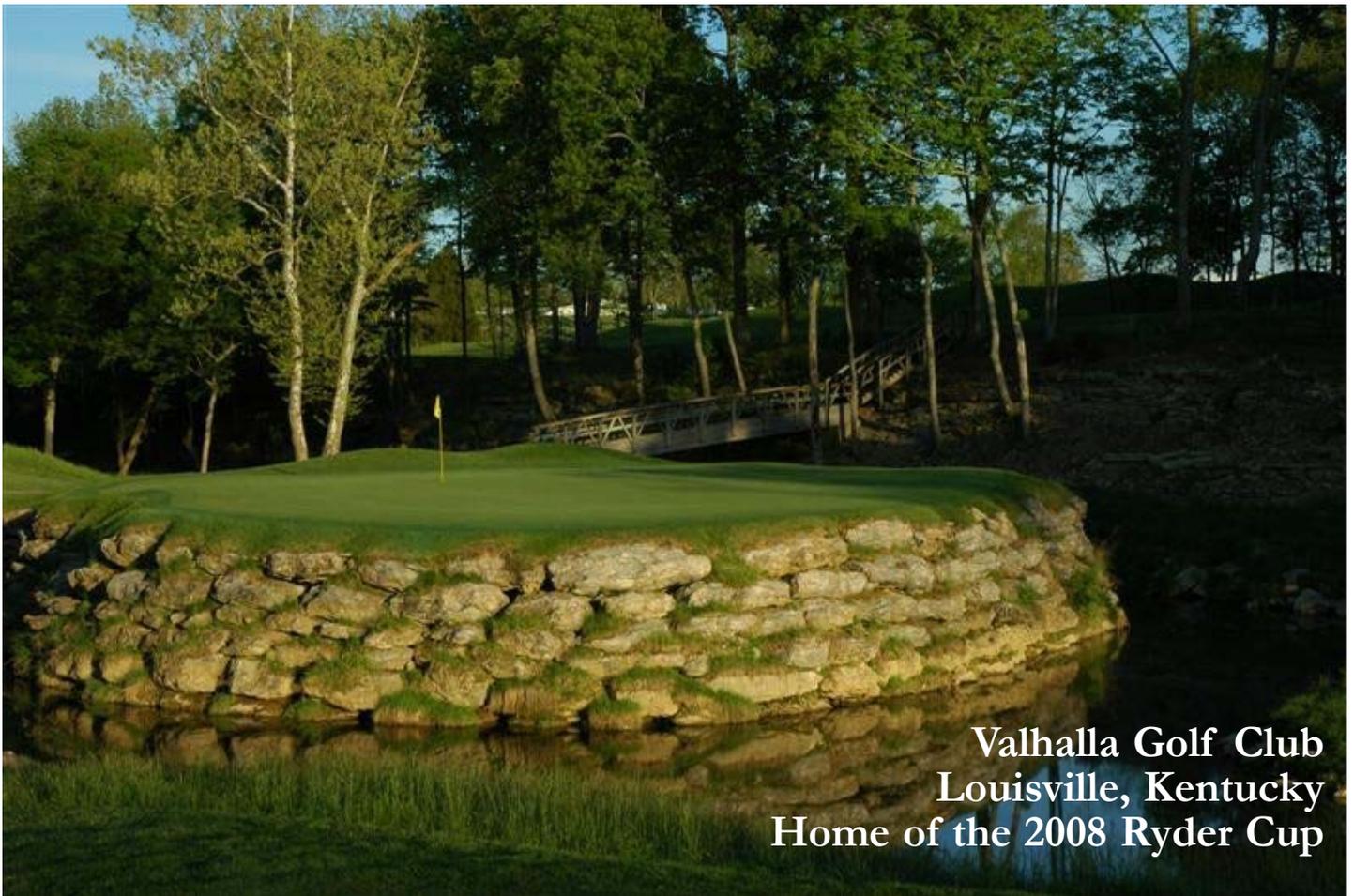


COMMONWEALTH OF KENTUCKY

# Comprehensive Annual Financial Report



Valhalla Golf Club  
Louisville, Kentucky  
Home of the 2008 Ryder Cup

Fiscal Year Ended  
June 30, 2007





Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2007

Steven L. Beshear, Governor



Prepared by:  
Finance and Administration Cabinet  
Jonathan Miller, Secretary

Office of the Controller  
Edgar C. Ross, Controller

Statewide Accounting Services  
Stuart Weatherford, Assistant Controller

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# INTRODUCTORY SECTION

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STEVEN L. BESHEAR

GOVERNOR

**OFFICE OF THE SECRETARY**  
Finance and Administration Cabinet  
383 CAPITOL ANNEX  
FRANKFORT, KENTUCKY 40601  
(502) 564-4240  
(502) 564-6785 Fax

JONATHAN MILLER

Secretary

December 18, 2007

The Honorable Steven L. Beshear  
Governor, Commonwealth of Kentucky  
The Capitol Building  
Frankfort, Kentucky 40601

Dear Governor Beshear:

### **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, 2007. 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 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, 2007, are fairly presented in conformity with 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 which are blended into the Commonwealth's primary government and function as actual parts of the Commonwealth are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Retirement System, 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, 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, World Games 2010 Foundation, Inc. Kentucky Council on Postsecondary Education, Kentucky Community Technical College System, and the eight state-supported universities.

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

### ***The Commonwealth and Its Services***

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

### ***Budgetary Controls***

The Commonwealth uses a biennial budget to assist with planning and control duties. Budgetary control is maintained at the budget unit level, described in the notes to the Required Supplementary Information. Encumbrance accounting is utilized to insure the availability of funding before contracts are finalized. Contracts which result in overruns of available balances are not released until budget revisions are approved. Outstanding encumbrances for long-term construction projects in the Transportation Fund and the Capital Projects Fund are 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***

The economic landscape changed substantially by the last quarter of Fiscal Year (FY) 2007. The drag related to the subprime lending market has taken center stage. In distancing themselves from mortgage-backed securities, investors roiled the financial markets and moved toward traditional safe havens like precious metals and government securities. This was followed by a surge in oil prices and for a few weeks in November crude oil prices were as high as \$98 per barrel. The economic outlook has now become tentative and changed from moderate growth to modest growth.

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 just 2.1 percent in FY07. GDP growth is expected to average 1.8 percent each year for FY08 and FY09. Most economists consider the economy to be stagnant if GDP growth is under 2.5 percent. By this measure the U.S. economy is definitely sluggish, but will skirt a recession. In FY10, at the end of the next biennium, the economy is expected to bounce back with a 2.6 percent increase in annual output.

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 3.0 percent for the year. In spite of the slow down in the economy consumption of durable goods was up strongly by 4.5 percent. This seeming anomaly was a result of the robust housing market in the first three quarters of FY07. Low interest rates and teaser rates for subprime borrowers fueled the purchase of new houses and new furniture. The price of crude oil averaged \$63.40 per barrel in FY07, slightly lower than the previous year. The seeming stability in fuel prices led consumers to think the worst was over in the energy market. During the current year consumption is expected to be up just 2.1 percent followed by further weakening in FY09 and then firming up to a growth of 2.4 percent in FY10.

Investors started bailing out of the market before consumers recognized the full meaning of the economic slowdown. Business investments declined by 3.2 percent in FY07 due primarily to a 14 percent contraction in investments associated with the residential construction industry. In FY08, the decline is expected to continue and overall investments are expected to be positive only by FY09.

Government spending is less than a fifth of total GDP and grew by 1.7 percent in FY07. The weak dollar resulted in exports growth surpassing the increase in imports growth: 7.8 percent vs. 3.9 percent. The dollar is forecasted to slide further in FY08 and exports are expected to be up almost 7 percent annually for the next three years.

U.S. personal income was up by a vigorous 6.4 percent in FY07 and is forecasted to increase by 5.7 percent in FY08. The next biennium will see some further dampening as the economy recovers from the subprime-related downturn. The surprisingly strong showing in FY07 resulted from an inflation driven increase in wages and strong growth in dividends from a buoyant stock market.

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 increase further and then settle down to a relatively high average of \$76 per barrel in the next biennium. Even though the Fed doesn't set an explicit inflation target, the implicit target is under 2 percent. In FY07, CPI inflation averaged 2.6 percent. Inflation is expected to be up 2.5 percent in FY08 and then settle down to around 2 percent in the next two years as the energy market becomes less volatile.

Nonfarm employment was up a vigorous 1.6 percent in FY07, but is expected to increase by less than 1 percent for the next three years. The recent strength in employment was mainly from mining—particularly in the crude oil and natural gas sectors—and in construction. The impact of the fall in the housing market is expected to lower employment in construction and in related fields.

### *Kentucky's Economy*

The state economy has shown strong gains for the last three years, but in terms of both personal income and employment these gains have been less than the national average. Kentucky's substantial reliance on manufacturing jobs is the primary cause for the lower growth. Excess manufacturing capacity abroad and increased productivity—without a concomitant increase in wages—has kept income from growing.

In FY07, personal income is estimated to have increased by 5.6 percent to \$128.6 billion. Wages and salaries comprise about 53 percent of total income. These were up by 5.2 percent during the year. Kentucky's personal income is expected to be up by 5.4 percent in FY08 and then grow at lower rates of 4.6 and 5.3 percent in FY09 and FY10. The lower growth rates are tied to the general economic slowdown related to the subprime lending crisis and the spike in energy prices.

Nonfarm employment in Kentucky increased by 1.5 percent in FY06 resulting in the addition of 26,600 jobs. During FY07, the job market weakened substantially with employment increasing by 0.7 percent and the creation of just 12,900 jobs.

The service-providing sectors posted the largest gains during the year with an increase of 1.1 percent compared to decline of 0.8 percent for the goods-producing sector. Government jobs account for 17 percent of total non-farm employment and were up 1.0 percent for the year.

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.

The subprime meltdown has had some impact on Kentucky, but not at the same scale as states like California or Florida. However, Kentucky will feel the impact of a prolonged financial crisis at the national level. For the next three years overall employment growth is expected to average 0.9 percent annually. The sliding dollar is expected to help Kentucky's exports, but the wage differential between newly industrialized economies and the U.S. is difficult to bridge. This means manufacturing employment in Kentucky will continue to decline in FY08 and for both years of the next biennium.

### ***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, 2007, the BRTF has a balance of \$231.5 million which was maintained throughout the fiscal year.

### ***Major Initiatives***

Fiscal year 2007 was the first year of the Commonwealth's budget biennial period. The FY07 General Fund budget included a three percent spending increase over the budget for FY06. Education spending increased four percent, mainly for elementary and secondary education. Human services were also a primary focus of increased spending. Funding for mental health and mental retardation programs increased by ten percent, and programs aimed at improved aging services were increased by over 30 percent. Economic development programs aimed at spurring entrepreneurship and economic growth in high technology areas were increased substantially. Within the criminal justice system, efforts were made to contend with growing probation and parole caseloads, as well as prosecutorial and public defender caseloads. Public pension funding was also a major initiative: funding for employer contributions to the state employee pension funds increased by 32 percent, and by over 20 percent for the teachers' pension system. Nearly half of the increase in General Fund spending over the prior year was devoted to debt service supporting a significant amount of new capital investment.

The Commonwealth's capital program in FY07 was budgeted at an unprecedented level. The majority of it was financed through the issuance of debt. The capital budget for FY07 included \$2 billion in bond financed projects. The largest proportion of new project activity was directed to the Commonwealth's nine postsecondary education institutions. The second largest commitment of support is for local water and sewer infrastructure projects, over \$250 million. 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 FY07, the Commonwealth began its Medicaid reform effort, 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 FY07 budget incorporated a lower growth rate of increased spending based upon program improvements resulting from the reform effort, only one percent. The Commonwealth also implemented self-insurance in FY07 for over 190,000 state employees, school district employees, and retirees.

For the third year in a row, General Fund revenues exceeded original budgeted estimates, reflecting an improved fiscal climate compared to the four years before. General Fund revenues were budgeted to grow by two percent, though the economic growth assumptions underneath were about twice that growth rate. Actual revenues grew by 2.4 percent, or about \$182 million higher than budgeted. The Commonwealth ended the FY07 with a budgeted surplus in the General Fund of \$145 million, and \$21 million in the Road Fund.

Remaining portions of the 2005 Tax Modernization legislation, the JOBS for Kentucky program, began to be implemented during FY07. 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, in a special session of the General Assembly, the corporate income tax changes made in 2005 were modified further. The primary focus was on 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 2007 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$502,066	2.75 %	\$818

No general obligation bonds were authorized or outstanding at June 30, 2007.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2007 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, 2006. This is the 20th consecutive year the Commonwealth has received this prestigious award.

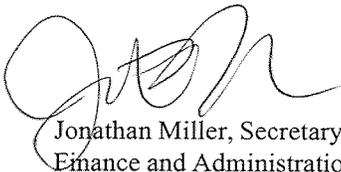
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both accounting principles generally accepted in the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

A handwritten signature in black ink, appearing to read 'J. Miller', is positioned above the typed name.

Jonathan Miller, Secretary  
Finance and Administration Cabinet



**STEVEN L. BESHEAR**  
Governor

**Commonwealth of Kentucky**  
**FINANCE AND ADMINISTRATION CABINET**  
**OFFICE OF THE CONTROLLER**

**JONATHAN MILLER**  
Secretary

Room 484, Capitol Annex  
702 Capital Avenue  
Frankfort, Kentucky 40601  
(502) 564-2210  
(502) 564-6597 Facsimile

**EDGAR C. ROSS**  
Controller

December 18, 2007

The Honorable Jonathan Miller  
Secretary, Finance and Administration Cabinet  
383 New Capitol Annex  
Frankfort, Kentucky

Dear Secretary Miller:

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, 2007, 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 black 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, 2006

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.



*Oliver S. Cox*

President

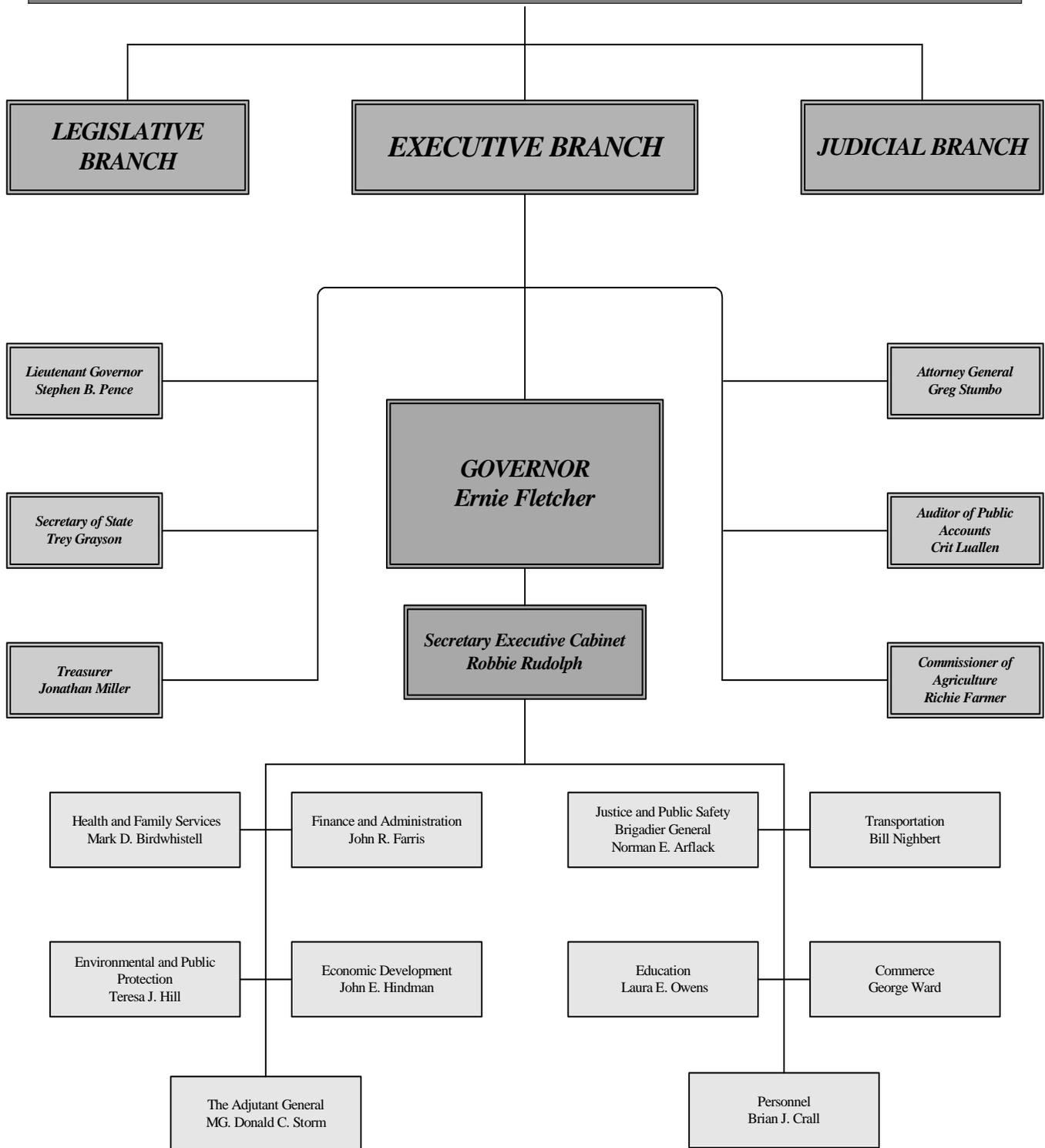
*Jeffrey R. Emen*

Executive Director

# COMMONWEALTH OF KENTUCKY

## ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



\*Principal Officials at June 30, 2007

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## **FINANCIAL SECTION**

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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
The Honorable Steven L. Beshear, Governor  
Jonathan Miller, 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, 2007, 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 of Kentucky
- Special Revenue Fund - Turnpike Authority of Kentucky

**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 Internal Service Funds including:**

- Within the Risk Management Fund:
  - State Workers’ Compensation Program
  - Transportation Cabinet’s Self-Insured Workers’ Compensation Trust Program

**Certain Fiduciary Funds including:**

- Pension and Insurance Trust Funds

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky  
 The Honorable Steven L Beshear, Governor  
 Jonathan Miller, 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
- World Games 2010 Foundation, Inc.
- 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:

<b>Government-Wide Financial Statements:</b>	<b>Percent of Assets</b>	<b>Percent of Revenues</b>
Primary Government - Governmental Activities	2.82%	.50%
Primary Government - Business-Type Activities	60.19%	84.01%
Component Units	99.09%	98.82%
<b>Fund Financial Statements:</b>		
Governmental Funds - Non-Major Funds	42.52%	7.21%
Proprietary Funds - Business-Type Activities - Enterprise Funds	60.15%	83.92%
Proprietary Funds - Governmental Activities - Internal Service Funds	3.99%	15.46%
Fiduciary Funds - Pension and Insurance Trust Funds	100.00%	100.00%
Component Units	99.09%	98.82%

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 opinion.

To the People of Kentucky  
The Honorable Steven L. Beshear, Governor  
Jonathan Miller, 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, 2007, 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 Management's Discussion and Analysis on pages 16 through 22, budgetary comparison schedules and corresponding notes on pages 106 through 121, and information about infrastructure assets reported using the modified approach on pages 122 and 123, and claims development information for entity risk pools on page 124, 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 128 through 179 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 182 through 201 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 18, 2007

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2007. 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, 2007 by \$17.4 billion, a decrease of \$466 million related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$8 million, a decrease in net assets of \$42 million related to current year activity. Total net assets decreased by \$507 million to \$17.4 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2007 by \$6.38 billion, an increase of \$651 million related to current year activity.

