonds payable	16,495	22,650	39,145
Capital lease obligations	2,957	14,273	17,230
Compensated absences	2,287	15,586	17,873
Claims liability	7,911	3,577	11,488
Deferred revenues	7,884	28,136	36,020
Payable from restricted assets		9,129	9,129
Other current liabilities	371	11,937	12,308
Total Current Liabilities	44,980	148,943	193,923
Noncurrent liabilities:			
Notes payable	6	21,457	21,463
Bonds payable	175,976	203,493	379,469
Capital lease obligations	63,451	62,212	125,663
Compensated absences	824	243	1,067
Other long-term liabilities		52,733	52,733
Total Noncurrent Liabilities	240,257	340,138	580,395
Total Liabilities	285,237	489,081	774,318
Net Assets			
Invested in capital assets, net of related debt	224,162	559,375	783,537
Restricted for:			
Debt service		27,250	27,250
Capital projects	8,345	11,383	19,728
Other purposes	625,416	342,238	967,654
Unrestricted	107,621	187,919	295,540
Total Net Assets	\$ 965,544	\$ 1,128,165	\$ 2,093,709

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2006
Expenses:			
Operating and other expenses	\$ 231,993	\$ 1,039,746	\$ 1,271,739
Depreciation	2,443		2,443
Total expenses	234,436	1,039,746	1,274,182
Program Revenues:			
Charges for services	97,202	370,233	467,435
Operating grants and contributions	80,613	268,795	349,408
Capital grants and contributions	12,790	6,855	19,645
Total Program Revenues	190,605	645,883	836,488
Net Program (Expense) Revenue	(43,831)	(393,863)	(437,694)
General Revenues:			
Unrestricted grants and contributions	(2,252)	39,948	37,696
Unrestricted investment earnings	3,717	22,714	26,431
Gain on sale of capital assets		41	41
Miscellaneous general	100,783	428,026	528,809
Total General Revenues	102,248	490,729	592,977
Change in Net Assets	58,417	96,866	155,283
Net Assets at July 1, as Restated	907,127	1,031,299	1,938,426
Net Assets at June 30	\$ 965,544	\$ 1,128,165	\$ 2,093,709



NON-MAJOR COMPONENT UNITS - AUTHORITIES

Kentucky River Authority - responsible for the maintenance of the Commonwealth's locks and dams on the Kentucky River.

Bluegrass State Skills Corporation - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

Kentucky State Fair Board - accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

Kentucky Center for the Arts Corporation - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

Kentucky Educational Television Authority - established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

Kentucky Economic Development Finance Authority - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

Kentucky Artisan Center - established to celebrate Kentucky's artisan heritage and encourage Kentuckians and those traveling in Kentucky to enjoy artisan products and activities.

Kentucky Infrastructure Authority - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

Kentucky Agricultural Finance Corporation - created by the 1984 General Assembly to "improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures." This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

Kentucky Grain Insurance Corporation - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

Kentucky Local Correctional Facilities Construction Authority - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

Kentucky Access - provides healthcare to Kentucky's qualifying applicants who are at high risk.

Kentucky Horse Park Foundation - is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2006
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority
Assets						
Current assets:						
Cash and cash equivalents	\$ 671	\$	\$ 11,634	\$ 2,295	\$ 3,456	\$ 29,567
Restricted cash	5,380					
Investments, net of amortization				1,517	2,444	18,979
Accounts receivable, net	355	828		864	1,176	88
Interest receivable	21		1,598	20	42	142
Inventories				37	689	
Prepaid expenses			626	381		
Other current assets					340	6,258
Total Current Assets	6,427	828	13,858	5,114	8,147	55,034
Noncurrent assets:						
Restricted cash					574	
Long-term investments, net			6,304	13,589	203	6,324
Restricted long-term investments					4,674	
Long-term receivables			8,187		83	28,872
Deferred charges					10	
Land	532		24,520	129	76	
Improvements other than buildings						
Buildings	408		292,137	31,571	13,148	
Machinery and equipment	456		5,012	17,316	45,522	
Other capital assets						
Less: Accumulated depreciation and amortization	(1,273)		(115,905)	(33,632)	(42,573)	
Construction in progress			16,176			
Total Capital Assets	123		221,940	15,384	16,173	
Other assets	15,000		1,061	4,334	1,242	
Total Noncurrent Assets	15,123		237,492	33,307	22,959	35,196
Total Assets	21,550	828	251,350	38,421	31,106	90,230
Liabilities						
Current liabilities:						
Accounts payable and accruals	159	802	1,034	610	990	501
Current portion of long-term debt:						
Notes payable					24	
Bonds payable						
Capital lease obligations			2,957			
Compensated absences	22	26	1,108	143	926	
Claims liability						
Deferred revenues			5,502	413	564	
Other current liabilities			371			
Total Current Liabilities	181	828	10,972	1,166	2,504	501
Noncurrent liabilities:						
Notes payable					6	
Bonds payable						
Capital lease obligations			63,451			
Compensated absences	49	25			712	
Total Noncurrent Liabilities	49	25	63,451		718	
Total Liabilities	230	853	74,423	1,166	3,222	501
Net Assets						
Invested in capital assets, net of related debt	15,123		167,964	15,384	17,386	
Restricted for:						
Capital projects	5,380		2,965			
Other purposes				3,290	5,679	24,191
Unrestricted	817	(25)	5,998	18,581	4,819	65,538
Total Net Assets	\$ 21,320	\$ (25)	\$ 176,927	\$ 37,255	\$ 27,884	\$ 89,729

Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2006
\$ 14	\$ 46,760	\$ 3,182	\$ 2,704	\$ 6,193	\$ 49,507	\$ 721	\$ 156,704
56	90,227					841	5,380
	630	10,500		474	439	130	114,064
	5,036			77	249		15,484
375							7,185
						5	1,101
	24,662			222			1,012
445	167,315	13,682	2,704	6,966	50,195	1,697	31,482
							32,412
				77			651
	154,315	2,003	1,531			1,000	185,269
				2,335			7,009
	400,699			1,901		65	439,807
				270			280
1,167							26,424
359							359
6,570						22	343,856
641						1,033	69,980
	1,523						1,523
(432)						(787)	(194,602)
							16,176
8,305	1,523					268	263,716
							21,637
8,305	556,537	2,003	1,531	4,583		1,333	918,369
8,750	723,852	15,685	4,235	11,549	50,195	3,030	1,250,781
62	1,924	203		141	572	53	7,051
							24
	14,555			1,940			16,495
							2,957
51		11					2,287
					7,911		7,911
					1,405		7,884
							371
113	16,479	214		2,081	9,888	53	44,980
	157,655			18,321			6
							175,976
34		4					63,451
34	157,655	4		18,321			824
147	174,134	218		20,402	9,888	53	240,257
							285,237
8,305							224,162
							8,345
	549,718				40,307	2,231	625,416
298		15,467	4,235	(8,853)		746	107,621
\$ 8,603	\$ 549,718	\$ 15,467	\$ 4,235	\$ (8,853)	\$ 40,307	\$ 2,977	\$ 965,544

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority
Expenses:						
Operating and other expenses	\$ 2,835	\$ 3,468	\$ 43,498	\$ 9,644	\$ 28,700	\$ 10,560
Depreciation				2,443		
Total expenses	<u>2,835</u>	<u>3,468</u>	<u>43,498</u>	<u>12,087</u>	<u>28,700</u>	<u>10,560</u>
Program Revenues:						
Charges for services	1,414		40,473	3,786	1,560	1,346
Operating grants and contributions				1,952	10,466	
Capital grants and contributions	12,762			28		
Total Program Revenues	<u>14,176</u>		<u>40,473</u>	<u>5,766</u>	<u>12,026</u>	<u>1,346</u>
Net Program (Expense) Revenue	<u>11,341</u>	<u>(3,468)</u>	<u>(3,025)</u>	<u>(6,321)</u>	<u>(16,674)</u>	<u>(9,214)</u>
General Revenues:						
Unrestricted grants and contributions			(2,562)	310		
Unrestricted investment earnings	140		(1,857)	1,477	341	1,158
Miscellaneous general	297	3,259	4,890	3,596	14,390	2,968
Total General Revenues	<u>437</u>	<u>3,259</u>	<u>471</u>	<u>5,383</u>	<u>14,731</u>	<u>4,126</u>
Change in Net Assets	<u>11,778</u>	<u>(209)</u>	<u>(2,554)</u>	<u>(938)</u>	<u>(1,943)</u>	<u>(5,088)</u>
Net Assets at July 1, as Restated	9,542	184	179,481	38,193	29,827	94,817
Net Assets at June 30	<u>\$ 21,320</u>	<u>\$ (25)</u>	<u>\$ 176,927</u>	<u>\$ 37,255</u>	<u>\$ 27,884</u>	<u>\$ 89,729</u>

Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2006
\$ 2,304	\$ 76,214	\$ 118	\$ 2	\$ 1,614	\$ 51,848	\$ 1,188	\$ 231,993
							2,443
2,304	76,214	118	2	1,614	51,848	1,188	234,436
1,666	10,779	10,000	50	5,051	20,770	307	97,202
156	34,726			261	31,918	1,134	80,613
							12,790
1,822	45,505	10,000	50	5,312	52,688	1,441	190,605
(482)	(30,709)	9,882	48	3,698	840	253	(43,831)
							(2,252)
58		174	177		1,887	162	3,717
(308)	69,683	2,000				8	100,783
(250)	69,683	2,174	177		1,887	170	102,248
(732)	38,974	12,056	225	3,698	2,727	423	58,417
9,335	510,744	3,411	4,010	(12,551)	37,580	2,554	907,127
\$ 8,603	\$ 549,718	\$ 15,467	\$ 4,235	\$ (8,853)	\$ 40,307	\$ 2,977	\$ 965,544

**COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS-AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)**

	Major	Non-major		
	Kentucky School Facilities Construction Commission	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Totals June 30, 2006
Cash Flows from Operating Activities				
Cash received from customers - public	\$ 30,358	\$	\$ 50	\$ 30,408
Cash payments to suppliers for goods and services	(11,753)		(2)	(11,755)
Cash payments for employee salaries and benefits	(235)	(401)		(636)
Cash payments from other sources	10,084	2,000		12,084
Cash payments to other sources	(30,906)			(30,906)
Net Cash Provided (Used) by Operating Activities	(2,452)	1,599	48	(805)
Cash Flows from Investing Activities				
Purchase of investment securities	(2,954)	(1,224)	(1,039)	(5,217)
Interest and dividends on investments	603	173	179	955
Net Cash Provided (Used) in Investing Activities	(2,351)	(1,051)	(860)	(4,262)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,803)	548	(812)	(5,067)
Cash and Cash Equivalents at July 1	11,162	2,634	3,516	17,312
Cash and Cash Equivalents at June 30	\$ 6,359	\$ 3,182	\$ 2,704	\$ 12,245
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (925)	\$ 9,882	\$ 48	\$ 9,005
Adjustments to reconcile operating income to net cash provided by operating activities:				
Miscellaneous nonoperating income (expense)	(29,573)	2,000		(27,573)
Change in assets and liabilities:				
(Increase) Decrease in assets:				
Receivables, net		(10,498)		(10,498)
Prepaid Expenses	(543)			(543)
Increase (decrease) in liabilities:				
Accounts payable	(1,773)	200		(1,573)
Other liabilities	30,362	15		30,377
Net Cash Provided (Used) by Operating Activities	\$ (2,452)	\$ 1,599	\$ 48	\$ (805)
Noncash Investing, Capital, and Financing Activities				
Change in fair value of investments	\$ 6	\$ 1	\$ 2	\$ 9
Total Noncash Investing, Capital, and Financing Activities	\$ 6	\$ 1	\$ 2	\$ 9

NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES

Universities, Colleges and Related Entities

The University and College Funds account for all transactions relating to the State-supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The non-major component units-universities are:

**Eastern Kentucky University
Western Kentucky University
Morehead State University
Murray State University
Northern Kentucky University
Kentucky State University**

Kentucky Council on Postsecondary Education – established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky's postsecondary education system.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES
JUNE 30, 2006
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	\$ 36,080	\$ 57,351	\$ 17,389
Restricted cash			2,962
Investments, net of amortization	5,645	2,825	
Accounts receivable, net	25,336	7,427	4,172
Interest receivable	169	233	14
Inventories	371	1,731	1,862
Prepaid expenses	972	729	
Other current assets		4,582	866
Total Current Assets	68,573	74,878	27,265
Noncurrent assets:			
Restricted cash	8,189	3,463	3,828
Long-term investments, net	46,286	89,443	31,496
Restricted long-term investments			
Long-term receivables	5,848	13,831	238
Land	7,052	8,469	4,534
Improvements other than buildings	18,607	18,692	8,607
Buildings	236,046	298,164	168,948
Machinery and equipment	28,013	72,083	57,822
Less: Accumulated depreciation and amortization	(151,488)	(146,350)	(122,680)
Construction in progress	3,541	9,583	4,227
Total Capital Assets	141,771	260,641	121,458
Other assets	35,126	4,072	85
Total Noncurrent Assets, Net	237,220	371,450	157,105
Total Assets	305,793	446,328	184,370
Liabilities			
Current liabilities:			
Accounts payable and accruals	11,583	4,839	6,129
Current portion of long-term debt:			
Notes payable		526	110
Bonds payable	5,645	5,544	2,740
Capital lease obligations	1,150	3,025	466
Compensated absences	3,343	2,431	1,787
Claims liability	1,632	785	
Deferred revenues	6,605	8,806	2,720
Payable from restricted assets	302	1,341	121
Other current liabilities	499	4,319	801
Total Current Liabilities	30,759	31,616	14,874
Noncurrent liabilities:			
Notes payable		2,165	130
Bonds payable	31,505	91,110	22,745
Capital lease obligations	21,123	799	4,744
Compensated absences			
Other long-term liabilities	239	41,186	5,215
Total Noncurrent Liabilities	52,867	135,260	32,834
Total Liabilities	83,626	166,876	47,708
Net Assets			
Invested in capital assets, net of related debt	115,208	127,314	88,653
Restricted for:			
Debt service	8,294	5,222	
Capital projects		11,383	
Other purposes	53,300	81,610	35,199
Unrestricted	45,365	53,923	12,810
Total Net Assets	\$ 222,167	\$ 279,452	\$ 136,662