#### **Fund Highlights:**

As of the close of FY07, the Commonwealth's governmental funds reported combined ending fund balances of \$2.86 billion, a decrease of \$280 million in comparison with the prior year. Of this total amount, \$1 billion was reserved and the balance of approximately \$1.86 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$517 million at June 30, 2007.

Enterprise funds reported net assets of \$(8) million, of which \$626 million was restricted or invested in capital assets, and the balance of \$(634) million was unrestricted.

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

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$252 million to \$4.35 billion during the current fiscal year. The increase is attributable to the issuance of new debt by the Commonwealth's Primary Government to replace short-term notes used to initially fund projects, to advance refund debt outstanding to reduce future interest cost, and to fund new projects authorized and started during FY07. Additional details of these activities can be found in Note 15 beginning on Page 89.

### 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*

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

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

**Required Supplementary Information** - In addition to 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 \$17.4 billion at the end of 2007, as compared to \$17.9 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$18.2 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), and minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.6 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, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative \$2.4 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net 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, 2006 and June 30, 2007, 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	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 5,785,325	\$ 3,921,376	\$ 1,479,348	\$ 807,905	\$ 7,264,673	\$ 4,729,281
Capital Assets	19,651,695	19,075,047	267,335	252,650	19,919,030	19,327,697
Other Assets	2,047	2,052,168	13,552	662,234	15,599	2,714,402
Total Assets	25,439,067	25,048,591	1,760,235	1,722,789	27,199,302	26,771,380
Non Current Liabilities	5,747,270	4,977,477	1,587,339	1,532,184	7,334,609	6,509,661
Other Liabilities	2,314,605	2,252,131	180,444	156,446	2,495,049	2,408,577
Total Liabilities	8,061,875	7,229,608	1,767,783	1,688,630	9,829,658	8,918,238
Invested in Capital Assets						
Net of Related Debt	17,947,656	17,633,886	267,144	254,623	18,214,800	17,888,509
Restricted	1,237,151	1,376,301	359,605	392,318	1,596,756	1,768,619
Unrestricted	(1,807,615)	(1,191,204)	(634,297)	(612,782)	(2,441,912)	(1,803,986)
Total Net Assets	\$ 17,377,192	\$ 17,818,983	\$ (7,548)	\$ 34,159	\$ 17,369,644	\$ 17,853,142

## 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 FY07. The Commonwealth received program revenues of \$9.5 billion and general revenues (including transfers) of \$10.2 billion for total revenues of \$19.7 billion during FY07. Expenses for the Commonwealth during FY07 were \$20.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$(507) million, net of contributions, transfers and special items.

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

	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Governmental</b>	<b>Governmental</b>	<b>Business-Type</b>	<b>Business-Type</b>	<b>Total</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>	<b>Total</b>	<b>Total</b>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 1,057,311	\$ 964,033	\$ 2,492,096	\$ 1,952,078	\$ 3,549,407	\$ 2,916,111
Operating Grants and Contributions	5,261,989	5,139,428		45,573	5,261,989	5,185,001
Capital Grants and Contributions	658,132	597,282	476	112	658,608	597,394
<b>General Revenues:</b>						
Income Taxes	3,937,079	3,877,037			3,937,079	3,877,037
Sales Taxes	4,623,126	4,433,893			4,623,126	4,433,893
Property Taxes	503,853	492,532			503,853	492,532
Other Taxes	536,951	566,043			536,951	566,043
Investment Earnings	57,070	58,428	97,726	26,793	154,796	85,221
Other	425,791	505,017	3,052	25,930	428,843	530,947
<b>Total Revenues</b>	<b>17,061,302</b>	<b>16,633,693</b>	<b>2,593,350</b>	<b>2,050,486</b>	<b>19,654,652</b>	<b>18,684,179</b>
<b>Expenses:</b>						
<b>Governmental Activities:</b>						
General Government	3,708,700	2,714,165			3,708,700	2,714,165
Legislative and Judicial	313,010	305,466			313,010	305,466
Commerce	96,486	103,996			96,486	103,996
Education and Humanities	4,608,914	4,421,812			4,608,914	4,421,812
Human Resources	6,468,225	6,259,383			6,468,225	6,259,383
Justice	803,120	794,698			803,120	794,698
Natural Resources and Environmental Protection	191,052	207,369			191,052	207,369
Public Protection and Regulation	116,770	68,108			116,770	68,108
Transportation	1,123,493	1,263,891			1,123,493	1,263,891
Interest Expense	266,388	250,622			266,388	250,622
<b>Business-type Activities:</b>						
State Parks			111,973	90,283	111,973	90,283
Kentucky Lottery Corporation			563,549	558,435	563,549	558,435
Kentucky Horse Park			10,624	9,690	10,624	9,690
Kentucky Employees Health Plan			1,152,794	507,282	1,152,794	507,282
Insurance Administration			176,338	70,683	176,338	70,683
Unemployment Compensation			450,629	396,052	450,629	396,052
<b>Total Expenses</b>	<b>17,696,158</b>	<b>16,389,510</b>	<b>2,465,907</b>	<b>1,632,425</b>	<b>20,162,065</b>	<b>18,021,935</b>
<b>Increase (Decrease) in Net Assets Before Transfers</b>						
Assets Before Transfers	(634,856)	244,183	127,443	418,061	(507,413)	662,244
Transfers	169,150	187,101	(169,150)	(187,101)		
<b>Change in Net Assets</b>	<b>(465,706)</b>	<b>431,284</b>	<b>(41,707)</b>	<b>230,960</b>	<b>(507,413)</b>	<b>662,244</b>
<b>Net Assets, July 1, as restated</b>	<b>17,842,898</b>	<b>17,387,699</b>	<b>34,159</b>	<b>(196,801)</b>	<b>17,877,057</b>	<b>17,190,898</b>
<b>Net Assets, June 30</b>	<b>\$ 17,377,192</b>	<b>\$ 17,818,983</b>	<b>\$ (7,548)</b>	<b>\$ 34,159</b>	<b>\$ 17,369,644</b>	<b>\$ 17,853,142</b>

## Governmental Activities:

The slowing economy, during the fiscal year, caused revenues to decline resulting in the decrease in net assets of governmental activities by \$(466) million or 2.6 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** (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 3,708,700	\$ 627,093	\$ 3,081,607
Legislative and Judicial	313,010	16,420	296,590
Commerce	96,486	58,531	37,955
Education and Humanities	4,608,914	1,086,547	3,522,367
Human Resources	6,468,225	4,076,837	2,391,388
Justice	803,120	64,020	739,100
Natural Resources and Environmental Protection	191,052	97,038	94,014
Public Protection and Regulation	116,770	69,686	47,084
Transportation	1,123,493	881,260	242,233
<b>Totals</b>	<b>\$ 17,429,770</b>	<b>\$ 6,977,432</b>	<b>\$ 10,452,338</b>

## Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities decreased the Commonwealth's net assets by \$(42) million. Program revenues generated by the operations of the State Parks, Kentucky Horse Park, Insurance Administration, and Unemployment Insurance 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 and Employee Health Plan were sufficient to cover program expenses.

**Table 5** (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 111,973	\$ 56,519	\$ 55,454
Kentucky Lottery Corporation	563,549	744,222	(180,673)
Kentucky Horse Park	10,624	6,797	3,827
Kentucky Employees Health Plan	1,152,794	1,158,078	(5,284)
Insurance Administration	176,338	130,994	45,344
Unemployment Insurance	450,629	395,962	54,667
<b>Totals</b>	<b>\$ 2,465,907</b>	<b>\$ 2,492,572</b>	<b>\$ (26,665)</b>

## Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2007 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 \$17.4 billion; however, the condition of the State's business-type activities declined so that liabilities exceed their assets by \$8 million.
- The State's total net assets decreased during the year by \$(508) million. Net assets of governmental activities decreased by \$(466) million, while net assets of business-type activities decreased by \$(42) million.
- The major reason for the decline in net assets of the governmental activities was the implementation of GASB Statement 45, which recorded a liability for other post employment benefits. The primary cause of the decrease in business-type activities net assets is attributable to claims liability increases in the Insurance Administration Fund, for the Petroleum Storage Tank Assurance Program and the Kentucky Workers' Compensation Insurance Program.

## 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 \$2.86 billion, a decrease of \$(280) million in comparison with the prior year. The unreserved portion of fund balance (\$1.86 billion), which is the portion of fund balance available for spending in the coming year, has increased to 65% 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 \$813 million, with an unreserved balance of \$517 million. This compares to a General Fund unreserved Fund Balance of \$713 million as of June 30, 2006. 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 Commonwealth's general fund balance, after several years of growth, has decreased by \$81 million, during the current fiscal year, which represents a decline of 9%, of the prior year balance. The slow economy which reduced tax revenues is the major factor for this decline.

The following governmental funds experienced significant changes during the year:

### Major Special Revenue Funds

The major special revenue funds had no significant changes in fund balances, however, some changes in a fund's revenues and/or expenditures, might be considered significant. These changes 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 of the Agency Revenue Fund.

**Proprietary Funds** - The Commonwealth's proprietary funds reported net assets of \$137 million, which included \$(8) million in the enterprise funds and \$145 million in the internal service funds. This is a total decrease in net assets of \$(56) million from the previous year.

Two proprietary funds that contributed to this change were the Insurance Administration Fund and Unemployment Compensation Fund. The Insurance Administration Fund's net assets at June 30, 2007 totaled (\$760) million, a decrease of \$(10) million during the fiscal year. The Unemployment Compensation Fund's net assets at June 30, 2007 totaled \$339 million, a decrease of \$(43) million during the fiscal year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues failed to meet the final budgetary estimates by approximately \$38 million. However, with continued oversight actual expenditures for the year were approximately \$390 million less than the budgeted amount. Although, the Commonwealth's General fund balance decreased, funds were available to enable the increase in the budget stabilization "rainy day fund" during the 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, 2007, amounts to \$20.9 billion, with accumulated depreciation of \$949 million, leaving a net book value of \$19.9 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 3.1 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$2.1 billion for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$87 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 approximately been met and exceeded for the past two years.
- Actual expenditures necessary to maintain and preserve infrastructure assets at target condition levels were approximately 13.5% greater than the estimate for fiscal year 2007.

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

**Debt Administration** - The Office of Financial Management, as established in KRS 42.4201, is responsible for the oversight of the Commonwealth's debt. The Office develops a long-term debt plan including criteria for the issuance of debt and an evaluation of the total state debt to be incurred. Debt is issued through the State Property and Buildings Commission and the Kentucky Asset/Liability Commission.

The Commonwealth of Kentucky's bonded debt decreased by \$104 million to \$3.4 billion, a 2.93% decrease during the current fiscal year. The major factor in this decrease was the maturity of bonds outstanding and the issuance of notes for interim financing, rather than bonds. No general obligation bonds were authorized or outstanding at June 30, 2007. 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 5.6 percent, about the same as the 5.7 percent a year ago in October 2006. The national unemployment rate was substantially lower at 4.7 percent.

Both the national and Kentucky economies are under stress from the subprime mortgage crisis and the resulting fall in housing prices. This has been further exacerbated by the spike in energy prices. In particular crude oil prices were in the \$90 per barrel range for almost a month.

As a result the economy is expected to show meager growth for the next two years.

## **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.

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## **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 5)	\$ 1,330,992	\$ 229,554	\$ 1,560,546	\$ 1,342,886
Cash with fiscal agents (Note 5)	53,459		53,459	
Restricted cash (Note 5)		1,673	1,673	
Investments, net of amortization (Note 5)	1,664,405	692,042	2,356,447	2,401,223
Invested security collateral	617,292		617,292	
Receivables, net (Note 4)	1,704,401	264,689	1,969,090	4,428,747
Notes receivable	8,901		8,901	
Capital lease receivable (Note 4)	313,460		313,460	
Internal balances	642	(642)		
Inventories	51,351	3,366	54,717	30,830
Prepaid expenses	8,827	573	9,400	10,490
Deferred charges	31,595		31,595	90,525
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		287,257	287,257	483,639
Investments (Note 5)		836	836	1,112,136
Capital assets (Note 6):				
Land	136,215	21,071	157,286	203,626
Improvements other than buildings	15,281	97,707	112,988	148,802
Buildings	1,070,503	217,746	1,288,249	4,058,703
Machinery and equipment	546,723	60,197	606,920	1,526,606
Other capital assets				3,827
Easements and other intangibles	57,128	2,322	59,450	
Less: Accumulated depreciation and amortization	(763,065)	(186,006)	(949,071)	(2,764,396)
Construction in progress	2,068,255	54,298	2,122,553	407,022
Infrastructure	16,520,655		16,520,655	
Total Capital Assets	19,651,695	267,335	19,919,030	3,584,190
Other assets	2,047	13,552	15,599	167,258
Total Assets	25,439,067	1,760,235	27,199,302	13,651,924
<b>Liabilities</b>				
Accounts payable (Note 4)	1,303,869	54,068	1,357,937	362,090
Tax refunds payable	357,271		357,271	
Unearned revenue	36,173	126,202	162,375	173,589
Other liabilities		174	174	121,155
Liabilities from restricted assets				14,886
Obligations under securities lending	617,292		617,292	
Noncurrent liabilities:				
Due within one year (Note 15)	522,240	294,163	816,403	303,601
Due in more than one year (Note 15)	5,225,030	1,293,176	6,518,206	6,294,712
Total Liabilities	8,061,875	1,767,783	9,829,658	7,270,033
<b>Net Assets</b>				
Invested in capital assets, net of related debt	17,947,656	267,144	18,214,800	2,519,895
Restricted for:				
Debt service	415,386		415,386	244,863
Capital projects	187,917	7,258	195,175	247,800
Highways	633,848		633,848	
Unemployment benefits		338,580	338,580	
Other purposes (Note 1)		13,767	13,767	2,359,103
Unrestricted	(1,807,615)	(634,297)	(2,441,912)	1,010,230
Total Net Assets	\$ 17,377,192	\$ (7,548)	\$ 17,369,644	\$ 6,381,891

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, 2007**  
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 3,708,700	\$ 375,662	\$ 232,465	\$ 18,966
Legislative and judicial	313,010	14,558	1,862	
Commerce	96,486	42,267	15,988	276
Education and humanities	4,608,914	85,538	1,000,301	708
Human resources	6,468,225	197,556	3,878,228	1,053
Justice	803,120	22,189	40,345	1,486
Natural resources and environmental protection	191,052	39,412	57,590	36
Public protection and regulation	116,770	64,260	5,426	
Transportation	1,123,493	215,869	29,784	635,607
Interest expense	266,388			
Total Governmental Activities	<u>17,696,158</u>	<u>1,057,311</u>	<u>5,261,989</u>	<u>658,132</u>
Business-Type Activities:				
State Parks	111,973	56,208		311
Lottery Corporation	563,549	744,222		
Kentucky Horse Park	10,624	6,632		165
Kentucky Employees Health Plan	1,152,794	1,158,078		
Insurance Administration	176,338	130,994		
Unemployment Compensation	450,629	357,396	46,798	
Total Business-Type Activities	<u>2,465,907</u>	<u>2,453,530</u>	<u>46,798</u>	<u>476</u>
Total Primary Government	<u>\$ 20,162,065</u>	<u>\$ 3,510,841</u>	<u>\$ 5,308,787</u>	<u>\$ 658,608</u>
<b>Component Units:</b>				
Authorities:				
Kentucky Housing Corporation	\$ 277,408	\$ 134,193	\$ 147,679	\$
Kentucky Higher Education Student Loan Corporation	160,306	164,161		
Kentucky School Facilities Construction Commission	80,460		2,267	
Universities, Colleges, & Related Entities:				
University of Kentucky	1,808,629	1,062,625	372,704	23,536
University of Louisville	740,338	356,022	202,909	
Kentucky Community and Technical College System	476,065	85,712	186,936	
Other component units	1,569,824	530,703	541,721	1,722
Total Component Units	<u>\$ 5,113,030</u>	<u>\$ 2,333,416</u>	<u>\$ 1,454,216</u>	<u>\$ 25,258</u>
<b>General Revenues (Note 1):</b>				
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			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (3,081,607)	\$	\$ (3,081,607)	
(296,590)		(296,590)	
(37,955)		(37,955)	
(3,522,367)		(3,522,367)	
(2,391,388)		(2,391,388)	
(739,100)		(739,100)	
(94,014)		(94,014)	
(47,084)		(47,084)	
(242,233)		(242,233)	
(266,388)		(266,388)	
<u>(10,718,726)</u>		<u>(10,718,726)</u>	
	(55,454)	(55,454)	
	180,673	180,673	
	(3,827)	(3,827)	
	5,284	5,284	
	(45,344)	(45,344)	
	<u>(46,435)</u>	<u>(46,435)</u>	
	34,897	34,897	
<u>(10,718,726)</u>	<u>34,897</u>	<u>(10,683,829)</u>	
			\$ 4,464
			3,855
			(78,193)
			(349,764)
			(181,407)
			(203,417)
			<u>(495,678)</u>
			<u>(1,300,140)</u>
4,623,126		4,623,126	
2,975,875		2,975,875	
961,204		961,204	
503,853		503,853	
42,738		42,738	
279,924		279,924	
49,574		49,574	
164,715		164,715	
731		731	147,794
57,070	83,846	140,916	355,528
3,288	72	3,360	4,315
421,772	8,628	430,400	1,443,187
169,150	<u>(169,150)</u>		
10,253,020	<u>(76,604)</u>	10,176,416	1,950,824
<u>(465,706)</u>	<u>(41,707)</u>	<u>(507,413)</u>	650,684
17,842,898	34,159	17,877,057	5,731,207
<u>\$ 17,377,192</u>	<u>\$ (7,548)</u>	<u>\$ 17,369,644</u>	<u>\$ 6,381,891</u>

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# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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## Major Funds

### General Fund

The General Fund is the Commonwealth's operating fund and accounts for 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 .....128

**COMMONWEALTH OF KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 5)	\$ 730,350	\$ 74,767	\$ 6	\$ 82,833	\$ 18,733	\$ 396,766	\$ 1,303,455
Cash with fiscal agents (Note 5)						34,073	34,073
Restricted cash (Note 5)				14,710			14,710
Investments, net of amortization (Note 5)	323,819	383,985		262,066	170,280	488,793	1,628,943
Invested security collateral	244,116	122,389		89,897	50,645	110,245	617,292
Receivables, net (Note 4)	777,010	129,966	658,209	61,985	12,847	63,040	1,703,057
Notes receivable				7,835		1,065	8,900
Capital lease receivable (Note 4)						313,460	313,460
Interfunds receivable (Note 7)	113,868	974	101,572	74,650	1,145	267,473	559,682
Interfund loans receivable		62,705		37,315		11,018	111,038
Inventories	7,302	37,389	63	3,394		24	48,172
Total Assets	<u>\$ 2,196,465</u>	<u>\$ 812,175</u>	<u>\$ 759,850</u>	<u>\$ 634,685</u>	<u>\$ 253,650</u>	<u>\$ 1,685,957</u>	<u>\$ 6,342,782</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable (Note 4)	\$ 553,593	\$ 67,438	\$ 508,217	\$ 75,892	\$ 12,225	\$ 13,930	\$ 1,231,295
Tax refunds payable	357,271						357,271
Interfunds payable (Note 7)	65,041	63,527	124,227	37,132	1,243	273,114	564,284
Interfund loans payable			73,790	37,248			111,038
Obligations under securities lending	244,116	122,389		89,897	50,645	110,246	617,293
Deferred revenue	163,250	13,254	70,357	16,940	1,620	332,575	597,996
Total Liabilities	<u>1,383,271</u>	<u>266,608</u>	<u>776,591</u>	<u>257,109</u>	<u>65,733</u>	<u>729,865</u>	<u>3,479,177</u>
<b>Fund Balances:</b>							
Reserved for:							
Encumbrances		293,402			109,248		402,650
Statutory obligations	57,125	57,839					114,964
Budget stabilization	231,490						231,490
Inventories	7,302	37,389	63	3,394		24	48,172
Long-term receivables				7,835		1,065	8,900
Deposit with fiscal agents				14,710		34,073	48,783
Capital outlay					145,454		145,454
Unreserved, reported in:							
General fund	517,277						517,277
Special revenue funds		156,937	(16,804)	351,637		539,617	1,031,387
Debt service fund						381,313	381,313
Capital projects fund					(66,785)		(66,785)
Total Fund Balances	<u>813,194</u>	<u>545,567</u>	<u>(16,741)</u>	<u>377,576</u>	<u>187,917</u>	<u>956,092</u>	<u>2,863,605</u>
Total Liabilities and Fund Balances	<u>\$ 2,196,465</u>	<u>\$ 812,175</u>	<u>\$ 759,850</u>	<u>\$ 634,685</u>	<u>\$ 253,650</u>	<u>\$ 1,685,957</u>	<u>\$ 6,342,782</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, 2007**