Murray State University	Northern Kentucky University	Kentucky State University	Kentucky Council on Postsecondary Education	Totals June 30, 2006
\$ 37,624	\$ 50,535	\$ 5,503	\$ 35	\$ 204,517
	8,680		19,730	31,372
		8,458		16,928
4,403	13,406	2,941	4,798	62,483
27	60			503
2,014	216	439		6,633
752	1,059		398	3,910
2,896	51		6	8,401
<u>47,716</u>	<u>74,007</u>	<u>17,341</u>	<u>24,967</u>	<u>334,747</u>
31,630	13,331			60,441
57,185	43,966	1,832		270,635
			427	14,698
			14,698	27,082
3,673	2,222	804	466	36,935
8,967	6,264	1,649		67,939
9,624	9,281	3,128		1,203,501
190,022	199,548	110,773		265,319
48,558	48,487	9,737	619	(759,795)
(136,786)	(115,132)	(87,013)	(346)	53,816
4,101	11,517	20,847		867,715
<u>124,486</u>	<u>159,965</u>	<u>59,121</u>	<u>273</u>	<u>41,928</u>
<u>2,004</u>	<u>641</u>	<u></u>	<u></u>	<u>1,282,499</u>
<u>218,978</u>	<u>220,125</u>	<u>61,757</u>	<u>15,864</u>	<u>1,617,246</u>
<u>266,694</u>	<u>294,132</u>	<u>79,098</u>	<u>40,831</u>	
5,790	7,275	1,584	3,760	40,960
2,046		13		2,695
2,421	5,310	990		22,650
128	9,174	330		14,273
3,849	2,068	1,437	671	15,586
1,160				3,577
3,137	5,483	1,385		28,136
	7,365			9,129
1,788	64	563	3,903	11,937
<u>20,319</u>	<u>36,739</u>	<u>6,302</u>	<u>8,334</u>	<u>148,943</u>
17,062	2,100			21,457
26,338	26,595	5,200		203,493
1,466	27,638	6,442		62,212
			243	243
634	3,958	1,501		52,733
<u>45,500</u>	<u>60,291</u>	<u>13,143</u>	<u>243</u>	<u>340,138</u>
<u>65,819</u>	<u>97,030</u>	<u>19,445</u>	<u>8,577</u>	<u>489,081</u>
96,105	83,465	48,357	273	559,375
6,339	7,395			27,250
				11,383
63,583	68,106	8,170	32,270	342,238
34,848	38,136	3,126	(289)	187,919
<u>\$ 200,875</u>	<u>\$ 197,102</u>	<u>\$ 59,653</u>	<u>\$ 32,254</u>	<u>\$ 1,128,165</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES
JUNE 30, 2006
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Expenses:			
Operating and other expenses	\$ 218,043	\$ 240,069	\$ 120,593
Total Expenses	<u>218,043</u>	<u>240,069</u>	<u>120,593</u>
Program Revenues:			
Charges for services	58,453	116,646	38,398
Operating grants and contributions	88,686	34,078	33,575
Capital grants and contributions	4,347		
Total Program Revenues	<u>151,486</u>	<u>150,724</u>	<u>71,973</u>
Net Program (Expense) Revenue	<u>(66,557)</u>	<u>(89,345)</u>	<u>(48,620)</u>
General Revenues:			
Unrestricted grants and contributions	2,824	31,563	
Unrestricted investment earnings	5,872	5,092	1,770
Gain on sale of capital assets		41	
Miscellaneous general	85,200	85,788	47,783
Total General Revenues	<u>93,896</u>	<u>122,484</u>	<u>49,553</u>
Change in Net Assets	<u>27,339</u>	<u>33,139</u>	<u>933</u>
Net Assets at July 1, as Restated	194,828	246,313	135,729
Net Assets at June 30	<u>\$ 222,167</u>	<u>\$ 279,452</u>	<u>\$ 136,662</u>

Murray State University	Northern Kentucky University	Kentucky State University	KY Council Postsecondary Education	Totals June 30, 2006
\$ 140,430	\$ 142,352	\$ 58,408	\$ 119,851	\$ 1,039,746
140,430	142,352	58,408	119,851	1,039,746
61,558	80,723	13,319	1,136	370,233
23,580	25,531	15,084	48,261	268,795
	394		2,114	6,855
85,138	106,648	28,403	51,511	645,883
(55,292)	(35,704)	(30,005)	(68,340)	(393,863)
4,797	245	519		39,948
6,777	2,611	591	1	22,714
				41
56,111	53,813	30,358	68,973	428,026
67,685	56,669	31,468	68,974	490,729
12,393	20,965	1,463	634	96,866
188,482	176,137	58,190	31,620	1,031,299
\$ 200,875	\$ 197,102	\$ 59,653	\$ 32,254	\$ 1,128,165



STATISTICAL SECTION

This part of the Commonwealth of Kentucky's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Financial Trends

The schedules presented contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity-wide perspective include only data from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted.

Revenue Capacity

The schedules presented contain information to help the reader assess the Commonwealth's most significant revenue source, which is personal income tax.

Debt Capacity

The schedules presented contain information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt, and the Commonwealth's ability to issue additional debt in the future.

Demographic Information

The schedules presented offer demographic and economic indicators to help the reader understand the environment within the Commonwealth, and the financial impact of those activities.

Operating Information

The schedules presented offer operating data to help the reader understand how the information in the Commonwealth's financial report relates to the services it provided and the activities performed, by the governmental agencies.