(Expressed in Thousands)

Total Fund Balances - Governmental Funds		\$ 2,863,605
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	120,469	
Buildings, equipment, and other depreciable assets	1,294,269	
Infrastructure	16,520,655	
Accumulated depreciation	(537,916)	
Construction in progress	<u>2,003,884</u>	19,401,361
Certain revenues are earned but not available, and therefore, are deferred in the funds.		562,210
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		37,990
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.		145,221
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Capital lease obligations	(21,507)	
Compensated absences	(232,003)	
Judgements and contingencies	(12,835)	
Net pension obligations	<u>(782,361)</u>	(1,048,706)
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	(3,442,634)	
Notes payable	(910,310)	
Unamortized premiums and discounts	(179,633)	
Less deferred amounts on refundings	21,584	
Accrued interest payable	<u>(73,496)</u>	<u>(4,584,489)</u>
Net Assets of Governmental Activities		<u>\$ 17,377,192</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, 2007**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 8,142,849	\$ 1,077,891	\$	\$ 329,393	\$	\$ 118,440	\$ 9,668,573
Licenses, fees, and permits	33,687	132,183	21	135,213		2,745	303,849
Intergovernmental	16,238		5,739,183	26,302	26,015	2,532	5,810,270
Charges for services	9,773	5,688	423	544,133		192,515	752,532
Fines and forfeits	50,879	1	1	10,593		19,267	80,741
Interest and other investment income	36,251	17,829	2,014	11,883	32,051	63,805	163,833
Increase (decrease) in fair value of investments	407	3,247		3,727	2,170	1,690	11,241
Securities lending income	14,503	7,271		5,341	3,009	6,549	36,673
Other revenues	144,989	2,460	109,076	182,501	595	77,645	517,266
<b>Total Revenues</b>	<b>8,449,576</b>	<b>1,246,570</b>	<b>5,850,718</b>	<b>1,249,086</b>	<b>63,840</b>	<b>485,188</b>	<b>17,344,978</b>
<b>Expenditures</b>							
Current:							
General government	1,929,110		93,782	114,215		454,069	2,591,176
Legislative and judicial	283,551		3,269	16,976		3	303,799
Commerce	42,724		11,441	42,366		41	96,572
Education and humanities	3,588,308		858,754	43,139		64,364	4,554,565
Human resources	1,741,835		4,094,366	905,324		22,649	6,764,174
Justice	587,449		45,970	91,533		2,226	727,178
Natural resources and environmental protection	71,331		51,867	64,004		8,778	195,980
Public protection and regulation	32,154		4,423	61,768		172	98,517
Transportation	7,550	950,390	662,545	151,483		53,350	1,825,318
Debt service:							
Principal retirement						285,809	285,809
Interest and fiscal charges						200,297	200,297
Other expenditures						15,960	15,960
Securities lending expense	13,967	7,002		5,143	2,898	6,308	35,318
Capital outlay:							
Buildings					583,302		583,302
<b>Total Expenditures</b>	<b>8,297,979</b>	<b>957,392</b>	<b>5,826,417</b>	<b>1,495,951</b>	<b>586,200</b>	<b>1,114,026</b>	<b>18,277,965</b>
Excess (Deficiency) of Revenues over (under) Expenditures	151,597	289,178	24,301	(246,865)	(522,360)	(628,838)	(932,987)
<b>Other Financing Sources (Uses)</b>							
Transfers in	300,518	15,812	900	640,383	63,303	1,195,973	2,216,889
Transfers out	(534,914)	(179,255)	(31,130)	(406,676)	(70,677)	(819,172)	(2,041,824)
Capitalized leases	2,150	1,614	182	3,414		4	7,364
Issuance of bonds:							
New issues					159,140		159,140
Refunding issues						105,085	105,085
Premiums					9,315	7,295	16,610
Issuance of notes					314,109	206,245	520,354
Payments to refunded bond escrow agent						(330,193)	(330,193)
<b>Total Other Financing Sources (Uses)</b>	<b>(232,246)</b>	<b>(161,829)</b>	<b>(30,048)</b>	<b>237,121</b>	<b>475,190</b>	<b>365,237</b>	<b>653,425</b>
<b>Net Change in Fund Balances</b>	<b>(80,649)</b>	<b>127,349</b>	<b>(5,747)</b>	<b>(9,744)</b>	<b>(47,170)</b>	<b>(263,601)</b>	<b>(279,562)</b>
Fund Balances at July 1, as Restated (Note 2)	892,779	415,441	(10,928)	386,210	235,087	1,219,696	3,138,285
Increase (decrease) in inventories	1,064	2,777	(66)	1,110		(3)	4,882
<b>Fund Balances at June 30</b>	<b>\$ 813,194</b>	<b>\$ 545,567</b>	<b>\$ (16,741)</b>	<b>\$ 377,576</b>	<b>\$ 187,917</b>	<b>\$ 956,092</b>	<b>\$ 2,863,605</b>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

Net change in fund balances-total governmental funds \$ (279,562)

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	(15,843)	
Donated assets, fair market value	3,164	
Buildings, equipment, and other depreciable assets	62,117	
Infrastructure	545,065	
Accumulated depreciation	<u>(55,034)</u>	539,469

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 34,011

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	4,348	
Inventories	<u>4,882</u>	9,230

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. (13,649)

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	(493,998)	
Capital lease payments	8,870	
Compensated absence payments	(9,853)	
Litigation payments	<u>1,107</u>	(493,874)

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	(801,190)	
Repayment of bond principal	285,809	
Payment to refunded bond escrow agent	330,193	
Accrued interest	(66,569)	
Loss on refunding	(9,806)	
Deferred issue costs	<u>232</u>	<u>(261,331)</u>

Change in net assets of governmental activities \$ (465,706)

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

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# PROPRIETARY FUNDS FINANCIAL STATEMENTS

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## Enterprise Funds (All Major)

### State Parks Fund

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

### Kentucky Lottery Corporation

The Kentucky Lottery Corporation, empowered by KRS 154A, administers the Kentucky State Lottery and is 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 the Commonwealth.

*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 page..... 138

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 2,080	\$ 22,217	\$ 748
Cash on deposit with the Federal government (Note 5)			
Cash with fiscal agent			
Restricted cash (Note 5)			1,638
Investments, net of amortization (Note 5)		31,463	
Receivables, net (Note 4)	830	27,335	404
Interfunds receivable (Note 7)	323		
Inventories	2,660	136	570
Prepaid expenses	33	530	
<b>Total Current Assets</b>	<b>5,926</b>	<b>81,681</b>	<b>3,360</b>
Noncurrent assets:			
Restricted investments (Note 5)			
Investments, net of amortization (Note 5)	3,584	140,377	5,823
Receivables, net		4,589	36
Capital assets (Note 6):			
Land	16,176	442	4,453
Improvements other than buildings	79,245	354	18,108
Buildings	194,454	7,267	16,025
Machinery and equipment	14,162	40,135	3,594
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(122,971)	(36,949)	(24,331)
Construction in progress	52,030		2,268
<b>Total Capital Assets</b>	<b>235,418</b>	<b>11,249</b>	<b>20,117</b>
Other assets			
<b>Total Noncurrent Assets</b>	<b>239,002</b>	<b>156,215</b>	<b>25,976</b>
<b>Total Assets</b>	<b>244,928</b>	<b>237,896</b>	<b>29,336</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable (Note 4)	6,264	12,805	603
Judgments payable	28		
Interfunds payable (Note 7)	796		
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	62		24
Prize liability		54,875	
Compensated absences (Note 15)	2,622	933	269
Deferred revenue	905		136
Other liabilities			174
<b>Total Current Liabilities</b>	<b>10,677</b>	<b>68,613</b>	<b>1,206</b>
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	79		32
Prize liability		134,270	
Compensated absences (Note 15)	3,082		335
<b>Total Noncurrent Liabilities</b>	<b>3,161</b>	<b>134,270</b>	<b>367</b>
<b>Total Liabilities</b>	<b>13,838</b>	<b>202,883</b>	<b>1,573</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	235,283	11,249	20,061
Restricted for:			
Unemployment benefits			
Capital projects			7,258
Other purposes (Note 1)			
Unrestricted	(4,193)	23,764	444
<b>Total Net Assets</b>	<b>\$ 231,090</b>	<b>\$ 35,013</b>	<b>\$ 27,763</b>

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, 2007	Activities-Internal Service Funds
\$ 50,294	\$ 118,225	\$ 4,527	\$ 198,091	\$ 27,537
		287,257	287,257	4,676
35			1,673	
			31,463	
31,423	105,974	94,098	260,064	1,344
10			333	5,521
			3,366	3,178
10			573	4,479
<u>81,772</u>	<u>224,199</u>	<u>385,882</u>	<u>782,820</u>	<u>46,735</u>
836			836	
471,545	70,061	652	692,042	35,462
			4,625	
			21,071	15,746
			97,707	3,144
			217,746	256,649
2,306			60,197	135,573
			2,322	
(1,755)			(186,006)	(225,146)
			54,298	64,371
<u>551</u>			<u>267,335</u>	<u>250,337</u>
	<u>13,552</u>		<u>13,552</u>	
<u>472,932</u>	<u>83,613</u>	<u>652</u>	<u>978,390</u>	<u>285,799</u>
<u>554,704</u>	<u>307,812</u>	<u>386,534</u>	<u>1,761,210</u>	<u>332,534</u>
61	15,201	19,134	54,068	20,695
			28	
179			975	277
153,812	76,795		230,607	13,998
3,509			3,509	875
			86	3,063
			54,875	
1,040	194		5,058	3,096
870	95,471	28,820	126,202	384
			174	
<u>159,471</u>	<u>187,661</u>	<u>47,954</u>	<u>475,582</u>	<u>42,388</u>
1,122,225			1,122,225	120,331
32,608			32,608	7,274
			111	14,508
			134,270	
475	70		3,962	2,812
<u>1,155,308</u>	<u>70</u>		<u>1,293,176</u>	<u>144,925</u>
<u>1,314,779</u>	<u>187,731</u>	<u>47,954</u>	<u>1,768,758</u>	<u>187,313</u>
551			267,144	229,031
		338,580	338,580	
			7,258	
13,767			13,767	
(774,393)	120,081		(634,297)	(83,810)
<u>\$ (760,075)</u>	<u>\$ 120,081</u>	<u>\$ 338,580</u>	<u>\$ (7,548)</u>	<u>\$ 145,221</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Business-Type Activities-</b>		
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Horse Park</b>
<b>Operating Revenues:</b>			
Charges for sales and services:			
State parks sales and services	\$ 56,542	\$	\$
Lottery sales		744,222	
Horse park admissions and sales			6,632
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	1,528		938
Total Operating Revenues	<u>58,070</u>	<u>744,222</u>	<u>7,570</u>
<b>Operating Expenses:</b>			
Personal services	53,775		4,648
Utilities, rental, and other services	15,326	971	1,699
Commodities and supplies	33,516		624
Grants and subsidies	(20)		
Depreciation and amortization	8,820	3,102	623
Travel	483	113	75
Reinsurance expense			
Claims expense	56		
Claims adjustment expense			
Prize expense		456,370	
Other expenses		89,843	2,941
Total Operating Expenses	<u>111,956</u>	<u>550,399</u>	<u>10,610</u>
Operating Income (Loss)	<u>(53,886)</u>	<u>193,823</u>	<u>(3,040)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of capital assets			(11)
Interest and other investment income	3	72	
Increase (decrease) in fair value of investments	418	14,029	7
Interest expense	(17)	(1,418)	(3)
Other revenues (expenses)		(11,732)	
Total Nonoperating Revenues (Expenses)	<u>404</u>	<u>951</u>	<u>(7)</u>
Income (Loss) before Capital Contributions and Transfers	(53,482)	194,774	(3,047)
Capital Contributions			165
Transfers in	34,696		9,141
Transfers out	(1,401)	(196,191)	(39)
Change in Net Assets	<u>(20,187)</u>	<u>(1,417)</u>	<u>6,220</u>
Net Assets at July 1	251,277	36,430	21,543
Net Assets at June 30	<u>\$ 231,090</u>	<u>\$ 35,013</u>	<u>\$ 27,763</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, 2007	Activities-Internal Service Funds
\$	\$	\$	\$	\$
			56,542	
			744,222	
			6,632	
130,994	1,158,078		1,289,072	
		395,962	395,962	
				176,485
491			2,957	572
<u>131,485</u>	<u>1,158,078</u>	<u>395,962</u>	<u>2,495,387</u>	<u>177,057</u>
16,656	3,423		78,502	66,336
1,612	476	16	20,100	36,287
580	73	855	35,648	47,464
		449,758	449,738	1,091
90			12,635	19,467
274			945	172
				1,349
142,971	1,136,449		1,279,476	26,653
5,005	(306)		4,699	1,241
			456,370	
(279)	1,544		94,049	
<u>166,909</u>	<u>1,141,659</u>	<u>450,629</u>	<u>2,432,162</u>	<u>200,060</u>
<u>(35,424)</u>	<u>16,419</u>	<u>(54,667)</u>	<u>63,225</u>	<u>(23,003)</u>
(4)			(15)	(1,409)
20,967	10,642	13,879	45,563	406
37,780		1	52,235	516
			(1,438)	(246)
(9,425)	(11,135)		(32,292)	52
<u>49,318</u>	<u>(493)</u>	<u>13,880</u>	<u>64,053</u>	<u>(681)</u>
13,894	15,926	(40,787)	127,278	(23,684)
			165	585
25,196	11,213		80,246	20,974
(49,427)	(78)	(2,260)	(249,396)	(11,524)
<u>(10,337)</u>	<u>27,061</u>	<u>(43,047)</u>	<u>(41,707)</u>	<u>(13,649)</u>
(749,738)	93,020	381,627	34,159	158,870
<u>\$ (760,075)</u>	<u>\$ 120,081</u>	<u>\$ 338,580</u>	<u>\$ (7,548)</u>	<u>\$ 145,221</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Business-Type Activities -</b>	
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers - public	\$ 52,251	\$ 748,326
Cash received from customers - state	435	
Cash payments to suppliers for goods and services	(46,555)	(566,022)
Cash payments for employee salaries and benefits	(53,997)	(13,426)
Cash payments for claims expense		
Cash payments from other sources	1,548	
Cash payments to other sources	(56)	
Net Cash Provided (Used) by Operating Activities	<u>(46,374)</u>	<u>168,878</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers from other funds	34,696	
Transfers to other funds	(1,401)	(196,191)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>33,295</u>	<u>(196,191)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(21,335)	(1,934)
Principal paid on revenue bond maturities and equipment contracts	(97)	
Interest paid on revenue bonds and equipment contracts	(17)	
Proceeds from the sale of capital assets		
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(21,449)</u>	<u>(1,934)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities		(5,166)
Proceeds from the sale of investment securities	31,458	31,151
Interest and dividends on investments	421	3,180
Net Cash Provided (Used) in Investing Activities	<u>31,879</u>	<u>29,165</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,649)	(82)
Cash and Cash Equivalents at July 1	4,729	22,299
Cash and Cash Equivalents at June 30	<u>\$ 2,080</u>	<u>\$ 22,217</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income (loss)	\$ (53,886)	\$ 193,823
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	8,820	3,102
Interest and other investment income		103
Miscellaneous nonoperating income (expense)		
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	(341)	(4,336)
Interfund receivables	(77)	
Inventories	(83)	(41)
Prepaid expenses	1	
Other assets		170
Increase (decrease) in liabilities:		
Accounts payable	2,123	147
Interfund payables	226	(351)
Claims liability		
Claims adjustment liability		
Compensated absences	260	45
Deferred revenue	(3,438)	
Other liabilities	21	(23,784)
Net Cash Provided (Used) by Operating Activities	<u>\$ (46,374)</u>	<u>\$ 168,878</u>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Change in fair value of investments	\$ 418	\$ (1,417)
Contributions of capital assets		44
Capital assets acquired through leases	10	
Accretion of investments held to fund grand prizes, which increased prize liability		11,813
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 428</u>	<u>\$ 10,440</u>

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

Enterprise Funds					Governmental
Kentucky Horse Park	Insurance Administration	Kentucky Employees Health Plan	Unemployment Compensation	Totals June 30, 2007	Activities - Internal Service Funds
\$ 7,017	\$ 143,581	\$ 669,940	\$ 405,172	\$ 2,026,287	\$ 98,688
(4,343)	(3,076)	431,715		432,150	76,231
(4,647)	(16,706)	(1,950)	(17)	(621,963)	(69,811)
	(84,342)	(3,322)		(92,098)	(66,316)
	(8,931)	(1,075,254)		(1,159,596)	(24,698)
		22,490		15,107	625
		(54,383)	(449,695)	(504,134)	(2,396)
(1,973)	30,526	(10,764)	(44,540)	95,753	12,323
9,141	25,196	11,213		80,246	20,974
(39)	(49,427)	(78)	(2,260)	(249,396)	(11,524)
9,102	(24,231)	11,135	(2,260)	(169,150)	9,450
(1,474)				(24,743)	(31,244)
(23)				(120)	(387)
(3)				(20)	(246)
(1,500)				(24,883)	(31,877)
(3,977)	(32,028)	(6,797)		(47,968)	(11,957)
	812		1,227	64,648	31,294
	20,979	10,642	13,881	49,103	911
(3,977)	(10,237)	3,845	15,108	65,783	20,248
1,652	(3,942)	4,216	(31,692)	(32,497)	10,144
734	54,271	114,009	323,476	519,518	19,116
\$ 2,386	\$ 50,329	\$ 118,225	\$ 291,784	\$ 487,021	\$ 29,260
\$ (3,040)	\$ (35,424)	\$ 16,419	\$ (54,667)	\$ 63,225	\$ (23,003)
623	90			12,635	19,467
	(3,745)	(11,135)		103	
				(14,880)	52
33	696	(40,963)	7,228	(37,683)	(624)
(3)	820	8	1	752	280
				(127)	(371)
(10)	5,391			1	3,309
409	(777)	14,678	919	17,499	10,889
	179	(8)	(1)	45	60
	60,131	3,413		63,544	3,203
	3,563	(306)		3,257	
	(51)	8		262	284
15		7,711	1,980	6,268	(1,223)
	(347)	(589)		(24,699)	
\$ (1,973)	\$ 30,526	\$ (10,764)	\$ (44,540)	\$ 95,753	\$ 12,323
\$ 7	\$ 37,780	\$ 121	\$ 1	\$ 36,910	\$ 516
165				209	585
				10	12,521
				11,813	
\$ 172	\$ 37,780	\$ 121	\$ 1	\$ 48,942	\$ 13,622