**COMMONWEALTH OF KENTUCKY
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

	2006	2005	2004	2003
General Fund:				
Reserved	\$ 183,555	\$ 76,505	\$ 85,834	\$ 114,415
Unreserved	713,339	593,472	303,623	183,922
Total General Fund	<u>\$ 896,894</u>	<u>\$ 669,977</u>	<u>\$ 389,457</u>	<u>\$ 298,337</u>
All Other Governmental Funds:				
Reserved	\$ 597,827	\$ 664,265	\$ 941,891	\$ 575,983
Unreserved, reported in:				
Debt Service Fund	377,202	292,406	293,654	354,836
Special Revenue Funds	1,394,633	1,112,499	603,323	969,767
Capital Projects Funds	(129,103)	(120,098)	(201,248)	(36,012)
Total All Other Governmental Funds	<u>\$ 2,240,559</u>	<u>\$ 1,949,072</u>	<u>\$ 1,637,620</u>	<u>\$ 1,864,574</u>

Note: Information is presented on the modified accrual basis of accounting.
In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

2002	2001	2000	1999	1998	1997
\$ 123,502	\$ 404,057	\$ 431,571	\$ 370,696	\$ 386,988	\$ 264,829
(36,033)	(8,870)	206,795	116,858	428,178	96,825
<u>\$ 87,469</u>	<u>\$ 395,187</u>	<u>\$ 638,366</u>	<u>\$ 487,554</u>	<u>\$ 815,166</u>	<u>\$ 361,654</u>
\$ 1,064,829	\$ 947,481	\$ 1,027,135	\$ 1,078,766	\$ 826,475	\$ 774,552
316,560	282,653	22,147	23,210	26,301	28,584
1,219,937	1,111,739	1,313,600	1,076,281	827,053	911,205
(265,510)	(300,205)	(102,863)	(22,818)	235,373	168,141
<u>\$ 2,335,816</u>	<u>\$ 2,041,668</u>	<u>\$ 2,260,019</u>	<u>\$ 2,155,439</u>	<u>\$ 1,915,202</u>	<u>\$ 1,882,482</u>

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

	2006	2005	2004	2003
Revenues				
Taxes	\$ 9,465,785	\$ 8,745,358	\$ 7,933,198	\$ 7,777,612
Licenses, fees, and permits	294,575	287,045	265,699	252,123
Intergovernmental	5,662,112	5,351,830	5,150,705	5,093,078
Charges for services	781,105	728,998	616,638	548,226
Fines and forfeits	90,118	86,771	95,745	73,691
Interest and other investment income	111,894	84,006	75,980	133,532
Increase (decrease) in fair value of investments	(5,799)	9,408	(40,558)	15,614
Securities lending income	39,918	16,831	15,549	
Other revenues	597,088	611,966	625,008	506,272
Total Revenues	<u>17,036,796</u>	<u>15,922,213</u>	<u>14,737,964</u>	<u>14,400,148</u>
Expenditures				
Current:				
General government	2,444,023	2,131,008	1,933,909	1,889,243
Legislative and judicial	302,303	277,792	265,847	246,838
Commerce	81,037	66,609	65,518	62,486
Education and humanities	4,395,948	4,091,135	3,823,798	3,752,918
Human resources	6,602,797	6,188,350	5,984,514	5,650,039
Justice	710,142	633,662	563,890	575,237
Natural resources and environmental protection	171,407	161,899	149,401	135,349
Public protection and regulation	67,329	73,868	112,587	139,299
Transportation	1,661,585	1,520,371	1,724,342	1,695,652
Debt Service:				
Principal retirement	246,404	247,290	286,166	260,977
Interest and fiscal charges	174,972	190,225	181,424	195,126
Other expenditures	26,649	26,574	78,052	4,153
Securities lending expense	38,144	15,619	13,123	
Capital outlay:				
Buildings	446,855	279,953	293,761	244,419
Total Expenditures	<u>17,369,595</u>	<u>15,904,355</u>	<u>15,476,332</u>	<u>14,851,736</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(332,799)</u>	<u>17,858</u>	<u>(738,368)</u>	<u>(451,588)</u>
Other Financing Sources (Uses)				
Transfers in	2,124,893	1,791,143	1,781,871	1,926,260
Transfers from component units				
Transfers out	(1,969,206)	(1,645,143)	(1,563,679)	(1,676,970)
Transfers to component units				
Capitalized leases	6,079	18,905	5,359	7,592
Proceeds from the sale of bonds:				
New issues	445,350	213,750	508,991	
Refunding issues		257,685	601,879	
Premiums	21,416	53,484	103,316	
Discounts				
Proceeds from notes	(58)	232,760	171,260	
Other financing sources				
Payments to refunded bond escrow agent		(258,550)	(944,495)	(1,567)
Total Other Financing Sources (Uses)	<u>628,474</u>	<u>664,034</u>	<u>664,502</u>	<u>255,315</u>
Net Change in Fund Balances	<u><u>\$ 295,675</u></u>	<u><u>\$ 681,892</u></u>	<u><u>\$ (73,866)</u></u>	<u><u>\$ (196,273)</u></u>
Debt service as a percentage of noncapital expenditures	<u><u>2.65%</u></u>	<u><u>2.97%</u></u>	<u><u>3.59%</u></u>	<u><u>3.15%</u></u>

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

In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

2002	2001	2000	1999	1998	1997
\$ 7,474,709	\$ 7,534,101	\$ 7,385,286	\$ 7,075,495	\$ 6,871,848	\$ 6,487,188
308,209	200,239	203,608	188,304	170,454	164,557
4,821,756	4,208,631	4,602,881	3,825,985	3,809,686	3,625,241
506,924	426,173	359,782	298,952	289,555	262,366
54,169	54,297	49,986	53,024	47,265	48,538
188,385	213,523	175,062	156,499	191,986	155,878
13,548	18,577	(11,169)	(16,171)		
406,869	616,361	230,325	185,881	218,883	193,206
13,774,569	13,271,902	12,995,761	11,767,969	11,599,677	10,936,974
2,036,798	672,605	541,008	556,913	652,980	593,500
239,515	216,608	212,978	186,168	165,645	150,604
58,741	51,283	52,941	49,927	45,953	44,408
3,584,412	3,442,741	3,351,422	3,250,456	3,187,712	3,076,843
5,563,087	5,110,365	5,109,752	4,368,927	4,253,354	4,220,653
564,427	553,499	511,106	451,532	402,149	340,100
143,924	127,048	125,724	120,938	112,923	103,356
120,764	124,725	131,350	130,245	115,479	105,763
1,724,061	1,588,052	1,502,356	1,356,322	1,135,102	1,092,563
227,648	265,689	133,153	197,363	213,500	163,412
124,625	181,006	191,429	158,225	222,986	163,034
(14,727)	(36,637)	(21,874)	2,110	1,543	5,681
483,145	309,011	225,409	266,165	135,106	99,755
14,856,420	12,605,995	12,066,754	11,095,291	10,644,432	10,159,672
(1,081,851)	665,907	929,007	672,678	955,245	777,302
1,698,673	1,268,907	1,650,318	2,233,184	1,286,809	1,282,930
	942				
(1,523,710)	(1,552,020)	(1,524,032)	(2,370,750)	(1,229,747)	(1,360,149)
	(1,428,957)	(1,048,810)	(910,373)	(825,063)	(783,205)
6,414	941	987	1,638	570	584
653,696	516,697	91,658	252,337	244,493	7,413
322,659	410,706	288,667	35,745	44,264	
44,824					
(4,798)					
19,135	100,400	99,618			
			13,008		
(321,565)	(463,429)	(271,985)	(31,304)		
895,328	(1,145,813)	(713,579)	(776,515)	(478,674)	(852,427)
\$ (186,523)	\$ (479,906)	\$ 215,428	\$ (103,837)	\$ 476,571	\$ (75,125)
2.35%	3.33%	2.56%	3.30%	4.17%	3.30%



COMMONWEALTH OF KENTUCKY
NET ASSETS BY COMPONENT
FOR THE LAST FIVE FISCAL YEARS
(Expressed in Thousands)

	2006	2005	2004	2003	2002
Governmental Activities:					
Invested in capital assets, net of related debt	\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
Restricted	1,376,301	1,081,388	994,827	1,189,894	1,524,926
Unrestricted	(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
Total Governmental Activities Net Assets	<u>17,818,983</u>	<u>17,449,838</u>	<u>16,670,564</u>	<u>16,270,378</u>	<u>15,626,084</u>
Business-type Activities:					
Invested in Capital Assets, net of related debt	254,623	249,728	257,794	249,023	220,996
Restricted	392,318	375,488	382,173	464,354	451,761
Unrestricted	(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
Total Business-Type Activities Net Assets	<u>34,159</u>	<u>(7,830)</u>	<u>(81,911)</u>	<u>(60,742)</u>	<u>(242,808)</u>
Primary Government:					
Invested in capital assets, net of related debt	17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
Restricted	1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
Unrestricted	(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
Total Primary Government Net Assets	<u>\$ 17,853,142</u>	<u>\$ 17,442,008</u>	<u>\$ 16,588,653</u>	<u>\$ 16,209,636</u>	<u>\$ 15,383,276</u>

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

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

	2006	2005	2004	2003	2002
Function/Program Revenues					
Primary Government:					
Governmental Activities:					
Charges for Services:					
General government	\$ 374,655	\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
Legislative and judicial	13,667	11,314	11,111	9,755	8,752
Commerce	34,390	35,002	34,689	32,247	27,918
Education and humanities	102,783	106,059	14,185	8,789	9,298
Human Resources	106,238	181,921	138,487	418,444	419,916
Justice	33,185	22,790	23,011	18,631	32,730
Natural resources and environmental protection	33,205	31,094	39,311	19,961	21,547
Public protection and regulation	63,341	53,629	69,194	71,829	55,609
Transportation	202,569	227,700	207,151	235,700	247,265
Operating Grants and Contributions	5,139,428	4,915,115	4,528,038	4,583,434	4,366,372
Capital Grants and Contributions	597,282	520,194	524,936	547,363	646,847
Total Governmental Activities	6,700,743	6,460,708	5,902,120	6,222,945	6,085,597
Business-Type Activities:					
Charges for Services:					
State Parks	52,751	50,655	50,925	49,368	47,640
Lottery Corporation	742,312	707,260	725,252	673,485	638,728
Kentucky Horse Park	6,010	5,791	5,896	5,840	5,379
Insurance Administration	178,305	133,380	129,084	157,109	133,749
Kentucky Employee Health Insurance	595,435				
Unemployment Compensation	377,265	371,099	332,047	354,432	226,762
Operating Grants and Contributions	45,573	49,509	130,212	210,488	220,812
Capital Grants and Contributions	112	33	586	1,046	
Total Business-Type Activities	1,997,763	1,317,727	1,374,002	1,451,768	1,273,070
Total Primary Government	\$ 8,698,506	\$ 7,778,435	\$ 7,276,122	\$ 7,674,713	\$ 7,358,667
Expenses					
Primary Government:					
Governmental Activities:					
General government	\$ 2,714,165	\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
Legislative and judicial	305,466	282,389	268,001	247,503	243,571
Commerce	103,996	81,639	128,548	80,459	88,229
Education and humanities	4,421,812	4,092,896	3,824,742	3,752,426	3,639,130
Human Resources	6,259,383	5,897,619	5,630,683	5,646,075	5,576,596
Justice	794,698	702,796	564,202	616,236	611,350
Natural resources and environmental protection	207,369	164,498	150,380	136,057	114,496
Public protection and regulation	68,108	68,956	111,928	139,518	50,798
Transportation	1,263,891	1,191,512	1,020,786	1,062,576	1,093,070
Interest expense	250,622	201,564	200,315	227,926	335,499
Total Governmental Activities	16,389,510	14,917,980	14,221,628	13,857,843	13,670,028
Business-Type Activities:					
State Parks	90,283	92,193	92,287	88,423	97,706
Lottery Corporation	558,435	552,410	554,880	515,629	475,944
Kentucky Horse Park	9,690	9,387	11,732	8,562	6,715
Insurance Administration	70,683	101,312	77,241	83,536	156,851
Kentucky Employee Health Insurance	507,282				
Unemployment Compensation	396,052	429,007	556,870	490,348	612,112
Total Business-Type Activities	1,632,425	1,184,309	1,293,010	1,186,498	1,349,328
Total Primary Government	\$ 18,021,935	\$ 16,102,289	\$ 15,514,638	\$ 15,044,341	\$ 15,019,356
Net (Expense)/Revenue					
Governmental Activities	\$ (9,688,767)	\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
Business-Type Activities	365,338	133,418	80,992	265,270	(76,258)
Total Primary Government Net Expense	\$ (9,323,429)	\$ (8,323,854)	\$ (8,238,516)	\$ (7,369,628)	\$ (7,660,689)