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## **FIDUCIARY FUNDS FINANCIAL STATEMENTS**

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

- Kentucky Employees Retirement System**
- County Employees Retirement System**
- State Police Retirement System**
- Kentucky Teachers' Retirement System**
- Judicial Retirement Fund**
- Legislators' Retirement Fund**
- 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, 2007**  
(Expressed in Thousands)

	<b>Pension and Other Post Employment Benefit Trust Funds</b>		<b>Agency Funds</b>
	<b>Pension Trust Funds</b>	<b>Insurance Trust Funds</b>	
<b>Assets</b>			
Cash and cash equivalents (Note 5)	\$ 817,348	\$ 361,535	\$ 180,744
Investments, net of amortization (Note 5)			107,144
Pension trust fund investments (Note 5):			
Corporate and government bonds	7,737,650	289,343	
Common stocks	19,215,804	2,178,677	
Mortgages	1,732,655		
Mutual funds	1,496,932	128	
Real estate	391,238	7	
Invested security collateral	4,000,100	748,802	352,631
Receivables, net	247,638	47,123	84,890
Prepaid expenses	86	121	
Buildings	4,978		
Total Assets	<u>35,644,429</u>	<u>3,625,736</u>	<u>725,409</u>
<b>Liabilities</b>			
Accounts payable	25,106	4,945	252,330
Amounts held in custody for others			120,448
Obligations under securities lending	4,000,100	748,802	352,631
Total Liabilities	<u>4,025,206</u>	<u>753,747</u>	<u>725,409</u>
<b>Net Assets</b>			
Held in trust for:			
Employee retirement benefits	31,619,223		
Retirees' health insurance		2,871,989	
Total Net Assets	<u>\$ 31,619,223</u>	<u>\$ 2,871,989</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, 2007**  
**(Expressed in Thousands)**

	<b>Pension and Other Post Employment Benefit Trust Funds</b>	
	<b>Pension Trust Funds</b>	<b>Insurance Trust Funds</b>
<b>Additions</b>		
Contributions:		
Employer	\$ 742,589	\$ 420,954
Member	714,358	53,100
Total Contributions	<u>1,456,947</u>	<u>474,054</u>
Other Contributions:		
Recovery Income		26,522
Medicare D Receipts		31,902
Participant fees	7,445	
Other receipts	1,143	
Total Other Income	<u>8,588</u>	<u>58,424</u>
Investment income:		
Net increase (decrease) in fair value of investments	3,267,275	366,809
Interest	761,765	64,166
Dividends	168,661	
Real estate operating income, net	30,344	
Securities lending income, net	238,748	36,777
Total Investment Income	<u>4,466,793</u>	<u>467,752</u>
Less: Investment expense	31,296	2,506
Less: Securities lending expense	230,837	35,134
Net Investment Income	<u>4,204,660</u>	<u>430,112</u>
Total Additions	<u>5,670,195</u>	<u>962,590</u>
<b>Deductions</b>		
Benefit payments	2,409,115	169,578
Refunds	40,062	6
Administrative expenses	34,843	11,399
Self funding insurance costs		89,567
Healthcare Premiums Subsidies		151,482
Other deductions, net	2,111	805
Total Deductions	<u>2,486,131</u>	<u>422,837</u>
Change in Net Assets	3,184,064	539,753
<b>Net Assets Held In Trust</b>		
Net Assets at July 1, as Restated (Note 2)	28,433,271	2,332,236
Adjustment to net assets	1,888	
Net Assets at June 30	<u>\$ 31,619,223</u>	<u>\$ 2,871,989</u>

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

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# COMPONENT UNITS FINANCIAL STATEMENTS

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## Major Component Units

### **Kentucky Housing Corporation**

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

### **Kentucky Higher Education Student Loan Corporation**

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

### **School Facilities Construction Commission**

The 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.....162

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	<b>AUTHORITIES</b>		
	<b>Kentucky Housing Corporation</b>	<b>Kentucky Higher Education Student Loan Corporation</b>	<b>School Facilities Construction Commission</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 59,540	\$ 247,923	\$ 5,084
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	241,872	11,210	
Accounts receivable, net	2,049	10,254	
Interest receivable		45,898	
Inventories			
Prepaid expenses			
Other current assets	43,600	3,923	
<b>Total Current Assets</b>	<b>347,061</b>	<b>319,208</b>	<b>5,084</b>
Noncurrent assets:			
Restricted cash (Note 5)			
Long-term investments (Note 5)	522,058		5,972
Restricted long-term investments (Note 5)			
Long-term receivables, net	1,540,927	1,782,582	
Deferred charges	42,697	43,406	4,015
Capital assets (Note 6):			
Land	942		
Improvements other than buildings			
Buildings	4,897		
Machinery and equipment	6,979	14,764	
Other capital assets			
Less: Accumulated depreciation and amortization	(7,959)	(11,523)	
Construction in progress			
<b>Total Capital Assets</b>	<b>4,859</b>	<b>3,241</b>	
Other assets			
<b>Total Noncurrent Assets, Net</b>	<b>2,110,541</b>	<b>1,829,229</b>	<b>9,987</b>
<b>Total Assets</b>	<b>2,457,602</b>	<b>2,148,437</b>	<b>15,071</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	49,719	12,477	11,288
Current portion of long-term debt:			
Notes payable (Note 15)	372	10,000	
Bonds payable (Note 15)	48,115		69,303
Capital lease obligations (Note 10)			
Compensated absences (Note 16)		1,282	11
Claims liability			
Deferred revenues			
Payable from restricted assets			
Other current liabilities	46,188		
<b>Total Current Liabilities</b>	<b>144,394</b>	<b>23,759</b>	<b>80,602</b>
Noncurrent liabilities:			
Notes payable (Note 15)	2,729		
Bonds payable (Note 15)	2,035,137	2,047,250	712,492
Capital lease obligations (Note 10)			
Compensated absences (Note 16)			24
Other long-term liabilities	13,922	12,342	
<b>Total Noncurrent Liabilities</b>	<b>2,051,788</b>	<b>2,059,592</b>	<b>712,516</b>
<b>Total Liabilities</b>	<b>2,196,182</b>	<b>2,083,351</b>	<b>793,118</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,859	3,242	
Restricted for:			
Debt service	193,439		
Capital projects			
Other purposes (Note 1)	15,810	41,128	
Unrestricted	47,312	20,716	(778,047)
<b>Total Net Assets</b>	<b>\$ 261,420</b>	<b>\$ 65,086</b>	<b>\$ (778,047)</b>

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

**UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**

<b>University of Kentucky</b>	<b>University of Louisville</b>	<b>Kentucky Community and Technical College System</b>	<b>Non-Major Component Units</b>	<b>All Component Units Totals June 30, 2007</b>
\$ 372,287	\$ 58,617	\$ 186,891	\$ 412,544	\$ 1,342,886
			59,853	59,853
4,197	35,132	2,759	138,355	433,525
199,487	72,504	19,702	180,285	484,281
5,863		1,420	7,082	60,263
21,855	1,541		7,434	30,830
3,039	305	1,027	6,119	10,490
1,992	5,096		28,448	83,059
<u>608,720</u>	<u>173,195</u>	<u>211,799</u>	<u>840,120</u>	<u>2,505,187</u>
143,116	58,905	46,133	175,632	423,786
172,434	913,667	26,604	326,963	1,967,698
945,306	4,759		162,071	1,112,136
38,182	22,876	9,608	490,028	3,884,203
			407	90,525
58,204	42,486	22,553	79,441	203,626
69,483	5,543	7,059	66,717	148,802
1,335,234	691,388	435,810	1,591,374	4,058,703
638,513	318,827	128,248	419,275	1,526,606
			3,827	3,827
(996,781)	(453,573)	(270,268)	(1,024,292)	(2,764,396)
104,017	41,266	76,051	185,688	407,022
<u>1,208,670</u>	<u>645,937</u>	<u>399,453</u>	<u>1,322,030</u>	<u>3,584,190</u>
21,154	20,573		42,472	84,199
<u>2,528,862</u>	<u>1,666,717</u>	<u>481,798</u>	<u>2,519,603</u>	<u>11,146,737</u>
<u>3,137,582</u>	<u>1,839,912</u>	<u>693,597</u>	<u>3,359,723</u>	<u>13,651,924</u>
161,634	52,820	7,348	66,804	362,090
21,055	81		4,371	35,879
12,825	11,417		36,046	177,706
20,486	1,703	1,101	27,175	50,465
490		10,213	17,346	29,342
			10,209	10,209
60,285	38,459	25,580	49,265	173,589
			14,886	14,886
23,220	2,901	12,747	36,099	121,155
<u>299,995</u>	<u>107,381</u>	<u>56,989</u>	<u>262,201</u>	<u>975,321</u>
571			20,079	23,379
183,675	184,099		448,633	5,611,286
298,844	4,162	12,287	125,301	440,594
2,947			1,289	4,260
73,898	56,889	2,887	55,255	215,193
<u>559,935</u>	<u>245,150</u>	<u>15,174</u>	<u>650,557</u>	<u>6,294,712</u>
<u>859,930</u>	<u>352,531</u>	<u>72,163</u>	<u>912,758</u>	<u>7,270,033</u>
773,962	465,059	386,065	886,708	2,519,895
3,624	21,604		26,196	244,863
77,426	36,618	40,653	93,103	247,800
757,084	391,858	62,132	1,091,091	2,359,103
665,556	572,242	132,584	349,867	1,010,230
<u>\$ 2,277,652</u>	<u>\$ 1,487,381</u>	<u>\$ 621,434</u>	<u>\$ 2,446,965</u>	<u>\$ 6,381,891</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	<b>AUTHORITIES</b>		
	<b>Kentucky Housing Corporation</b>	<b>Kentucky Higher Education Student Loan Corporation</b>	<b>School Facilities Construction Commission</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 277,408	\$ 160,306	\$ 80,460
Depreciation			
Total Expenses	<u>277,408</u>	<u>160,306</u>	<u>80,460</u>
<b>Program Revenues:</b>			
Charges for services	134,193	164,161	
Operating grants and contributions	147,679		2,267
Capital grants and contributions			
Total Program Revenues	<u>281,872</u>	<u>164,161</u>	<u>2,267</u>
<b>Net Program (Expense) Revenue</b>	<u>4,464</u>	<u>3,855</u>	<u>(78,193)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions			
Unrestricted investment earnings			666
Gain on sale of capital assets			
Miscellaneous general			
Total General Revenues			<u>666</u>
Change in Net Assets	<u>4,464</u>	<u>3,855</u>	<u>(77,527)</u>
Net Assets at July 1, As Restated (Note 2)	256,956	61,231	(700,520)
Net Assets at June 30	<u>\$ 261,420</u>	<u>\$ 65,086</u>	<u>\$ (778,047)</u>

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, 2007
\$ 1,808,629	\$ 740,338	\$ 476,065	\$ 1,567,664	\$ 5,110,870
<u>1,808,629</u>	<u>740,338</u>	<u>476,065</u>	<u>2,160</u>	<u>2,160</u>
			<u>1,569,824</u>	<u>5,113,030</u>
1,062,625	356,022	85,712	530,703	2,333,416
372,704	202,909	186,936	541,721	1,454,216
23,536			1,722	25,258
<u>1,458,865</u>	<u>558,931</u>	<u>272,648</u>	<u>1,074,146</u>	<u>3,812,890</u>
<u>(349,764)</u>	<u>(181,407)</u>	<u>(203,417)</u>	<u>(495,678)</u>	<u>(1,300,140)</u>
64,149	38,140	4,920	40,585	147,794
160,975	117,544	10,720	65,623	355,528
4,133			182	4,315
296,057	203,767	255,303	688,060	1,443,187
<u>525,314</u>	<u>359,451</u>	<u>270,943</u>	<u>794,450</u>	<u>1,950,824</u>
175,550	178,044	67,526	298,772	650,684
2,102,102	1,309,337	553,908	2,148,193	5,731,207
<u>\$ 2,277,652</u>	<u>\$ 1,487,381</u>	<u>\$ 621,434</u>	<u>\$ 2,446,965</u>	<u>\$ 6,381,891</u>



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## **NOTES TO FINANCIAL STATEMENTS**

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**Note 1**

**SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

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

**B. Financial Reporting Entity**

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14, as amended by GASB 39. 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, and the Kentucky Grain Insurance Corporation. (See pages 102 and 103 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.

**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.

**School Facilities Construction Commission (KRS 157.617)**

This commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that will

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2007

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.

**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.

**World Games 2010 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, to finance the operations of the World Equestrian Games in 2010.

**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 benefit trust fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. 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:

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

**Restricted Net Assets**

(Expressed in Thousands)

Restricted for Other Purposes:	<u>Primary Government</u>	Component Units-Major
	Business Type Activities	
Loans	\$	\$ 27,847
Education		132,687
Instruction		124,763
Scholarships and Fellowships		217,972
Research		312,545
Claims	13,767	
Other		452,198
<b>Totals</b>	<u>\$ 13,767</u>	<u>\$ 1,268,012</u>

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

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

**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.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2007**

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**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.

**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 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

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

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6. Fire and tornado insurance programs
7. State workers' compensation program
8. Transportation Cabinet self-insured workers' compensation trust program

### **Fiduciary Funds**

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of funds includes pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

**Pension and Other 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 Student Loan Corporation  
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 Higher Education Assistance Authority  
Kentucky Infrastructure Authority  
Kentucky Local Correctional Facilities Construction Authority  
Kentucky River Authority  
Kentucky State Fair Board  
Bluegrass State Skills Corporation  
World Games 2010 Foundation, Inc.  
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 2007, the primary government provided \$318,567,900 to the University of Kentucky, \$215,320,500 to the Kentucky Community and Technical College System, \$187,484,800 to the University of Louisville, and \$166,273,676 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$196,643,761 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, 2007 are \$2,208,037,440.

**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.

**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

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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, 2007. The estimate of historical cost for the primary government was based on appraised value as of June 30 1986, indexed to the date of acquisition.

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

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

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 2007, 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

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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 \$1,935,975,367 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 an increase of \$23,915,000.

**General Fund** - The General Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is net decrease of \$4,115,000.00

**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 increase of \$18,988,000.

**Special Revenue Fund** – The Agency Revenue Fund, Federal Fund, and the Special Benefits Fund within the Special Revenue Fund were restated for prior period errors. The restatements decreased the Agency Revenue Fund balance by \$3,380,000, decreased the Federal Fund balance by \$15,501,000, and increased

the Special Benefits Fund balance by \$4,840,000. The net effect of all restatements on the Special Revenue fund balance is a decrease of \$14,041,000.

**Internal Service Funds** – The Computer Services Fund and the Risk Management Fund within the Internal Service Funds was restated to include amounts which were not included in the past. The restatements increased the Computer Services Fund by \$4,616,000 and increased the Risk Management Fund by \$123,000. The effect on net assets is an increase of \$4,739,000.

**Component Units – Authorities:**

**Kentucky Access** – Kentucky Access restated net assets to correct balances for transactions that were for prior-period Guaranteed Acceptance Program assessments. The effect on net assets is an increase of \$137,000.

Restatement of all Component Units-Authorities results in an overall increase in net assets of \$137,000.

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

**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 an increase of \$5,174,000.

**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 an increase of \$513,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$5,687,000.

**Pension Trust Funds** – The early implementation of GASB 45 for Kentucky Retirement Systems and Kentucky Teachers' Retirement Systems resulted in the statements being segregated to reflect the activity of the retirement benefits separately from the insurance benefits. Therefore, the beginning fund balance of the Pensions Trust Funds has been decreased \$2,332,236,000 and the Insurance Funds have been increased, by the same amount.

**Note 3**

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

- A. Federal Funds** – The Federal Fund has a fund balance deficit of \$16,741,000. The deficit is a result of expenditure accruals, which will be funded in future periods.
- B. Enterprise Funds** – The Insurance Administration Fund has a net assets deficit of \$760,075,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.
- C. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$121,997,000. 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.
- D. Component Units – Authorities** – The Kentucky School Facilities Construction Commission has a net assets deficit of \$778,047,000. 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 \$9,266,000 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 \$18,000 from the recognition of long term compensated absence liability. The World Games 2010 Foundation, Inc. has a net asset deficit of \$945,000.

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, 2007. 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 on the following page.

**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, 2007. 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 on the following page.

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

	Governmental Activities			Total Governmental Activities	Business-Type Activities	Total Primary Government
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	
<b>Current Payables</b>						
Personal services	\$ 161,990	\$ 606	\$ 7,721	\$ 170,317	\$ 26,397	\$ 196,714
Utilities, rental and other services	30,811	175	3,666	34,652	937	35,589
Commodities and supplies	13,722	297	5,940	19,959	1,865	21,824
Grants and subsidies	672,774	8,313	124	681,211	19,143	700,354
Capital outlay	82,374	626	3,201	86,201	993	87,194
Travel	2,496	10	20	2,526	30	2,556
Investment Payable	229,093			229,093		229,093
Interest Payable	73,496	193	15	73,704		73,704
Other	2,488	3,710	8	6,206	4,703	10,909
Total Current Payables	<u>\$ 1,269,244</u>	<u>\$ 13,930</u>	<u>\$ 20,695</u>	<u>\$ 1,303,869</u>	<u>\$ 54,068</u>	<u>\$ 1,357,937</u>
<b>Current Receivables</b>						
Charges for services	\$ 32,871	\$ 19,750	\$ 1,342	\$ 53,963	\$ 139,145	\$ 193,108
Taxes receivable	1,778,935	19,884		1,798,819		1,798,819
Investment receivable	22,522	4,769		27,291	3,366	30,657
Intergovernmental revenue	667,893	338	2	668,233	7,989	676,222
Other	93,167	21,394		114,561	119,489	234,050
Allowances for uncollectables	(955,371)	(3,095)		(958,466)	(5,300)	(963,766)
Total Current Receivables	<u>\$ 1,640,017</u>	<u>\$ 63,040</u>	<u>\$ 1,344</u>	<u>\$ 1,704,401</u>	<u>\$ 264,689</u>	<u>\$ 1,969,090</u>

**Taxes Receivable**  
**(Expressed in Thousands)**

	Governmental Activities		Total Primary Government
	Major Funds	Non-Major Funds	
<b>Current Taxes Receivable</b>			
Sales and gross receipts	\$ 798,026	\$ 2,576	\$ 800,602
Individual income	598,584		598,584
Corporate	193,210		193,210
Property	111,483		111,483
License and privilege	2,405	5,063	7,468
Coal severance	55,096		55,096
Inheritance and estate	9,328	318	9,646
Miscellaneous	10,803	11,927	22,730
Total Current Taxes Receivable	<u>\$ 1,778,935</u>	<u>\$ 19,884</u>	<u>\$ 1,798,819</u>

The State Property and Buildings Commission has issued revenue bonds and entered into lease agreements to finance capital projects for the University of Kentucky, Kentucky State Fair Board, Kentucky Higher Education Assistance Authority and Eastern Kentucky University. The bond issues are shown as liabilities of the State Property and Buildings Commission in the entity wide financial

statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

**Future debt service payments for leases receivable as of June 30, 2007, are as follows (Expressed in Thousands):**

	Principal	Interest	Total
2008	\$ 26,435	\$ 13,224	\$ 39,659
2009	9,380	12,861	22,241
2010	14,190	12,384	26,574
2011	14,775	11,803	26,578
2012	15,300	11,256	26,556
2013-2017	87,490	45,283	132,773
2018-2022	94,395	23,338	117,733
2023-2027	51,495	4,370	55,865
Total leases receivable	<u>\$ 313,460</u>	<u>\$ 134,519</u>	<u>\$ 447,979</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 \$1,042,832,725 and the bank balance was \$1,042,840,338. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name.