	2006	2005	2004	2003	2002
General Revenues and Other Changes in Net Assets					
Governmental Activities:					
Taxes:					
Sales and gross receipt	\$ 4,433,893	\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
Individual income	2,863,269	3,060,274	2,790,732	2,764,133	2,564,182
Corporate income	1,013,768	476,524	311,284	290,403	607,213
Property	492,532	479,815	462,062	439,129	450,134
License and privilege	73,679	142,962	142,048	162,929	92,953
Severance	290,203	237,512	194,369	176,300	158,354
Inheritance and estate	40,498	66,766	66,287	93,553	94,609
Miscellaneous taxes	161,663	180,045	152,921	149,089	147,126
Unrestricted grants and contributions	723	1,836	69,037	68,721	2
Unrestricted investment earnings	58,428	31,858	24,368	10,184	49,259
Gain on sale of capital assets	4,637			(73,096)	(3,768)
Miscellaneous general	499,657	456,736	468,056	392,330	344,484
Transfers	187,101	141,338	201,712	231,828	184,084
Total General Revenues and Transfers	10,120,051	9,307,118	8,663,080	8,359,038	8,031,714
Change in Net Assets	431,284	849,846	343,572	724,140	447,283
Net Assets at July 1, as Restated	17,387,699	16,599,992	16,326,992	15,546,140	15,178,801
Net Assets at June 30	\$ 17,818,983	\$ 17,449,838	\$ 16,670,564	\$ 16,270,280	\$ 15,626,084
 Business-Type Activities:					
Unrestricted grants and contributions	\$	\$	\$ 20	\$ (5,015)	\$ (370)
Unrestricted investment earnings	26,793	36,782	21,259	19,251	7,178
Gain on sale of capital assets	30	61	75	437	
Miscellaneous general	25,900	47,820	66,689	(1,987)	
Transfers	(187,101)	(141,338)	(201,712)	(231,828)	(184,084)
Total General Revenues and Transfers	(134,378)	(56,675)	(113,669)	(219,142)	(177,276)
Change in Net Assets	230,960	76,743	(32,677)	46,128	(253,534)
Net Assets at July 1, as Restated	(196,801)	(84,573)	(49,234)	(106,870)	10,726
Net Assets at June 30	\$ 34,159	\$ (7,830)	\$ (81,911)	\$ (60,742)	\$ (242,808)
 Change in Net Assets					
Governmental Activities	\$ 431,284	\$ 849,846	\$ 343,572	\$ 724,140	\$ 447,283
Business-Type Activities	230,960	76,743	(32,677)	46,128	(253,534)
Total Primary Government Changes in Net Assets	\$ 662,244	\$ 926,589	\$ 310,895	\$ 770,268	\$ 193,749

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

**COMMONWEALTH OF KENTUCKY
PERSONAL INCOME TAX INFORMATION
CALENDAR YEARS 2000 - 2004**

Personal Income Tax Filers and Liability by Income Level

Ky Federal AGI (from Ky form 740) Income Level	Calendar Year 2004			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Resident Taxpayer				
less than \$25,001	752,966	47.01%	\$ 199,840,596	7.36%
\$25,001-\$50,000	403,218	25.18%	536,611,598	19.75%
\$50,001-\$100,000	337,374	21.06%	930,263,294	34.24%
\$100,001-\$200,000	85,340	5.33%	488,463,504	17.98%
\$200,001-\$500,000	18,263	1.14%	270,632,720	9.96%
Greater than \$500,000	4,491	0.28%	291,075,410	10.71%
Total Resident	1,601,652	100.00%	\$ 2,716,887,122	100.00%
Non-Resident Taxpayer				
less than \$25,001	46,588	40.38%	\$ 4,643,095	3.77%
\$25,001-\$50,000	21,862	18.95%	11,421,538	9.27%
\$50,001-\$100,000	20,174	17.49%	19,236,377	15.62%
\$100,001-\$200,000	11,312	9.81%	18,743,165	15.22%
\$200,001-\$500,000	7,202	6.24%	17,017,079	13.81%
Greater than \$500,000	8,230	7.13%	52,121,709	42.31%
Total Non-Resident	115,368	100.00%	\$ 123,182,963	100.00%
Totals	1,717,020		\$ 2,840,070,085	

Personal Income Tax Rates

Tax Years 2000 - 2004

Tax Rate	2%	3%	4%	5%	6.0%
Income Bracket	\$0-3,000	\$3,001-4,000	\$4,001-5,000	\$5,001-8,000	\$8,001 and UP

	2004		2000	
Personal Income Tax Revenue	\$ 2,840,070,085	(A)	\$ 2,618,135,253	
Personal Income	\$ 85,484,500	(B)	\$ 68,851,883	
Average Effective Rate	3.0%		2.6%	

Source of Tax Information:

(A) Kentucky Department of Revenue

NOTE: Calendar year 2004 is the most current year for which data is available and calendar year 2000 was the first year for which comparable data was available.

(B) See Schedule of Personal Income

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

Calendar Year 2000

Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
805,957	50.05%	\$ 218,426,319	8.68%
408,903	25.39%	551,103,310	21.91%
306,597	19.04%	843,345,292	33.53%
68,021	4.22%	394,353,831	15.68%
16,749	1.04%	243,645,359	9.69%
4,228	0.26%	264,123,850	10.50%
1,610,455	100.00%	\$ 2,514,997,961	100.00%

Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
49,232	43.32%	\$ 5,390,760	5.23%
23,750	20.90%	12,641,801	12.26%
19,663	17.30%	20,389,476	19.77%
9,465	8.33%	17,063,873	16.54%
5,583	4.91%	12,843,514	12.45%
5,953	5.24%	34,807,868	33.75%
113,646	100.00%	\$ 103,137,292	100.00%

1,724,101		\$ 2,618,135,253	
------------------	--	-------------------------	--



COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 1996-2005
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1996	101,534,494	108,015,419	152,832,983	152,832,983	254,367,477	260,848,402	97.5%
1997	109,108,366	116,072,730	126,697,051	126,697,051	235,805,417	242,769,781	97.1%
1998	116,105,606	123,516,602	135,870,575	135,870,575	251,976,181	259,387,177	97.1%
1999	124,798,246	132,764,091	138,392,876	138,392,876	263,191,122	271,156,967	97.1%
2000	134,604,823	143,196,620	141,579,703	141,579,703	276,184,525	284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%
2002	153,558,852	163,360,481	178,290,246	178,290,246	331,849,099	341,650,727	97.1%
2003	162,167,033	172,518,120	188,846,577	188,846,577	351,013,610	361,364,697	97.1%
2004	171,533,143	182,482,067	190,803,292	190,803,292	362,336,435	373,285,359	97.1%
2005	183,052,164	194,736,345	198,811,311	198,811,311	381,863,476	393,547,656	97.0%

SOURCE: Kentucky Department of Revenue

NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

COMMONWEALTH OF KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
FOR CALENDAR YEARS 1996-2005
(Expressed in Thousands, Except Percentages)

For the Year Ended June 30	Total Levied	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1996	424,505	391,977	92.3%	17,200	409,177	96.4%
1997	410,755	399,759	97.3%	15,099	414,858	101.0%
1998	365,014	349,774	95.8%	13,019	362,793	99.4%
1999	377,835	358,478	94.9%	11,927	370,405	98.0%
2000	402,428	371,715	92.4%	15,543	387,258	96.2%
2001	416,490	386,890	92.9%	20,605	407,495	97.8%
2002	429,425	407,380	94.9%	25,650	433,030	100.8%
2003	450,348	414,399	92.0%	20,369	434,768	96.5%
2004	478,017	432,937	90.6%	15,829	448,766	93.9%
2005	505,847	451,949	89.3%	20,647	472,596	93.4%

SOURCE: Kentucky Department of Revenue

NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two different assessment years.