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

The 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 \$147,603,655 in deposits that are uninsured and uncollateralized, and \$227,655,126 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. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth's securities in exchange for cash. The cash is invested in short-term securities. After rebate and expenses the Commonwealth receives 80 percent of the profit earned, with a 10 basis point minimum. The securities transferred are a part of the total investments reported above. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$2,129,907 in securities lending income. On June 30, 2007, the fair value of the securities transferred was \$940,152,425 and the fair value of the securities purchased by the Commonwealth was \$969,923,615. 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.

**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, 2007, 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.

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**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The 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, 2007 are presented below. All investments are presented by investment type.

**Cash And Investments By Type  
Primary Government**

**I. Cash:**

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash	\$ 519,111,458	\$ 520,168,071
Cash with Fiscal Agents	197,741,371	197,741,371
Cash with Feds	287,257,410	287,257,410
Other:	38,722,486	37,673,486
<b>Total Cash</b>	<b>\$ 1,042,832,725</b>	<b>\$ 1,042,840,338</b>

**II. Investments:**

**Investments Managed Based On Maturities**

**Debt Securities**

	<u>Fair Value</u>	<u>&lt; 1 year</u>	<u>1-5 Years</u>	<u>6-15 Years</u>
Cash Equivalents	\$ 58,720,000	\$ 58,720,000	\$	\$
U.S. Government & Agency Obligations	435,365,900		347,676,814	87,689,086
Corporate Obligations	54,332,335			54,332,335
Other	4,920,958			4,920,958
<b>Total</b>	<b>553,339,193</b>	<b>58,720,000</b>	<b>347,676,814</b>	<b>146,942,379</b>

**Investments Managed Based Upon Duration**

**Debt Securities**

	<u>Fair Value</u>	<u>Effective</u>
Cash Equivalents	574,028,182	0.029
Fixed Income Mutual Funds	166,370,440	
U.S. Government & Agency Obligations	825,971,165	1.208
Mortgage-Backed Securities	261,344,745	1.534
Corporate Obligations	190,555,408	1.021
Asset Backed Securities	355,348,655	0.147
Municipal Obligations	203,081,151	0.365
Other	49,970,977	2.025
<b>Total Debt Securities</b>	<b>2,626,670,723</b>	
<b>Portfolio Effective Weighted Duration</b>		<b>0.700</b>

**Other Investments**

Fixed Income Mutual Funds	29,649,985
Common Stock	294,955,735
Preferred	657,227
Securities Lending Invest	969,923,615
<b>Total Other Investments</b>	<b>1,295,186,562</b>

**Total Investments** **\$ 4,475,196,478**

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

**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, 2007 and the ratings are presented in the following table.

**Investments and Credit Ratings**

**Primary Government**

	<u>Standard &amp; Poor's/Moody's Credit Ratings</u>					<u>Total Fair Value of Investments</u>
	<u>AAA/Aaa</u>	<u>AA/Aa</u>	<u>A</u>	<u>Unrated</u>	<u>NA</u>	
Cash Equivalents	\$ 617,761,557			\$ 14,986,625	\$	\$ 632,748,182
Fixed Income Mutual Funds				166,370,440	29,649,985	196,020,425
U.S. Government & Agency Obligations	1,261,337,065					1,261,337,065
Mortgage-Backed Securities	261,344,745					261,344,745
Corporate Obligations	132,314,849	49,542,463	63,030,431			244,887,743
Common Stock					294,955,735	294,955,735
Preferred					657,227	657,227
Asset Backed Securities	355,348,655					355,348,655
Municipal Obligations	182,714,575	18,562,497	1,804,079			203,081,151
Securities Lending					969,923,615	969,923,615
Other	4,920,958			49,970,977		54,891,935
<b>Total Investments</b>	<b>\$ 2,815,742,404</b>	<b>\$ 68,104,960</b>	<b>\$ 64,834,510</b>	<b>\$ 231,328,042</b>	<b>\$ 1,295,186,562</b>	<b>\$ 4,475,196,478</b>

**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, 2007, the primary government had no investments which would constitute a concentration of credit risk.

At June 30, 2007, The Turnpike Authority of Kentucky (TAK) a blended component unit had investments of \$58,720,000 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 \$45,510,872 and the bank balance was \$45,510,872.

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 \$3,876,241 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, 2007**

**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, 2007 are presented below. All investments are presented by investment type.

**Cash and Investments by Type  
Pension Trust Funds**

**I. Cash**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 11,691,653	\$ 11,691,653
Money Market	20,762,343	20,762,343
Other	13,056,876	13,056,876
<b>Total Cash</b>	<b>\$ 45,510,872</b>	<b>\$ 45,510,872</b>

**II. Investments:**

**Investments Managed Based On Maturities**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>1-5 Years</b>	<b>6-15 Years</b>	<b>15-25 Years</b>
Fixed Income Mutual Funds	\$ 58,882,647	\$ 41,912,611	\$ 16,970,036	\$
U.S. Government & Agency Obligations	2,414,836,387	55,849,172	2,358,987,215	
Corporate Obligations	1,734,365,078	53,431,835	1,680,933,243	
Municipal Obligations	252,336,753			252,336,753
Mortgage Loans	177,949,816			177,949,816
<b>Total</b>	<b>4,638,370,681</b>	<b>151,193,618</b>	<b>4,056,890,494</b>	<b>430,286,569</b>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>Effective</b>	<b>Macaulay</b>
U.S. Government & Agency Obligations	3,552,803,016	5.700	
Mortgage-Backed Securities	359,777,307	3.970	
Corporate Obligations	654,647,912	5.940	
Asset Backed Securities	255,198,379	0.850	
Asset Backed Securities	443,572,204		2.999
Municipal Obligations	1,736,261	14.930	
Mortgage Loans	355,995,081	1.430	
<b>Total Debt Securities</b>	<b>5,623,730,160</b>		
<b>Portfolio Weighted Effective Duration</b>		<b>5.081</b>	
<b>Portfolio Weighted Macaulay Duration</b>			<b>2.999</b>

**Other Investments**

Cash Equivalents	566,457,885
Common Stock	20,806,097,503
Limited Partnerships	588,381,847
Real Estate	391,239,371
Securities Lending	4,748,902,185
Other Investments	1,561,524,924
<b>Total Other Investments</b>	<b>28,662,603,715</b>
<b>Total Investments</b>	<b>\$ 38,924,704,556</b>

COMMONWEALTH OF KENTUCKY  
Notes to Financial Statements  
June 30, 2007

**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, 2007 and the ratings are presented in the following table.

**Investments and Credit Ratings  
Pension Trust Funds**

<u>Quality Rating</u>	<u>Amount</u>
AAA	\$ 4,561,171,140
AA+	221,717,124
AA	531,619,589
AA-	98,556,277
A+	40,611,902
A	825,913,019
A-	77,178,845
BBB+	100,891,605
BBB	271,585,527
BBB-	73,693,095
BB+	5,470,138
BB	4,927,931
BB-	705,765
B	11,822,787
<b>Total Credit Risk Debt Securities</b>	<b><u>6,825,864,744</u></b>
Cash Equivalents	264,900,000
U.S. Government & Agencies	3,684,362,147
Corporate Obligations	53,431,835
Common Stock	20,806,097,503
Limited Partnerships	588,381,847
Real Estate	391,239,371
Securities Lending	4,748,902,185
Other	1,561,524,924
<b>Total Investments</b>	<b><u>\$ 38,924,704,556</u></b>

**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, 2007:

<u>Asset Description</u>	<u>Amount</u>
State Street Bank	\$90,482,546
JP Morgan Chase Bank	79,250,313
UBS AG	80,709,838

**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, 2007**

The Pension Trust Funds, investments in foreign currency as of June 30, 2007 are presented in the following table.

**Foreign Currency Risk**

**Pension Trust Funds**

<b>Foreign Currency</b>	<b>Equity</b>	<b>None Designated</b>	<b>Total</b>
Australian dollar	\$ 656,420,736	\$	\$ 656,420,736
British pound sterling	561,597,333		561,597,333
Danish krone	1,678		1,678
Euro	861,597,175		861,597,175
Hong Kong dollar	45,988,795		45,988,795
Japanese yen	532,018,067		532,018,067
Malaysian ringgit	4,940,420		4,940,420
New Zealand dollar	1		1
Norwegian krone	27,930,786		27,930,786
Singapore dollar	36,415,754		36,415,754
South African rand	4,212,526		4,212,526
South Korean won	10,265,258		10,265,258
Swedish krona	29,138,785		29,138,785
Swiss franc	208,434,265		208,434,265
International Equity Mutual Fund (Various Currencies)	629,475,753		629,475,753
American Funds Euro Pacific Growth Fund	61,332,682		61,332,682
Federated Int'l Small Co. Fund	19,787,753		19,787,753
Dodge & Cox International Stock Fund	8,918,269		8,918,269
UBS Global Asset Management	522,413,573		522,413,573
<b>Total Securities Subject To</b>			
<b>Foreign Currency Risk</b>	4,220,889,609		4,220,889,609
USD (Securities Held By Int'l Investment Managers)		64,961,983	64,961,983
<b>Total Int'l Investment Securities</b>	<b>\$ 4,220,889,609</b>	<b>\$ 64,961,983</b>	<b>\$ 4,285,851,592</b>

**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, 2007, 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, 2007.

**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 \$1,178,496,996 and bank balance was \$1,149,833,754.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2007**

**Custodial Risk**

**Discretely Presented Major Component Units**

**I. Deposits**

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

Deposits are uninsured and

a) uncollateralized;	\$ 5,246,393
b) collateralized with securities held by the pledging financial institution; or	32,692,933
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.	48,775,414

<b>Total Deposits Subject To Custodial Credit Risk</b>	<b>\$ 86,714,740</b>
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**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	\$ 921,564,464
(b) the counterparty's trust department or agent but not in the Commonwealth's name.	1,158,169,574

<b>Total Non-Current Cash And Investments Subject To Custodial Credit Risk</b>	<b>\$ 2,079,734,038</b>
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**Investment Types:**

	Type A (counterparty)	Type B (trust or agent)
Debt Securities		
Cash Equivalents	\$	\$ 14,143,756
Fixed Income Mutual Funds	4,475,419	102,591,027
U.S. Government & Agency Obligations	103,109,055	115,049,282
Mortgage Backed Securities		47,000
Corporate Obligations	35,085,000	29,368,634
Municipal Obligations	2,440,000	
<b>Total Debt Securities</b>	<u>145,109,474</u>	<u>261,199,699</u>
Other Investments		
Cash Equivalents	200,000	2,440,479
Fixed Income Mutual Funds	347,029,000	
Common Stock	253,488,000	692,423,426
Pooled Real Estate Funds		73,432,835
Mortgage Loans		855,792
Limited Partnerships	77,526,000	
Real Estate	16,908,000	
Funds Held In Trust By Others		48,800,000
Other Various	81,303,990	79,017,343
<b>Total Other Investments</b>	<u>776,454,990</u>	<u>896,969,875</u>
<b>Total Type A</b>	921,564,464	<b>Total Type B</b> 1,158,169,574
<b>Total Non-Current Cash And Investments Subject To Custodial Credit Risk</b>		<b>\$ 2,079,734,038</b>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

**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, 2007.

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

**I. Cash**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 899,579,409	\$ 870,916,167
Money Market	240,351,132	240,351,132
Other	38,566,455	38,566,455
<b>Total Cash</b>	<b>\$ 1,178,496,996</b>	<b>\$ 1,149,833,754</b>

**II. Investments:**

**Investments Managed Based On Maturities**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>&lt; 1 year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>&gt; 10 Years</b>
Cash Equivalents	\$ 59,857,234	\$ 54,712,851	\$ 200,000	\$ 1,008,452	\$ 3,935,931
Fixed Income Mutual Funds	4,475,419	4,475,419			
U.S. Government & Agency Obligations	140,246,792	79,500,367	47,854,002	9,324,034	3,568,389
Corporate Obligations	593,426			432,963	160,463
Guaranteed Investment Contracts	10,544,814	2,610,764	4,397,702	361,348	3,175,000
<b>Total</b>	<b>215,717,685</b>	<b>141,299,401</b>	<b>52,451,704</b>	<b>11,126,797</b>	<b>10,839,783</b>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>Effective</b>	<b>Modified</b>
Cash Equivalents	232,711,000	0.002	
Fixed Income Mutual Funds	6,983,376	3.783	
Fixed Income Mutual Funds	152,860,281		3.307
U.S. Government & Agency Obligations	102,158,000	4.607	
U.S. Government & Agency Obligations	58,017,545		5.110
Mortgage Backed Securities	437,732,092	5.547	
Corporate Debt	433,000	1.020	
Corporate Debt	28,775,208		2.940
Asset Backed Securities	808,000	0.150	
State and Municipal Obligations	462,000	0.370	
Guaranteed Investment Contract	6,316,000		
Other Investments	114,000	2.020	
Other Investments	2,559,653		3.550
<b>Total Debt Securities</b>	<b>1,029,930,155</b>		
<b>Portfolio Effective Weighted Duration</b>		<b>3.745</b>	
<b>Portfolio Modified Weighted Duration</b>			<b>3.699</b>

**Other Investments**

Fixed Income Mutual Funds	350,914,685
Common Stock	954,435,976
Pooled Real Estate Funds	73,432,835
Municipal Obligations	35,085,000
Mortgage Loans	855,792
Limited Partnerships	77,526,000
Real Estate	16,908,000
Funds Held In Trust By Others	48,800,000
Other	82,362,746
<b>Total Other Investments</b>	<b>1,640,321,034</b>
<b>Total Investments</b>	<b>\$ 2,885,968,874</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2007**

**Credit Risk of Debt Securities**

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

The major discretely presented component units, investments as of June 30, 2007 and the ratings are presented in the following table.

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

	Standard & Poor's/Moody's Credit Ratings						Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	BBB/Baa	Unrated	NA	
Cash Equivalents	\$ 28,530,685		\$ 2,159,922		\$ 257,297,420	\$ 8,843,892	\$ 296,831,919
Fixed Income Mutual Funds		6,605,376			499,889,281		506,494,657
U.S. Government & Agency Obligations	195,979,380				93,799,589	30,537,368	320,316,337
Mortgage Backed Securities	437,732,092						437,732,092
Corporate Obligations	25,439,038	2,031,545	18,963,325	8,654,380	12,358,000		67,446,288
Common Stock					253,488,000	700,947,975	954,435,975
Asset Backed Securities	808,000						808,000
Municipal Obligations	416,000	42,000	4,000				462,000
Guaranteed Investment Contracts					10,544,814		10,544,814
Limited Partnerships					77,526,000		77,526,000
Real Estate					16,908,000	73,432,835	90,340,835
Funds Held In Trust By Others					48,800,000		48,800,000
Other	4,475,419				68,608,000	1,146,538	74,229,957
<b>Total Investments</b>	<b>\$ 693,380,614</b>	<b>\$ 8,678,921</b>	<b>\$ 21,127,247</b>	<b>\$ 8,654,380</b>	<b>\$ 1,339,219,104</b>	<b>\$ 814,908,608</b>	<b>\$ 2,885,968,874</b>

**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) has policies in place that limit the amount that can be invested in a single issuer to 5% of the total portfolio market value. KHC places no limit on the amount they may invest in any one issuer. More than five percent of the KHC's investments are in Fannie Mae, BlackRock Capital Management, and Federal Home Loan Bank. These investments are 56%, 28%, and 12%, respectively, of the KHC's total investments.

**Foreign Currency Risk**

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

The following table summarizes the foreign currency risk for the major discretely presented component units for the fiscal year ended June 30, 2007.

**Foreign Currency Risk**  
**Discretely Presented Major Component Units**

	Investment Type		
	Equity	Debt	Total
Foreign Currency Pooled Fixed Income Funds	\$	\$ 11,857,025	\$ 11,857,025
Pooled Global Equity Funds	75,411,175		75,411,175
Pooled Non-U.S. Equity Funds	106,622,921		106,622,921
<b>Total Securities Subject To Foreign Currency Risk</b>	<b>\$ 182,034,096</b>	<b>\$ 11,857,025</b>	<b>\$ 193,891,121</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2007**

**Note 6**

**CAPITAL ASSETS**

*Capital asset activity for the year ended June 30, 2007  
(Expressed in Thousands):*

	<b>Primary Government</b>			<b>Ending Balance</b>
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Decreases</b>	
<b>Primary Government:</b>				
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 115,615	\$ 21,210	\$ (610)	\$ 136,215
Construction in progress	1,601,372	1,839,878	(1,372,995)	2,068,255
Infrastructure	16,442,033	91,452	(12,830)	16,520,655
Total capital assets not being depreciated	<u>18,159,020</u>	<u>1,952,540</u>	<u>(1,386,435)</u>	<u>18,725,125</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	11,672	3,609		15,281
Buildings	1,051,063	19,849	(409)	1,070,503
Machinery and Equipment	540,205	57,745	(51,227)	546,723
Easements and Other Intangibles	53,633	4,463	(968)	57,128
Total capital assets, being depreciated/amortized	<u>1,656,573</u>	<u>85,666</u>	<u>(52,604)</u>	<u>1,689,635</u>
<i>Less accumulated depreciation/amortization:</i>				
Improvements other than buildings	(5,407)	(406)	158	(5,655)
Buildings	(381,755)	(24,214)	2,023	(403,946)
Machinery and Equipment	(342,377)	(48,508)	44,209	(346,676)
Easements and Other Intangibles	(6,384)	(1,373)	969	(6,788)
Total accumulated depreciation	<u>(735,923)</u>	<u>(74,501)</u>	<u>47,359</u>	<u>(763,065)</u>
Total capital assets, being depreciated/amortized, net	<u>920,650</u>	<u>11,165</u>	<u>(5,245)</u>	<u>926,570</u>
Governmental activities capital assets, net	<u>\$ 19,079,670</u>	<u>\$ 1,963,705</u>	<u>\$ (1,391,680)</u>	<u>\$ 19,651,695</u>
<b>Business-type activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 20,158	\$ 956	\$ (43)	\$ 21,071
Construction in progress	43,677	19,221	(8,600)	54,298
Total capital assets, not being depreciated	<u>63,835</u>	<u>20,177</u>	<u>(8,643)</u>	<u>75,369</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	95,539	2,187	(19)	97,707
Buildings	211,257	6,674	(185)	217,746
Machinery and Equipment	57,670	4,793	(2,266)	60,197
Easements and Other Intangibles	2,322			2,322
Total capital assets, being depreciated/amortized	<u>366,788</u>	<u>13,654</u>	<u>(2,470)</u>	<u>377,972</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(50,359)	(2,098)		(52,457)
Buildings	(82,149)	(6,693)	138	(88,704)
Machinery and Equipment	(42,663)	(3,729)	2,189	(44,203)
Easements and Other Intangibles	(527)	(115)		(642)
Total accumulated depreciation	<u>(175,698)</u>	<u>(12,635)</u>	<u>2,327</u>	<u>(186,006)</u>
Total capital assets, being depreciated/amortized, net	<u>191,090</u>	<u>1,019</u>	<u>(143)</u>	<u>191,966</u>
Business-type activities capital assets, net	<u>\$ 254,925</u>	<u>\$ 21,196</u>	<u>\$ (8,786)</u>	<u>\$ 267,335</u>

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

(Expressed in Thousands)	<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Government	\$ 755	\$
Legislative and Judicial	2,098	
Commerce	6,132	
Education and Humanities	3,896	
Human Resources	13,079	
Justice	3,306	
Natural Resources and Environmental Protection	935	
Public Protection and Regulation	17,966	
Transportation	6,867	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	19,467	
State Parks		8,820
Lottery Corporation		3,102
Horse Park		623
Insurance Administration		90
Total depreciation expense by activities	<u>\$ 74,501</u>	<u>\$ 12,635</u>

**Discretely presented major component units**

Capital asset activity for the year ended June 30, 2007  
(Expressed in Thousands):

	<u>Component Units</u>			
	<u>Beginning Balance Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 108,589	\$ 16,578	\$ (982)	\$ 124,185
Construction in progress	114,564	128,993	(22,223)	221,334
Totals, capital assets not being depreciated	<u>223,153</u>	<u>145,571</u>	<u>(23,205)</u>	<u>345,519</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	78,405	3,708	(28)	82,085
Buildings	2,374,703	108,582	(15,956)	2,467,329
Machinery and Equipment	1,013,733	120,527	(26,929)	1,107,331
Easements and Other Intangibles				
Total capital assets, being depreciated/amortized	<u>3,466,841</u>	<u>232,817</u>	<u>(42,913)</u>	<u>3,656,745</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(46,628)	(1,880)	11	(48,497)
Buildings	(933,841)	(64,568)	3,767	(994,642)
Machinery and Equipment	(640,370)	(82,231)	25,636	(696,965)
Easements and Other Intangibles				
Total accumulated depreciation	<u>(1,620,839)</u>	<u>(148,679)</u>	<u>29,414</u>	<u>(1,740,104)</u>
Total capital assets, being depreciated/amortized, net	<u>1,846,002</u>	<u>84,138</u>	<u>(13,499)</u>	<u>1,916,641</u>
Component units capital assets, net	<u>\$ 2,069,155</u>	<u>\$ 229,709</u>	<u>\$ (36,704)</u>	<u>\$ 2,262,160</u>

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

(Expressed in Thousands)	
Kentucky Housing Corporation	\$ 613
Kentucky Higher Education Student Loan Corporation	2,546
University of Kentucky	90,270
University of Louisville	37,818
Kentucky Community and Technical College System	17,432
Total depreciation expense by activities	<u>\$ 148,679</u>

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**Note 7**

**INTERFUND TRANSACTIONS**

**Interfund Transfers In and Out**

The table below shows the interfund operating transfers for the fiscal year 2007  
(Expressed in Thousands):

<b>Transfers In</b>	<b>Transfers Out</b>				
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	\$	\$	\$ 46	\$ 38,940	\$ 9,532
Transportation Fund			28	15,204	
Federal Fund		28		872	
Agency Revenue Fund	41,058	15,202	12,025		2,558
Capital Projects Fund	22,646	10,285	3,378	13,610	
Non-Major Governmental Funds	438,472	153,740	15,457	338,050	2,790
State Parks Fund	29,205				4,015
Kentucky Horse Park Fund	1,706				7,435
Kentucky Employee Health Plan					
Insurance Administration Fund			196		25,000
Internal Service Funds	1,827				19,147
Fiduciary Funds					200
<b>Total</b>	<b>\$ 534,914</b>	<b>\$ 179,255</b>	<b>\$ 31,130</b>	<b>\$ 406,676</b>	<b>\$ 70,677</b>

Reasons for transfers:

- 1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them; 2) to move resources from funds recording the revenue to the Debt Service Fund, for debt service payments; 3) to move resources from the funds recording the revenue to the Capital Projects Fund to finance acquisition of capital assets; 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 2007  
(Expressed in Thousands):

<b>Interfund Receivables</b>	<b>Interfund Payables</b>			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$	\$ 96,938	\$ 4,168
Transportation Fund	351		446	175
Federal Fund	22,094	48,256		30,392
Agency Revenue Fund	20,018	15,158	26,640	
Capital Projects Fund	141		30	357
Non-Major Governmental Funds	18,205		138	1,074
State Parks Fund	294	2	9	16
Insurance Administration Fund	10			
Internal Service Funds	3,928	111	26	950
<b>Totals</b>	<b>\$ 65,041</b>	<b>\$ 63,527</b>	<b>\$ 124,227</b>	<b>\$ 37,132</b>

Reasons for interfund payables and receivables:

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

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

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**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
\$ 13,849	\$	\$ 186,625	\$	\$ 78	\$ 45,733	\$	\$ 3,981	\$ 1,734	\$ 300,518
580									15,812
									900
562,105					3,694		1,329	2,412	640,383
6,106	1,168		36				5,874	200	63,303
235,056	233	9,566	3			2,260	340	6	1,195,973
1,476									34,696
									9,141
								11,213	11,213
									25,196
									20,974
									200
<u>\$ 819,172</u>	<u>\$ 1,401</u>	<u>\$ 196,191</u>	<u>\$ 39</u>	<u>\$ 78</u>	<u>\$ 49,427</u>	<u>\$ 2,260</u>	<u>\$ 11,524</u>	<u>\$ 15,565</u>	<u>\$ 2,318,309</u>

**Interfund Payables**

Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Insurance Administration Fund	Internal Service Funds	Total
\$ 9	\$ 12,139	\$ 428	\$ 1	\$ 185	\$ 113,868
2					974
1	828	1			101,572
21	12,630	5	178		74,650
	617				1,145
1,162	246,894				267,473
	2				323
					10
48	4	362		92	5,521
<u>\$ 1,243</u>	<u>\$ 273,114</u>	<u>\$ 796</u>	<u>\$ 179</u>	<u>\$ 277</u>	<u>\$ 565,536</u>

**Note 8**

**PENSION PLANS AND OTHER POST EMPLOYMENT BENEFITS**

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 proceeding 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 proceeding 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 annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The Funds pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are 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

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

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retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars (\$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.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

Kentucky Retirement Systems commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which Kentucky Retirement Systems assumes the financial risk for providing healthcare to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-funded plan.

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 percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by the Fund</u>
4 years - 9 years 11 months	25%
10 years - 14 years 11 months	50%
15 years - 19 years 11 months	75%
20 years or more	100%

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 percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by the Fund</u>
4 years - 9 years 11 months	25%
10 years - 10 years 11 months	50%
11 years - 11 years 11 months	55%
12 years - 12 years 11 months	60%
13 years - 13 years 11 months	65%
14 years - 14 years 11 months	70%
15 years - 15 years 11 months	75%
16 years - 16 years 11 months	80%
17 years - 17 years 11 months	85%
18 years - 18 years 11 months	90%
19 years - 19 years 11 months	95%
20 years or more	100%

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.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

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The Commonwealth is the predominant contributor to KTRS and for note disclosure purposes it will be considered as a single employer plan.

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.



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	<b>Kentucky Legislators' Retirement Plan</b>		<b>Kentucky Judicial Retirement Plan</b>		<b>State Police Retirement System</b>	
	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>
Contribution rates:						
State	20.10%		10.00%		21.58%	
Plan members	5.00%		5.00%		8.00%	
Portion of State Contribution for Health Insurance					21.58%	
Annual pension costs (Thousands)	\$714		\$2,835		\$10,228	\$10,733
Contributions made (Thousands)	\$748		\$2,788		\$6,142	\$6,850
Actuarial valuation date	June 30, 2007		June 30, 2007		June 30, 2007	
Actuarial cost method	Projected unit credit		Projected unit credit		Entry age normal	
Amortization method	Interest + 1% Unfunded Past Liability		Interest + 1% Unfunded Past Liability		Level percent closed	
Remaining amortization period	25 years		25 years		30 years	
Asset valuation method	Market value		Market value		Five-year smoothed market	
Actuarial assumptions:						
Investment rate of return	7.50%		7.50%		7.75%	
Inflation Rate					3.50%	
Projected salary increases	4.00%		4.00%		4.0 - 14.5%	
Increases in Health Insurance Cost	6% - 10%		6% - 10%		5% - 12%	
(Dollar amounts in thousands)						
ARC	\$ 714	\$	\$ 2,835	\$	\$ 10,228	\$ 10,733
Interest on NPO	(65)		94		479	1,325
Adjustment to ARC	73		(99)		(310)	(857)
Annual pension cost	722	<b>Included in Pension</b>	2,830	<b>Included in Pension</b>	10,397	11,201
Contributions made	748	<b>Amounts</b>	2,788	<b>Amounts</b>	6,142	6,850
Increase (Decrease) in NPO	(26)		42		4,255	4,351
NPO beginning of year	(883)		(1,180)		6,184	17,098
NPO end of year	<u>\$ (909)</u>	<u>\$</u>	<u>\$ (1,138)</u>	<u>\$</u>	<u>\$ 10,439</u>	<u>\$ 21,449</u>

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<b>Kentucky Employees Retirement System</b>				<b>Kentucky Teachers' Retirement System</b>	
<b>Non-Hazardous</b>		<b>Hazardous</b>			
<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>	<b>Pension</b>	<b>Insurance</b>
	5.89% - 18.84%			14.39% - 17.84%	
	5% - 7%			7.625% - 9.105%	
	5.89% - 12.66%			0.75%	
\$190,299	\$114,928	\$13,644	\$20,642	\$494,565	\$231,473
\$88,248	\$74,758	\$13,237	\$19,639	\$421,565	\$123,571
	June 30, 2007			June 30, 2007	
	Entry age normal			Projected unit credit	
	Level percent closed			Level percent open	
	30 years			30 years	
	Five-year smoothed market			Five-year smoothed market	
	7.75%		7.75%	7.50%	
	3.50%		3.50%	4.00%	
	4.0 - 13.5%		4.0 - 14.5%	4.00% - 8.20%	
	5% - 12%		5% - 12%	12.00%	
\$ 190,299	\$ 114,928	\$ 13,644	\$ 20,642	\$ 494,565	\$ 231,473
8,405	187	16,819	954		
(5,433)	(121)	(10,873)	(617)	(18,021)	
193,271	114,994	19,590	20,979	476,544	231,473
88,248	74,758	13,237	19,639	421,565	123,571
105,023	40,236	6,353	1,340	54,979	107,902
108,459	2,415	217,019	12,316	94,431	
<u>\$ 213,482</u>	<u>\$ 42,651</u>	<u>\$ 223,372</u>	<u>\$ 13,656</u>	<u>\$ 149,410</u>	<u>\$ 107,902</u>

**COMMONWEALTH OF KENTUCKY**  
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**Schedule of Funding Progress - Retirement Funds**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>Kentucky Employees Retirement System</b>						
<u>Non-Hazardous</u>						
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
June 30, 2007	5,396,782,459	9,485,939,278	4,089,156,819	56.9	1,780,223,493	229.7
<u>Hazardous</u>						
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
June 30, 2007	467,287,809	558,992,327	91,704,518	83.6	144,838,020	63.3
<b>State Police Retirement System</b>						
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
June 30, 2007	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4
<b>Judicial Retirement Plan</b>						
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)
June 30, 2007	272,238,056	279,495,588	7,257,532	97.4	31,941,180	22.7
<b>Legislators' Retirement Plan</b>						
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	4,426,035	(162.7)
June 30, 2007	69,823,247	64,649,950	(5,173,297)	108.0	4,763,785	(108.6)
<b>Kentucky Teachers' Retirement System</b>						
June 30, 2005	\$ 14,598,843,000	\$ 19,134,870,000	\$ 4,536,027,000	76.3	\$ 2,703,430,000	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
June 30, 2007	15,284,955,000	21,254,974,000	5,970,019,000	71.9	2,975,289,000	200.7

**NOTE: Amounts shown for Judicial Retirement Plan and Legislator's Retirement Plan include both retirement and insurance benefits.**

**Schedule of Funding Progress - Insurance Funds**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>Kentucky Employees Retirement System</b>						
<u>Non-Hazardous</u>						
June 30, 2005	\$ 607,068,351	\$ 2,680,559,188	\$ 2,073,490,837	22.6	\$ 1,655,907,288	125.2
June 30, 2006	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
<u>Hazardous</u>						
June 30, 2005	\$ 187,947,644	\$ 386,844,695	\$ 198,897,051	48.6	\$ 131,687,088	151.0
June 30, 2006	212,833,818	621,237,856	408,404,038	34.3	138,747,320	294.4
June 30, 2007	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
<b>State Police Retirement System</b>						
June 30, 2005	\$ 100,207,082	\$ 234,159,510	\$ 133,952,428	42.8	\$ 43,720,092	306.4
June 30, 2006	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
<b>Kentucky Teachers' Retirement System</b>						
June 30, 2005	\$ 147,311,000	\$ 4,763,947,000	\$ 4,616,636,000	3.1	\$ 2,703,430,000	170.8
June 30, 2006	131,614,000	4,341,963,000	4,210,349,000	3.0	2,859,477,000	147.2
June 30, 2007	140,772,000	5,928,761,000	5,787,989,000	2.4	2,975,289,000	194.5

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

Membership of the retirement systems, at June 30, 2007, 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	33,900	2,206	35,564	5,159	1,105	285	152	39,506	117,877
Terminated plan members - vested	5,326	287	8,027	573	47	30	51	4,498	18,839
Terminated plan members - non-vested	25,667	2,453	43,501	4,089	228			75,938	
Active plan members	48,033	4,352	85,367	10,097	970	271	125	75,144	224,359
Total Members	<u>112,926</u>	<u>9,298</u>	<u>172,459</u>	<u>19,918</u>	<u>2,350</u>	<u>586</u>	<u>328</u>	<u>119,148</u>	<u>437,013</u>
Number of participating employers	359		1,400		1	1	1	198	1,960

Three year trend for contributions  
(Expressed in thousands):

	Pension		Insurance		Total	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
<b><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
2005	\$ 85,799	58.7%	\$ 86,974	57.4%	\$ 172,773	58.0%
2006	137,331	44.2%	100,942	43.3%	238,273	43.8%
2007	190,299	46.4%	114,928	65.0%	305,227	53.4%
<b><u>Hazardous</u></b>						
2005	\$ 9,450	103.3%	\$ 15,893	96.9%	\$ 25,343	99.3%
2006	12,129	89.1%	18,605	87.3%	30,734	88.0%
2007	13,644	97.0%	20,642	95.1%	34,286	95.9%
<b><u>State Police Retirement System</u></b>						
2005	\$ 3,731	76.4%	\$ 8,608	77.0%	\$ 12,339	76.8%
2006	6,889	61.6%	9,670	61.9%	16,559	61.8%
2007	10,228	60.1%	10,733	63.8%	20,961	62.0%
<b><u>Judicial Retirement Plan</u></b>						
2005	\$ 1,912	100.0% *			\$ 1,912	100.0%
2006	1,912	97.0% *			1,912	97.0%
2007	2,835	98.3% *			2,835	98.3%
<b><u>Legislator's Retirement Plan</u></b>						
2005	\$		\$		\$	
2006						
2007	714	104.9% *			714	104.9%
<b><u>Kentucky Teachers' Retirement System</u></b>						
2005	\$ 383,777	100.0%	\$		\$ 383,777	100.0%
2006	406,107	100.0%			406,107	100.0%
2007	494,565	85.0%	231,473	53.4%	726,038	77.0%

\* Includes amounts for pension benefits and insurance (OPEB).

**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 \$625,376,662 in the 457 Plan at June 30, 2007 \$417,307,280 was applicable to the Commonwealth, while the remaining \$208,069,382 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$923,818,171 at June 30, 2007 of which \$293,211,088 was applicable to the state while the remaining \$630,607,083 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, 2007, are summarized in Note 15, Changes in Long-Term Obligations.

**COMMONWEALTH OF KENTUCKY**  
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**June 30, 2007**

*At June 30, 2007, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):*

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

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units-Major</u>
Buildings	\$ 11,867	\$	\$ 79,678
Equipment	42,961	580	47,595
Other	12,599		69,551
Total	<u>67,427</u>	<u>580</u>	<u>196,824</u>
Less: Accumulated depreciation	<u>(10,937)</u>	<u>(319)</u>	<u>(9,939)</u>
Total Net of Depreciation	<u>\$ 56,490</u>	<u>\$ 261</u>	<u>\$ 186,885</u>

*Future minimum rental commitments for capitalizable leases as of June 30, 2007, are as follows (Expressed in Thousands):*

	<u>Primary Government</u>		<u>Component Units-Major</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Universities, Colleges, and Related Entities</u>	
2008	\$ 13,224	\$ 103	\$ 36,118	\$ 49,445
2009	8,646	80	33,825	42,551
2010	6,696	39	37,572	44,307
2011	5,151	9	38,177	43,337
2012	1,578		68,040	69,618
2013-2017	6,277		111,467	117,744
2018-2022	3,702		84,160	87,862
2023-2027	405		43,653	44,058
Total minimum lease payments	<u>45,679</u>	<u>231</u>	<u>453,012</u>	<u>498,922</u>
Less: Amount representing interest (1.50-66.33%)	<u>(6,600)</u>	<u>(34)</u>	<u>(114,429)</u>	<u>(121,063)</u>
Present value of future minimum lease payments	<u>\$ 39,079</u>	<u>\$ 197</u>	<u>\$ 338,583</u>	<u>\$ 377,859</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 \$311,098 reported in the Program at June 30, 2007, 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 2007 and 2006 were:

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</u>
Beginning of fiscal year liability	\$ 185,000	\$ 205,513
Incurred claims	2,917,381	2,808,947
Changes in estimates		
Claims payments	<u>(2,791,283)</u>	<u>(2,829,460)</u>
Balance at Fiscal Year End	<u>\$ 311,098</u>	<u>\$ 185,000</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. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

**COMMONWEALTH OF KENTUCKY**  
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The actuarially determined aggregate claims liability of \$117,624,962 reported in the Program at June 30, 2007, 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 2007 and 2006 were:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 118,902,645	\$ 105,330,054
Claims and claims adjustments incurred:		
Current year	18,160,919	19,493,329
Increase (Decrease) in Prior year	<u>(866,552)</u>	<u>10,892,900</u>
Total Claims and Claims Adjustments Incurred:	17,294,367	30,386,229
Claims and claims adjustment payments:		
Current year	(4,897,667)	(4,131,291)
Increase (Decrease) in Prior year	<u>(13,674,383)</u>	<u>(12,682,347)</u>
Total Claims and Claims Adjustment Payments	(18,572,050)	(16,813,638)
Balance at Fiscal Year End	<u>\$ 117,624,962</u>	<u>\$ 118,902,645</u>

**Transportation Cabinet Workers' Compensation:**

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2007 and 2006 were:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability \$	20,195,066	\$ 20,786,856
Claims and claims adjustments incurred	2,429,858	2,039,757
Changes in estimates	4,429,874	521,874
Claims and claims adjustment payments	<u>(2,512,457)</u>	<u>(3,153,421)</u>
Balance at Fiscal Year End	<u>\$ 24,542,341</u>	<u>\$ 20,195,066</u>

**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 \$903,500,000, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,832,802,000, discounted at 7.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$30,435,000, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$63,609,000, discounted at 7.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2007. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 1,797,861,681	\$ 1,873,652,937
Claims and claims adjustments incurred	1,325,542	1,115,108
Changes in estimates	170,865,862	
Claims and claims adjustment payments	<u>(73,642,085)</u>	<u>(76,906,364)</u>
Balance at Fiscal Year End	<u>\$ 1,896,411,000</u>	<u>\$ 1,797,861,681</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

**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 \$8,472,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$14,163,000, discounted at 7.0 percent. The claims adjustment liability of \$533,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$892,000, discounted at 7.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 18,843,174	\$ 18,384,272
Claims and claims adjustments incurred	1,734,604	1,758,979
Changes in estimates	(4,322,418)	
Claims and claims adjustment payments	(1,200,360)	(1,300,077)
Balance at Fiscal Year End	<u>\$ 15,055,000</u>	<u>\$ 18,843,174</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 \$347,762,000 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 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 336,705,000	\$ 359,090,000
Claims and claims adjustments incurred	21,701,000	19,024,000
Changes in estimates		
Claims and claims adjustment payments	(10,644,000)	(41,409,000)
Balance at Fiscal Year End	<u>\$ 347,762,000</u>	<u>\$ 336,705,000</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**  
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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 2007. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 21,452,273	\$ 21,452,273
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 21,452,273</u>	<u>\$ 21,452,273</u>

**Mine Subsidence Insurance:**

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

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Mine Subsidence Program had no liabilities reported. Changes in the Program's claims liability amount in Fiscal Years 2007 and 2006 were:

	Fiscal Year 2007	Fiscal Year 2006
Beginning of fiscal year liability	\$ 240,000	\$ 9,500
Claims and claims adjustments incurred		290,873
Changes in estimates		
Claims and claims adjustment payments	<u>(240,000)</u>	<u>(60,373)</u>
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 240,000</u>

**Kentucky Employees Health Plan:**

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

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

The Plan develops premium equivalent rates each year by utilizing historical trend information, current claims experience and national trends. An outside actuarial consultant advises the Plan 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**  
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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 \$76,794,408 that was reported in the financial statements is the aggregate actuarially determined claims liability. Changes in the aggregate liabilities for claims and claims adjustment expenses for the past two years are as follows:

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</u>
Beginning of fiscal year liability	\$ 73,687,555	\$
Claims and claims adjustments incurred	1,078,360,902	472,143,107
Changes in estimates		
Claims and claims adjustment payments	<u>(1,075,254,049)</u>	<u>(398,455,552)</u>
Balance at Fiscal Year End	<u>\$ 76,794,408</u>	<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 2007 and 2006 were:

	<u>Fiscal Year 2007</u>	<u>Fiscal Year 2006</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, 2007, 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 2006 was also zero.