COMMONWEALTH OF KENTUCKY
RATIOS OF OUTSTANDING DEBT BY TYPE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Governmental Activities Debt				
Revenue Bonds	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223
Notes	554,790	373,990	186,970	31,475
Capital Leases	28,450	32,518	17,252	8,565
Total Government Activities Debt (2)	<u>4,129,708</u>	<u>3,643,274</u>	<u>3,429,653</u>	<u>3,205,263</u>
Business-Type Activities Debt				
Notes			451	
Capital Leases	307	275	245	77
Total Business-Type Activities (2)	<u>307</u>	<u>275</u>	<u>696</u>	<u>77</u>
Total Primary Government Debt	<u>\$ 4,130,015</u>	<u>\$ 3,643,549</u>	<u>\$ 3,430,349</u>	<u>\$ 3,205,340</u>
Total Debt Ratios				
Ratio of Total Debt to Personal Income	<u>4.54%</u>	<u>4.26%</u>	<u>4.28%</u>	<u>4.42%</u>
Total Debt Per Capita (1)	<u>\$ 989.60</u>	<u>\$ 878.83</u>	<u>\$ 833.05</u>	<u>\$ 783.15</u>
Net Bonded Debt				
Gross Bonded Debt	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223
Less: Debt Service Funds	403,002	314,554	317,665	354,836
Net Bonded Debt	<u>\$ 3,143,466</u>	<u>\$ 2,922,212</u>	<u>\$ 2,907,766</u>	<u>\$ 2,810,387</u>
Net Bonded Debt Ratios				
Ratio of Net Bonded Debt to Governmental Funds Revenues	<u>18.45%</u>	<u>18.35%</u>	<u>18.26%</u>	<u>17.65%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 753.21</u>	<u>\$ 704.84</u>	<u>\$ 706.14</u>	<u>\$ 686.65</u>

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

(2) See Note 15 for Debt Amounts

2002	2001	2000	1999	1998	1997
\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683	\$ 2,833,433	\$ 3,000,858
81,535	73,875	218,680	338,400	70,000	
24,712	2,153	1,882	1,946	1,057	1,122
3,511,293	3,020,867	2,536,095	2,519,029	2,904,490	3,001,980
339	1,697	3,055	4,412	5,769	6,787
183	4,630	2,213	5,398	5,784	9,984
522	6,327	5,268	9,810	11,553	16,771
\$ 3,511,815	\$ 3,027,194	\$ 2,541,363	\$ 2,528,839	\$ 2,916,043	\$ 3,018,751
4.98%	4.40%	3.93%	4.15%	5.06%	5.54%
\$ 863.10	\$ 747.67	\$ 632.49	\$ 634.53	\$ 737.73	\$ 770.18
\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683	\$ 2,833,433	\$ 3,000,858
329,267	529,164	301,432	314,306	306,479	303,466
\$ 3,075,779	\$ 2,415,675	\$ 2,014,101	\$ 1,864,377	\$ 2,526,954	\$ 2,697,392
19.32%	15.17%	12.65%	11.71%	15.87%	16.94%
\$ 755.94	\$ 596.64	\$ 501.26	\$ 467.80	\$ 639.29	\$ 688.19

**COMMONWEALTH OF KENTUCKY
UNIVERSITY AND COLLEGE REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS**
(Expressed in Thousands, Except Ratio Data)

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
1997	270,837	84,962	3.19
1998	276,395	88,252	3.13
1999	329,681	84,782	3.89
2000	293,988	86,164	3.41
2001	301,649	83,069	3.63
2002	269,609	66,828	4.03
2003	112,670	53,825	2.09
2004	337,945	54,034	6.25
2005	326,099	57,375	5.68
2006	499,346	57,141	8.74

SOURCE: Commonwealth of Kentucky Comprehensive Annual
Financial Reports; State universities' audited financial statements

**COMMONWEALTH OF KENTUCKY
TOP 10 MANUFACTURERS**
(Ranked by Number of Employees)
June 30, 2006

Company	Number of Locations	Number of Employees
United Parcel Service, Inc.	15	10,788
Ford Motor Co.	2	9,500
Toyota Motor Corp.	4	8,731
Humana, Inc.	14	7,304
General Electric Co.	9	6,968
Delta Air Lines, Inc.	1	4,900
Dana Corp.	12	4,676
Johnson Controls, Inc.	13	4,198
Citigroup	2	3,700
Lexmark International, Inc.	1	3,450

SOURCE:
Website Address: <http://www.thinkkentucky.com/kyedc/pdfs/kytop10m.pdf>

**COMMONWEALTH OF KENTUCKY
DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 1996-2005**

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
1996	3,919,535	\$ 19,957	5.6%
1997	3,952,747	20,979	5.4%
1998	3,985,390	22,118	4.6%
1999	4,018,053	22,702	4.5%
2000	4,048,832	24,258	4.1%
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%
2003	4,117,827	26,252	6.2%
2004	4,145,922	27,709	5.3%
2005	4,173,405	28,513	6.1%

SOURCE: Website Addresses: <http://www.bea.gov/bea/regional/spi/drill.cfm>
<http://www.bls.gov/lau/lastrk05.htm>

COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 1996-2005
(Expressed in Thousands, Except Percent Data)

Source	1996		1997		1998		1999		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,005,924	1.8%	\$ 1,089,030	1.9%	\$ 957,190	1.6%	\$ 730,192	1.1%	\$ 1,361,530	2.0%
Agriculture services, forestry, fisheries and others	343,124	0.6%	381,650	0.7%	423,380	0.7%	462,975	0.7%	502,305	0.7%
Mining	1,280,840	2.4%	1,285,732	2.2%	1,348,968	2.2%	1,350,661	2.1%	1,197,845	1.7%
Manufacturing	11,589,170	21.3%	12,115,301	21.0%	12,666,832	20.8%	13,373,527	20.7%	13,945,732	20.3%
Construction	3,076,508	5.7%	3,327,836	5.8%	3,612,018	5.9%	3,922,877	6.1%	4,196,268	6.1%
Wholesale and retail trade	8,196,534	15.1%	8,799,661	15.3%	9,356,004	15.3%	10,032,800	15.5%	10,537,792	15.3%
Finance, insurance and real estate	2,638,070	4.8%	2,879,266	5.0%	3,102,800	5.1%	3,296,512	5.1%	3,690,749	5.4%
Transportation and public utilities	3,923,834	7.2%	4,139,689	7.2%	4,687,916	7.7%	5,005,048	7.7%	5,337,433	7.8%
Services	11,967,410	22.0%	12,756,524	22.1%	13,716,312	22.5%	14,716,433	22.8%	15,629,585	22.7%
Government and government enterprises	10,424,575	19.1%	10,820,753	18.8%	11,125,965	18.2%	11,770,589	18.2%	12,452,644	18.1%
Earnings by Place of Work	<u>\$ 54,445,989</u>	<u>100.0%</u>	<u>\$ 57,595,442</u>	<u>100.0%</u>	<u>\$ 60,997,385</u>	<u>100.0%</u>	<u>\$ 64,661,614</u>	<u>100.0%</u>	<u>\$ 68,851,883</u>	<u>100.0%</u>