**Note 13**

**DEFEASANCE OF LONG-TERM DEBT**

The State Property and Buildings Commission issued \$264,225,000 of Revenue and Revenue Refunding Bonds, Project 87, dated February 28, 2007. The net proceeds of the issue were \$277,635,560, with a premium of \$14,909,260, hedge termination payment of \$596,500 and cost of issuance and underwriter’s discount of \$2,095,200. The net proceeds of the refunding portion were placed in an escrow account advance refund State Property and Buildings Commission, Project 57 bonds maturing November 1, 2009 through November 1, 2015, and replace Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series and 2005 Agency Fund Second Series. The net savings (reduction in cash flow) for the Refunding Bonds will be \$292,492 and the present value of the savings is \$300,408 at a rate of 4.006%.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2007

The Kentucky Asset/Liability Commission issued \$66,305,000 General Receipts Refunding Project Notes, 2006 Series A and \$2,220,000 2006 Series B. The proceeds of these issues were used to fully refund all Consolidated Housing and Dining System Revenue Bonds (\$74,000,000 par), of the University of Kentucky and a partial refunding of State Property and Buildings Commission bonds previously issued to fund University projects. The refunding will reduce the University's debt service payments over the next seventeen years by approximately \$635,000, representing an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$646,000 at 4.12%.

The Kentucky Asset/Liability Commission issued \$142,245,000 2007 Series B Refunding Notes. These notes were used to advance refund State Property and Building Commission Project 79 Revenue Bonds maturing October 1, 2022 and 2023 and Project 85 Revenue Bonds maturing August 1, 2017 through August 1, 2025. The net savings (reduction in cash flow) for the Refunding Bonds will be \$3,427,352 and the present value of the savings is \$3,387,498 at a rate of 4.112%.

The School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. 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, 2007 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated October 1, 2006, were issued for the Grant County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$857,171 maturing June 30, 2007 through June 30, 2020 and carrying interest rates from 3.50% to 4.00%.

Revenue refunding bonds dated October 1, 2006, were issued for the Butler County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$545,280 maturing June 30, 2007 through June 30, 2021 and carrying interest rates from 3.75% to 4.00%.

Revenue refunding bonds dated November 1, 2006, were issued for the Pulaski County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$361,529 maturing January 1, 2007 through July 1, 2016 and carrying interest rates from 3.50% to 3.70%.

Revenue refunding bonds dated November 1, 2006, were issued for the Henry County School District Finance Corporation to refund a

2000 issue. The Commission's portion of the refunding issue was \$1,264,279 maturing June 1, 2007 through June 1, 2020 and carrying interest rates from 3.50% to 3.90%.

Revenue refunding bonds dated November 1, 2006, were issued for the Clinton County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$122,706 maturing February 1, 2007 through August 1, 2017 and carrying interest rates from 3.50% to 3.75%.

Revenue refunding bonds dated November 1, 2006, were issued for the Pike County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$2,250,856 maturing June 1, 2007 through December 1, 2019 and carrying interest rates from 3.50% to 3.80%.

Revenue refunding bonds dated December 1, 2006, were issued for the Boone County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,660,381 maturing February 1, 2007 through February 1, 2020 and carrying an interest rate of 3.875%.

Revenue refunding bonds dated December 1, 2006, were issued for the Jefferson County School District Finance Corporation to refund a 1999 and a 2000 issue. The Commission's portion of the refunding issue was \$18,096,054 maturing March 1, 2007 through September 1, 2020 and carrying interest rates from 3.625% to 4.00%.

Revenue refunding bonds dated December 1, 2006, were issued for the Bullitt County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$614,277 maturing March 1, 2007 through September 1, 2016 and carrying interest rates from 3.40% to 3.625%.

Revenue refunding bonds dated January 1, 2007, were issued for the Muhlenberg County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,032,004 maturing March 1, 2007 through March 1, 2020 and carrying interest rates from 3.40% to 3.90%.

Revenue refunding bonds dated January 1, 2007, were issued for the Simpson County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$775,239 maturing June 1, 2007 through June 1, 2020 and carrying interest rates of 3.50% to 3.80%.

Revenue refunding bonds dated February 1, 2007, were issued for the Taylor County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$408,947 maturing June 1, 2007 through June 1, 2019 and carrying interest rates from 3.65% to 3.875%.

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Revenue refunding bonds dated February 1, 2007, were issued for the Magoffin County School District Finance Corporation to refund a 1996 issue and partially refund a 2000 issue. The Commission’s portion of the refunding issue was \$1,827,722 maturing June 1, 2007 through June 1, 2020 and carrying interest rates from 3.650% to 3.875%.

Revenue refunding bonds dated March 1, 2007, were issued for the Jackson Independent School District Finance Corporation to refund a 2000 issue. The Commission’s portion of the refunding issue was \$109,898 maturing August 1, 2007 through August 1, 2020 and carrying interest rates from 3.75% to 3.875%.

Revenue refunding bonds dated April 1, 2007, were issued for the Oldham County School District Finance Corporation to refund a 1995 issue and a 1997 issue. The Commission’s portion of the refunding issue was \$432,693 maturing July 1, 2007 through July 1, 2017 and carrying interest rates from 3.50% to 3.625%.

Revenue refunding bonds dated April 1, 2007, were issued for the Covington Independent School District Finance Corporation to refund a 1999 issue. The Commission’s portion of the refunding issue was \$588,353 maturing June 1, 2007 through June 1, 2019 and carrying interest rates from 3.50% to 3.80%.

**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, 2007:*

Short-term Debt on July 1, 2006	Additions	Repayments	Short-term Debt on June 30, 2007
\$	\$ 150,000,000	\$ 150,000,000	\$
<u>\$</u>	<u>\$ 150,000,000</u>	<u>\$ 150,000,000</u>	<u>\$</u>

**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, 2007.

**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

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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, 2007 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 \$264,225,000 in revenue bonds as follows:

\$264,225,000, Project 87 Revenue and Revenue Refunding Bonds, dated February 28, 2007, and maturing March 1, 2008 through March 1, 2027. The bonds carry interest rates of 4.00% to 5.00%.

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

The Authority issued no bonds during fiscal year 2007.

**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 \$173,055,000 in General Receipts Bonds to finance various new construction projects and renovation of existing facilities as follows:

**University of Kentucky** issued \$24,325,000 University of Kentucky 2006A General Receipt Bonds dated August 3, 2006. The bonds mature October 1, 2007 through October 1, 2026 and carry interest rates of 4.00% to 4.50%.

**University of Louisville** issued \$41,040,000 University of Louisville General Receipt Bonds, dated April 3, 2007, to fund various University construction projects. The bonds have a final maturity of September 1, 2027 and carry an interest rate of 4.00%.

**Western Kentucky University** issued \$53,180,000 of Western Kentucky University General Receipt Bonds. \$10,000,000 Series 2006A, dated December 19, 2006. The bonds have a final maturity of September 1, 2026 and carry interest rates of 3.625% to 3.80%.

\$43,180,000 Series 2007A, dated May 30, 2007. The bonds have a final maturity of September 1, 2026 and carry interest rates of 4.00% to 4.20%.

**Kentucky State University** issued \$5,850,000 Kentucky State University General Receipt Bonds, dated April 12, 2007. The bonds have a final maturity of April 1, 2027 and carry interest rates of 3.625% to 3.875%.

**Northern Kentucky University** issued \$48,660,000 Northern Kentucky University General Receipt Bonds, 2007 Series A, dated June 7, 2007. The bonds mature through September 1, 2027 and carry interest rates of 4.00% to 4.30%.

**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

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limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued \$595,215,000 in Housing Revenue Bonds which consisted of the following:

\$87,670,000 Housing Revenue Bonds, dated August 9, 2006. The bonds consisted of \$9,585,000 2006 Series K (NON-AMT), \$380,000 Serial Bonds maturing July 1, 2013 and July 1, 2017, and carry interest rates of 4.05% and 4.30%. \$19,085,000 2006 Series L (AMT), maturing January 1, 2007 through July 1, 2016, and carry interest rates of 3.85% to 4.65%. \$21,000,000 2006 Series M (AMT) (Variable Rate), Term Bonds due January 1, 2033. \$8,965,000 2006 Series N (Taxable), serial bonds maturing January 1, 2007 through July 1, 2016, and carry interest rates of 5.54% to 6.06%. \$29,035,000 2006 Series O (Taxable) (Variable Rate), maturing January 1, 2017 through July 1, 2036.

\$110,000,000 Housing Revenue Bonds, dated September 27, 2006. \$8,210,000 2006 Series P (NON-AMT) consisting of: \$2,325,000 Serial Bonds maturing July 1, 2013 through July 1, 2017 and carry interest rates of 3.80% to 3.00%, \$2,505,000 4.55% Term bonds maturing July 1, 2031, and \$3,380,000 4.60% Term Bonds maturing July 1, 2034. \$41,790,000 2006 Series Q (AMT) consisting of: \$7,055,000 Serial Bonds maturing July 1, 2007 through July 1, 2018, \$11,965,000 4.75% Term Bond due July 1, 2026, \$8,630,000 4.85% Term Bond due July 1, 2031, \$14,140,000 4.90% Term Bond due July 1, 2037. \$21,700,000 2006 Series R (Taxable) consisting of: \$6,700,000 Serial Bonds maturing July 1, 2007 through July 1, 2016 and carry interest rates of 5.196% to 5.530%, and \$15,000,000 5.816% Term Bonds due January 1, 2037. \$15,000,000 2006 Series S (Taxable Pass Through) 5.88% Term Bonds due January 1, 2037, and \$23,300,000 2006 Series T (Taxable) (Variable Rate) Term Bonds due July 1, 2037.

\$90,000,000 Housing Revenue Bonds, dated November 29, 2006. \$45,000,000 2006 Series U (AMT) consisting of: \$6,530,000 Serial Bonds maturing July 1, 2007 through July 1, 2016 and carry 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 Term Bond due July 1, 2032, and \$13,630,000 4.9% Term Bonds due July 1, 2037. \$6,620,000 2006 Series V Bonds (Taxable) consisting of: \$2,345,000 Serial Bonds maturing July 1, 2007 through July 1, 2016 and carry interest rates of 5.35% to 5.57%, and \$4,275,000 5.33% Term Bonds due July 1, 2014. \$38,380,000 2006 Series W (Taxable) (Variable Rate) due July 1, 2037. These bonds will initially bear interest at a Weekly Rate from their date of issuance and delivery until maturity or until the 2006 Series W bonds are converted to another interest mode.

\$77,545,000 Housing Revenue Bonds dated January 18, 2007. \$39,544,000 Series A (AMT) consisting of: \$7,090,000 Serial Bonds maturing July 1, 2007 through July 1, 2018 and carry interest rates of 3.60% to 4.30%, \$3,980,000 4.45% Term Bonds due July

1, 2022, \$6,510,000 4.55% Term Bonds due July 1, 2027, \$8,805,000 4.60% Term Bonds due July 1, 2032, and \$13,160,000 4.65% Term Bonds due July 1, 2037.

\$80,000,000 Housing Revenue Bonds dated January 25, 2007. \$50,000,000 2007 Series C (AMT) consisting of: \$7,790,000 Serial Bonds maturing July 1, 2007 through July 1, 2017 and carry interest rates of 3.65% to 4.40%, \$5,965,000 4.625% Term Bonds due July 1, 2022, \$7,975,000 4.70% Term Bonds due July 1, 2027, \$10,680,000 4.75% Term Bonds due July 1, 2032, and \$17,590,000 4.80% Term Bonds due July 1, 2037. \$30,000,000 Series D (Taxable) consisting of: \$3,790,000 Serial Bonds maturing July 1, 2007 through July 1, 2017 and carry interest rates of 5.389% to 5.558%, \$1,015,000 5.528% Term Bonds due July 1, 2016, and \$25,195,000 5.745% Term Bonds due July 1, 2037.

\$75,000,000 Housing Revenue Bonds dated May 17, 2007. \$45,000,000 2007 Series E (AMT) consisting of: \$6,930,000 Serial Bonds maturing January 1, 2008 through July 1, 2017 and carry interest rates of 3.75% to 4.40%, \$5,570,000 4.70% Term Bonds due July 1, 2022, \$7,520,000 4.75% Term Bonds due July 1, 2027, \$10,195,000 4.80% Term Bonds due July 1, 2032, and \$14,785,000 4.85% Term Bonds due July 1, 2037. \$30,000,000 Series F (Taxable) consisting of: \$4,820,000 Serial Bonds maturing January 1, 2008 through July 1, 2017 and carry interest rates of 5.031% to 5.389%, and \$25,180,000 5.53% Term Bonds due July 1, 2037.

\$75,000,000 Housing Revenue Bonds dated June 28, 2007. \$6,285,000 2007 Series G (NON-AMT) consisting of: \$870,000 Serial Bonds maturing July 1, 2013 through July 1, 2027 and carry interest rates of 3.900% to 4.625%, \$5,005,000 4.75% Term Bonds due July 1, 2032, and \$410,000 4.75% Term Bonds due July 1, 2034. \$34,965,000 2007 Series H (AMT) consisting of: \$1,480,000 Serial Bonds maturing January 1, 2008 through July 1, 2010 and carry interest rates of 3.85% to 4.05%, \$570,000 4.125% Term Bonds due July 1, 2011, \$610,000 4.200% Term Bonds due July 1, 2012, \$645,000 4.250% Term Bonds due July 1, 2013, \$695,000 4.350% Term Bonds due July 1, 2014, \$730,000 4.4005% Term Bonds due July 1, 2015, \$770,000 4.450% Term Bonds due July 1, 2016, \$730,000 4.500% Term Bonds due July 1, 2017, \$5,145,000 4.800% Term Bonds due July 1, 2022, \$6,265,000 4.900% Term Bonds due July 1, 2027, \$4,480,000 5.000% Term Bonds due July 1, 2031, and \$12,845,000 5.000% Term Bonds due July 1, 2037. \$16,620,000 Series I (Taxable) consisting of: \$5,395,000 Serial Bonds maturing July 1, 2008 through July 1, 2017 and carry interest rates of 5.279% to 5.592%, and \$11,225,000 5.77% Term Bonds due July 1, 2037.

**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

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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 \$350,000,000 in Student Loan Revenue Bonds, maturing June 1, 2036. 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 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, 2007, the Commission sold 81 school building revenue and revenue refunding bond issues having aggregate state participation of \$176,730,566 maturing through June 30, 2027, at interest rates of 3.40% to 5.375%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2007, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 484 Capitol Annex, Frankfort, Kentucky 40601.

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

The Corporation issued no bonds during the year ended June 30, 2007.

**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, 2007.

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*The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2007, are as follows (Expressed in Thousands):*

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 2,263,044	2.00%-7.65%	2027
Turnpike Authority of KY	1,179,590	2.00%-6.60%	2027
<b>Total</b>	<b>\$ 3,442,634</b>		

*Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2007, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2008	\$ 297,689	\$ 163,148	\$ 460,837
2009	290,120	143,719	433,839
2010	388,445	127,091	515,536
2011	212,030	116,888	328,918
2012	189,690	107,864	297,554
2013-2017	988,885	391,571	1,380,456
2018-2022	817,695	156,837	974,532
2023-2027	258,080	25,840	283,920
<b>Total</b>	<b>\$ 3,442,634</b>	<b>\$ 1,232,958</b>	<b>\$ 4,675,592</b>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
School Facilities Construction Commission *	\$ 788,821	3.4-5.375%	2027
Kentucky Housing Corporation *	2,081,089	2.05-6.06%	2038
Kentucky Infrastructure Authority *	157,545	2.25-6.0%	2024
Kentucky Higher Education Student Loan Corporation	2,047,250	Variable	2036
Kentucky Local Correctional Facilities Construction Authority *	17,885	2.25-5.25%	2014
University of Kentucky *	196,500	1.0-5.125%	2027
University of Louisville	195,516	1.50-5.40%	2035
Eastern Kentucky University	31,505	3.9-5.4%	2024
Western Kentucky University *	144,870	1.50-4.90%	2030
Murray State University *	26,780	1.10-5.6%	2028
Morehead State University	22,745	2.0-5.75%	2024
Kentucky State University*	9,370	2.0-3.625%	2027
Northern Kentucky University	75,255	3.0-7.8%	2028
<b>Total Component Unit Revenue Bonds Payable</b>	<b>\$ 5,795,131</b>		

\* Amounts reflect original issue

*Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2007, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2008	\$ 178,732	\$ 261,296	\$ 440,028
2009	189,615	259,447	449,062
2010	180,314	252,113	432,427
2011	167,957	244,953	412,910
2012	201,356	237,079	438,435
2013-2017	712,629	1,085,960	1,798,589
2018-2022	690,457	927,275	1,617,732
2023-2027	755,595	771,206	1,526,801
2028-2032	1,137,736	541,263	1,678,999
2033-2037	1,528,950	213,392	1,742,342
2038-2042	51,790	1,362	53,152
<b>Total</b>	<b>\$ 5,795,131</b>	<b>\$ 4,795,346</b>	<b>\$ 10,590,477</b>

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**NOTES PAYABLE:**

At June 30, 2007, the following entities had notes payable as follows:

**The Kentucky Asset/Liability Commission**, created by House Bill 5 enacted by the 1997 Extraordinary Session of the Kentucky General Assembly, develops policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and liabilities. It is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency.