Source	2001		2002*		2003**		2004**		2005**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%	\$ 580,000	0.7%	\$ 1,520,500	1.7%
Agriculture services, forestry, fisheries and others	521,571	0.7%	521,000	0.7%	383,250	0.5%	359,250	0.4%	369,750	0.4%
Mining	1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%	1,495,250	1.7%	1,879,750	2.1%
Manufacturing	13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%	16,142,000	18.9%	16,364,000	18.0%
Construction	4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%	4,819,750	5.6%	5,133,750	5.6%
Wholesale and retail trade	10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%	10,475,250	12.3%	10,857,250	11.9%
Finance, insurance and real estate	3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%	5,274,250	6.2%	5,487,250	6.0%
Transportation and public utilities	5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%	5,386,750	6.3%	5,452,500	6.0%
Services	16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%	24,756,000	29.0%	26,222,250	28.9%
Government and government enterprises	13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%	16,196,000	18.9%	17,594,750	19.4%
Earnings by Place of Work	<u>\$ 70,491,141</u>	<u>100.0%</u>	<u>\$ 72,498,000</u>	<u>100.0%</u>	<u>\$ 80,127,750</u>	<u>100.0%</u>	<u>\$ 85,484,500</u>	<u>100.0%</u>	<u>\$ 90,881,750</u>	<u>100.0%</u>

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

NOTE: Percentages may not add to 100% due to rounding.

* 2002 annual estimates computed with BEA table SQ5 by adding 4 quarters of 2002 and dividing by 4.

** Annual estimates computed with BEA table SQ5N by adding 4 quarters of each year and dividing by 4.

Quarterly charts show each quarter as an annualized amount based on amounts to date.

Amounts are based on the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system used in previous years. This affects comparability of amounts. NAICS will be used in the future fiscal years.

**COMMONWEALTH OF KENTUCKY
OPERATING INDICATORS BY FUNCTION
FISCAL YEAR 2006**

Personnel

Number of Full Time Employees- Executive Branch	34,947
Health Insurance Expenditures - Percentage Increase	29%

Education

K-12 Enrollment	664,606
K-12 Attendance Rate	94.31%
K-12 Graduation Rate	82.84%
Statewide Academic Index	78.30%
Average ACT Score	20.6
GED Graduates	9,054
College Going Rate for 9th Graders	37%
Postsecondary Education Enrollment	202,197
Bachelor's and Higher Degrees Awarded	26,544

Justice and Public Safety

Incarcerated Population-Daily Average	19,943
Probation and Parole Average Daily Caseload	33,643

Health and Family Services

Medicaid Enrollment-Average	699,595
Food Stamp Recipients-Monthly Average	598,486
Temporary Assistance for Needy Families (TANF)-Monthly Average	69,696
Children with substantiated incidences of abuse/neglect	15,526

Environmental and Public Protection

Air Pollution Source Inspections	4,600
Waste Management Inspections	7,200
Acres of Land Reforested	1,600
Mine Permits Issued	1,025
Mine Reclamation and Enforcement Inspections	22,001
Mine Safety-Completed Inspections	2,500

Transportation

Percentage of Total Road System Needing Improvement	14%
Statewide Road Maintainance Rating (Top Score = 80)	79.1
Daily Miles Traveled-Percentage Changed (2005 Data)	-0.3%
State-Maintained Lane Miles- Percent Change	0.2%
Kentucky Road Construction Cost Index-Percent Increase (2005 Data)	19.5%

**COMMONWEALTH OF KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION
FISCAL YEAR 2006**

General Government

Number of Buildings	2,727
Number of Vehicles	1,875
Land (Acres)	34,192

Commerce

Number of Resort Parks	17
Number of Recreation Parks	24
Number of Historic Sites	10
Area of State Parks (Acres)	45,137

Education and Humanities

Number of Buildings	936
Number of Vehicles	1,239
Land (Acres)	2,372

Human Resources

Number of Buildings	1,854
Number of Vehicles	1,404
Land (Acres)	1,206

Justice

Number of Buildings	3,978
Number of Vehicles	17,656
Land (Acres)	9,044

Natural Resources and

Environmental Protection

Number of Buildings	225
Number of Vehicles	12,636
Land (Acres)	64,134

Public Protection and

Regulation

Number of Vehicles	324
--------------------	-----

Transportation

Number of Lane Miles -State	
Maintained Highways	62,193
Number of State maintained Bridges	8,974
Land (Acres)	1,961

ACKNOWLEDGMENTS

The Commonwealth of Kentucky's Comprehensive Annual Financial Report was prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, Financial Reporting Branch and the Fixed Assets Branch:

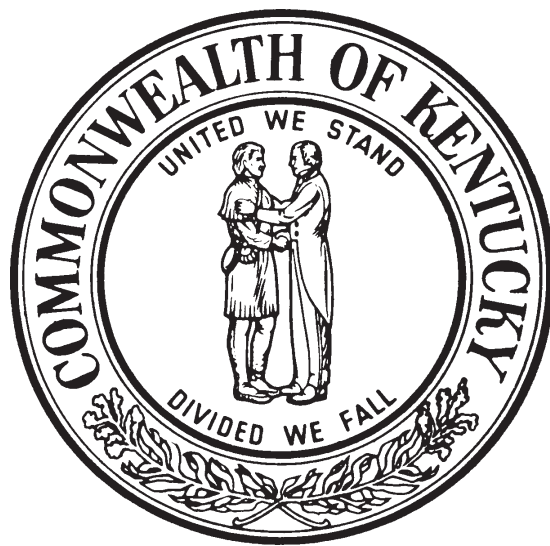
Ellen Ballard
Jackie Green
Richard Ioos
Dee Dee McCrosky
Kimberly Moore
Anthony Murray
Phil Nally
Stuart Weatherford

Special acknowledgment goes to:

All fiscal and accounting personnel throughout Kentucky State Government, along with the Auditor of Public Accounts' staff, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.

The Finance and Administration Cabinet, Department of Administration, Division of Printing staff who provided printing services.





*Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2006*

Ernie Fletcher, Governor