The commission issued \$311,605,000 in General Receipt Project Notes as follows:

\$66,305,000 General Receipts Refunding Project Notes, 2006 Series A, dated October 18, 2007, carry interest rates of 3.500% to 5.000% and mature April 1, 2007 through October 1, 2022. \$2,220,000 General Receipts Refunding Project Notes, 2006 Series B, dated October 18, 2007, carry an interest rate of 5.000% and mature October 1, 2010 through October 1, 2027. These Notes were issued for the University of Kentucky and the debt service is the responsibility of the University. The Notes were used to refund University Housing and Dining System Revenue Bonds.

\$243,080,000 General Fund Floating Rate Project Notes as follow: \$100,835,000 2007 Series A Notes, and \$142,245,000 2007 Series B Refunding Notes. Series A notes mature November 1, 2017 through November 1, 2027. Series B notes mature November 1, 2021 through November 1, 2025. The notes carry interest rates of 67% of the three-month LIBOR rate plus a per annum spread of .40% for \$25,210,000 and .53% for \$75,625,000 of Series A notes, and .52% for \$71,310,000 and .55% for \$70,935,000 of Series B notes. Series A notes were used to fund new projects and the Series B notes were used to partially refund outstanding State Property and Buildings Commission Revenue Bonds.

The Commission is issuing Project Notes 2005 General Fund Series. These notes are to be issued in a multiple tranches, with the total not to exceed \$750,000,000. During FY2007 the following notes were issued:

Project Notes, 2005 General Fund Second Series (Second Tranche), \$50,000,000 Series A-1, and \$50,000,000 Series A-2, dated January 25, 2007. The notes will initially bear interest at the Commercial Paper Rate.

Project Notes, 2005 General Fund Second Series (Third Tranche), \$50,000,000 Series A-1, and \$50,000,000 Series A-2, dated June 26, 2007. The notes will initially bear interest at the Commercial Paper Rate.

The Commission is also issuing Project Notes 2005 Agency Fund Notes, Second Series. The following notes were issued during FY2007:

2005 Agency Fund Notes, Second Series (4<sup>th</sup> Tranche), dated October 4, 2006, \$4,000,000, and 2005 Agency Fund Notes, Second Series (5<sup>th</sup> Tranche), dated April, 24, 2007, \$4,750,000 for Northern Kentucky University, as interim funding for various projects, and are backed by a lease agreement with the University. The notes are issued as variable rate Commercial Paper.

**The Component Units** of the Commonwealth reported notes payable of \$59,258,000 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 102 and 103.

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

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*Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2007, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2008	\$ 44,045	\$ 38,296	\$ 82,341
2009	20,625	37,916	58,541
2010	49,220	36,370	85,590
2011	41,700	34,392	76,092
2012	35,555	32,739	68,294
2013-2017	173,430	140,364	313,794
2018-2022	187,765	98,734	286,499
2023-2027	352,740	44,006	396,746
2028-2032	5,230	106	5,336
Total	<u>\$ 910,310</u>	<u>\$ 462,923</u>	<u>\$ 1,373,233</u>

*Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2007, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2008	\$ 35,879	\$ 1,148	\$ 37,027
2009	6,914	800	7,714
2010	1,206	773	1,979
2011	1,544	740	2,284
2012	796	602	1,398
2013-2017	4,662	2,488	7,150
2018-2022	2,247	1,717	3,964
2023-2027	2,355	1,228	3,583
Thereafter	3,655	614	4,269
Total	<u>\$ 59,258</u>	<u>\$ 10,110</u>	<u>\$ 69,368</u>

*Changes in long-term liabilities for the fiscal year ended June 30, 2007, are summarized as follows (Expressed in Thousands):*

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
<b>Governmental Activities</b>						
Compensated absences	\$ 227,774	\$ 11,739	\$ (1,602)	\$ 237,911	\$ 119,123	\$ 118,788
Capital leases	28,450	19,886	(9,257)	39,079	11,230	27,849
Claims liability	139,283	27,071	(23,876)	142,478	14,873	127,605
Notes payable	554,790	415,270	(59,750)	910,310	44,045	866,265
Bonds payable	3,546,468	264,225	(368,059)	3,442,634	297,689	3,144,945
Unamortized premiums	188,682	16,610	(13,300)	191,992	16,602	175,390
Unamortized discounts	(16,420)		4,061	(12,359)	(1,069)	(11,290)
Deferred amount on refunding	(33,702)		12,118	(21,584)	(1,866)	(19,718)
Judgments and contingent liabilities	35,538	12,062	(13,152)	34,448	21,613	12,835
Unfunded employer pension contributions	288,379	493,982		782,361		782,361
<b>Total Governmental Activities</b>	<u>4,959,242</u>	<u>1,260,845</u>	<u>(472,817)</u>	<u>5,747,270</u>	<u>522,240</u>	<u>5,225,030</u>
<b>Business-Type Activities</b>						
Compensated absences	8,754	1,112	(846)	9,020	5,058	3,962
Capital leases	307	10	(120)	197	86	111
Claims and claims adjustment liability	1,322,147	1,231,865	(1,165,063)	1,388,949	234,116	1,154,833
Prize liability	200,664	15,353	(26,872)	189,145	54,875	134,270
Judgments and contingent liabilities	312	40	(324)	28	28	
<b>Total Business-Type Activities</b>	<u>1,532,184</u>	<u>1,248,380</u>	<u>(1,193,225)</u>	<u>1,587,339</u>	<u>294,163</u>	<u>1,293,176</u>
<b>Total Primary Government</b>	<u>\$ 6,491,426</u>	<u>\$ 2,509,225</u>	<u>\$ (1,666,042)</u>	<u>\$ 7,334,609</u>	<u>\$ 816,403</u>	<u>\$ 6,518,206</u>
<b>Component Units (Major)</b>						
Compensated absences	\$ 14,152	\$ 12,702	\$ (11,887)	\$ 14,967	\$ 11,996	\$ 2,971
Capital leases	195,333	165,625	(22,375)	338,583	23,290	315,293
Notes payable	24,878	154,446	(144,516)	34,808	31,508	3,300
Bonds payable	4,563,971	1,247,943	(507,601)	5,304,313	141,660	5,162,653
<b>Total Component Units</b>	<u>\$ 4,798,334</u>	<u>\$ 1,580,716</u>	<u>\$ (686,379)</u>	<u>\$ 5,692,671</u>	<u>\$ 208,454</u>	<u>\$ 5,484,217</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, 2007 and 2006 amounted to \$97.8 million and \$96.7 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, 2007, the estimated liability for annual and compensatory leave was \$237,911,000 for the governmental activities, and \$9,020,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$14,967,000 at June 30, 2007.

**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, 2007. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$406,502,573.20 and \$12,380,118.96, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 2007, had contractual commitments of approximately \$1,323,865,882 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 22 percent State funds, 47 percent

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2007

Federal funds, and the remaining 31 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, 2007, and prior to December 31, 2007, and reported other subsequent events for the same period, as described below.

**The State Property and Buildings Commission** issued \$267,055,000 Project No. 88 Revenue Bonds, dated November 15, 2007. These bonds mature November 1, 2008 through November 1, 2027 and carry interest rates of 4.50% to 5.00%. The net proceeds will be used to fund various project components and project previously funded by notes.

**The Kentucky Asset/Liability Commission** issued the following notes:

\$350,000,000 General Fund Tax and Revenue Anticipation Notes, 2007 Series A, to finance General Fund cash flow requirements of the Commonwealth for the fiscal year ending June 30, 2008. These notes are dated July 3, 2007, bear interest at 4.50% with a yield of 3.71%, and are due to mature June 26, 2008. Principal and interest are payable at maturity.

\$277,910,000 Project Notes, 2007 Federal Highway Trust Fund First Series, dated September 12, 2007. The notes mature September 1, 2008 through September 1, 2019 and carry interest rates of 3.70% to 5.25%. The proceeds are to be used by the Transportation Cabinet to widen portions of Interstate 65, Interstate 75, and Interstate 64.

\$77,905,000 University of Kentucky General Receipts Project Notes 2007 Series A, dated November 1, 2007. The notes carry an interest rate of 5.00% and mature October 1, 2010 through October 1, 2027. The notes were issued to pay certain amounts in connection with the construction of the Patient Care Facility Phase II – Hospital for the benefit of the University of Kentucky.

\$80,245,000 University of Kentucky General Receipts Project Notes 2007 Series B, dated November 29, 2007. The notes carry interest rates of 3.375% to 5.00% and mature October 1, 2010 through October 1, 2027. The notes were issued to pay certain amounts in connection with the construction of the Patient Care Facility Phase II – Hospital for the benefit of the University of Kentucky.

\$14,025,000 Project Notes, 2005 Agency Fund Second Series A-5, dated November 27, 2007, for the Kentucky River Authority. The notes are issued as variable rate Commercial Paper. The rate is computed on the basis of the weekly SIMFA municipal swap index rate plus a spread to be determined by the Authority’s Standard and Poor’s rating. The notes are issued to finance the restoration of locks maintained on the Kentucky River by the Authority.

**The Turnpike Authority of Kentucky** has approved a Financing/Lease Agreement and Supplemental Agreement relating to the Kentucky Asset/Liability Commission Project Notes 2007 Road Fund First Series A in an aggregate amount not to exceed \$350,000,000. The purpose of this financing is to provide financing for additions and improvements to the Kentucky Economic Development Road System (Revitalization Projects) in anticipation of bonds to be issued by the Turnpike Authority of Kentucky that will provide permanent financing for the project. The Commission issued \$150,000,000 Series A Notes on September 25, 2007. These notes were issued in a Commercial Paper Rate Mode with an initial weighted average rate of 3.575%.

**The Kentucky Housing Corporation** issued a total of \$109,890,000 bonds after June 30, 2007. 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:

2007 Series K (NON-AMT) consisting of \$240,000 Serial Bonds maturing July 1, 2013 through July 1, 2017 carry interest rates of 4.00% to 4.25%; \$1,825,000 4.85% Term Bond due July 1, 2027 and \$5,340,000 5.00% term Bond due July 1, 2034.

2007 Series L (AMT) consisting of \$1,480,000 Serial Bonds maturing January 1, 2008 through July 1, 2018 carry interest rates of 3.70% to 4.75%; \$945,000 4.75% Term Bond due January 1, 2018; \$6,080,000 5.15% Term Bond due July 1, 2026; \$3,640,000 5.50% Term Bond due July 1, 2031; and \$13,340,000 5.25% Term Bond due January 1, 2038.

2007 Series M (Taxable) consisting of \$4,040,000 Serial Bonds maturing January 1, 2008 through January 1, 2017 carry interest rates of 4.86% to 5.81%; \$2,955,000 5.81% Term Bond due July 1, 2017; \$570,000 5.91% Term Bond due July 1, 2018; and \$19,435,000 6.06% Term Bond due July 1, 2036.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2007

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2007 Series N (AMT) dated November 28, 2007 consisting of \$6,700,000 serial bonds maturing July 1, 2008 through July 1, 2022 with interest rates of 3.65% to 4.90%: \$10,260,000 5.00% Term Bond due July 1, 2027; \$9,005,000 5.00% Term Bond due July 1, 2032 and \$14,035,000 5.125% Term Bond due January 1, 2038.

\$10,000,000 2007 Series O (Taxable) (Variable Rate) Term Bond bearing interest at a weekly rate from the date of issuance and delivery until maturity date of January 1, 2038.

**School Facilities Construction Commission** administers the Commonwealth's participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2007, and maturing as to principal through 2027 is displayed in the spreadsheet on Page 101.

#### **Kentucky Higher Education Student Loan Corporation**

The Corporation issued following Student Loan Revenue Bonds dated August 30, 2007: \$42,925,000 Senior Series 2007A-1 (Tax-Exempt Auction Rate Securities); \$37,075,000 Senior Series 2007A-2 (Taxable Auction Rate Securities); \$50,000,000 Senior Series 2007A-3 (Taxable Auction Rate Securities); \$40,000,000 Senior Series 2007A-4 (Taxable Auction Rate Securities); \$60,000,000 Senior Series 2007A-5 (Taxable Auction Rate Securities); and \$20,000,000 Subordinate Series 2007B-1 (Tax-Exempt Auction Rate Securities).

**Eastern Kentucky University** issued \$12,920,000 General Receipt Bonds, 2007 Series A, dated August 2, 2007. The bonds consist of Serial Bonds maturing May 1, 2008 through May 1, 2024 and carry interest rates of 4.00% to 4.50% and \$1,275,000 4.50% term bonds maturing May 1, 2027. The proceeds of the bond will be used to renovate resident hall.

**Murray State University** issued \$14,550,000 General Receipt Bonds, 2007 Series A, dated July 31, 2007. The bonds consist of serial bonds maturing September 1, 2008 through September 1, 2023 and carry interest rates of 4.00% to 4.50%, \$1,910,000 4.50% term bonds maturing September 1, 2025, and \$2,090,000 4.50% term bonds maturing September 1, 2027. The project is comprised of the acquisition, construction, installation and equipping a student housing facility.

**Morehead State University** issued \$6,445,000 General Receipt Bonds, 2007 Series A, dated August 30, 2007. The bonds consist of serial bonds maturing November 1, 2008 through November 1, 2027 and carry an interest rate of 4.00%, and \$940,000 4.00% term bonds maturing November 1, 2022. The project is design residence hall renovation/improvement and expand student wellness center.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2007

SCHOOL FACILITIES CONSTRUCTION COMMISSION

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Anderson County	12/05/07	\$ 5,080,000	\$ 112,809	3.500 - 3.750
Carlisle County	09/11/07	565,000	565,000	3.700 - 4.125
Carroll County	11/08/07	990,000	556,324	3.400 - 3.750
Clinton County	07/05/07	4,440,000	434,538	4.200
Elliott County	11/29/07	3,470,000	3,401,598	3.350 - 4.000
Eminence Independent	12/11/07	815,000	360,214	3.400 - 3.900
Estill County	07/11/07	440,000		4.100 - 4.200
Ft. Thomas Independent	08/28/07	1,380,000	1,380,000	3.750 - 4.125
Green County	09/05/07	10,180,000	7,017,919	4.250 - 4.500
Hancock County	11/08/07	3,585,000	1,417,560	3.400 - 4.000
Harlan County	10/17/07	2,050,000	2,050,000	3.625 - 4.000
Henry County	10/16/07	15,290,000	1,350,555	4.000 - 4.500
Jenkins Independent	11/27/07	1,875,000	302,584	3.400 - 4.000
Knox County	10/02/07	11,040,000	7,404,663	3.750 - 4.250
LaRue County	10/25/07	500,000		4.000
LaRue County	12/13/07	945,000	376,584	3.300 - 3.700
Leslie County	08/07/07	8,500,000	6,415,140	3.700 - 4.125
Ludlow Independent	07/31/07	425,000	425,000	4.125 - 4.200
Oldham County	10/04/07	49,255,000	238,095	4.000 - 4.500
Owsley County	07/05/07	755,000	670,369	3.900 - 4.300
Paris Independent	11/01/07	880,000	880,000	3.400 - 4.000
Pike County	10/31/07	13,715,000	8,761,506	4.000 - 4.375
Spencer County	08/29/07	11,380,000	1,836,118	4.125 - 4.500
Trimble County	10/03/07	6,355,000	2,988,838	3.850
Williamstown Independent	12/18/07	4,995,000	3,692,520	3.500 - 4.000
		<u>\$ 158,905,000</u>	<u>\$ 52,637,934</u>	

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2007**

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**Audited financial statements may be requested at the following addresses:**

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

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

Turnpike Authority of Kentucky  
Room 78, 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

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2007**

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**Audited financial statements may be requested at the following addresses:**

Richmond, Kentucky 40475-3101  
Morehead State University  
Office of Accounting and Budgetary Control  
207 Howell-McDowell Administration Building  
Morehead, Kentucky 40351-1689

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

Office of Public Employees Health Insurance  
State Office Building, 2<sup>nd</sup> Floor  
501 High Street  
Frankfort, KY 40601

Kentucky Community and Technical College System  
300 North Main Street  
Versailles, KY 40383

Kentucky Access  
Department of Insurance  
215 West Main Street  
Frankfort, Kentucky 40601

Kentucky River Authority  
70 Wilkinson Boulevard  
Frankfort, Kentucky 40601

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

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

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

Kentucky Public Employees'  
Deferred Compensation Authority  
101 Sea Hero Road, Suite 110  
Frankfort, KY 40601-5404

Workers' Compensation Program  
State Office Building, 3<sup>rd</sup> Floor  
501 High Street

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

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

School Facilities Construction Commission  
229 West Main St., Suite 102  
Frankfort, Kentucky 40601-1879

World Games 2010 Foundation, Inc.  
2010 World Games Way  
Lexington, Kentucky 40511-2010



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

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**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 8,058,869	\$ 8,274,250	\$ 8,200,425	\$ (73,825)
Licenses, fees, and permits	27,500	29,925	33,549	3,624
Intergovernmental	8,700	10,600	13,614	3,014
Charges for services	4,300	5,600	9,550	3,950
Fines and forfeits	54,400	54,600	50,879	(3,721)
Interest and other investment income	8,900	6,400	31,992	25,592
Lottery proceeds	165,500	182,600	186,625	4,025
Other revenues	97,873	45,700	47,186	1,486
Tobacco Settlement	88,800	90,900	107,850	16,950
Subtotal of Budgeted Revenues	<u>8,514,842</u>	<u>8,700,575</u>	<u>8,681,670</u>	<u>(18,905)</u>
<b>Other Budgeted Financial Resources:</b>				
Transfers in (interfund)	<u>132,834</u>	<u>132,834</u>	<u>114,243</u>	<u>(18,591)</u>
Total Budgeted Revenues	<u>8,647,676</u>	<u>8,833,409</u>	<u>8,795,913</u>	<u>(37,496)</u>
<b>Non-Budgeted:</b>				
Other revenues				
Transfers in (interfund)				
Transfers in (intrafund)				
Total Non-Budgeted Revenues				
Total Revenues	<u>8,647,676</u>	<u>8,833,409</u>	<u>8,795,913</u>	<u>(37,496)</u>
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor	9,734	9,734	8,495	1,239
Office of Homeland Security	350	351	320	31
Kentucky Infrastructure Authority	2,343	2,343	2,343	
Department of Veterans Affairs	15,436	15,937	15,937	
Office of State Budget Director	4,433	4,433	4,059	374
State Planning Fund	250	250	250	
Unified Prosecutorial System: Commonwealth Attorneys	31,752	32,141	32,141	
County Attorneys	26,875	27,304	27,049	255
Department of Agriculture	19,863	20,263	19,859	404
Office of the Attorney General	14,276	14,470	14,470	
Auditor of Public Accounts	5,830	5,830	5,830	
Registry of Election Finance	1,547	1,547	1,547	
Military Affairs	12,589	19,917	15,727	4,190
Governor's Office of Agriculture Policy	19,500	19,499	14,959	4,540
Governor's Office for Local Development	13,498	13,498	13,498	
Local Government: Economic Assistance Fund	52,536	58,086	58,086	
Economic Development Fund	51,717	56,599	56,599	
Area Development Fund	810	810	810	
Secretary of State	2,299	2,299	2,299	
Secretary of Treasury	2,171	2,171	2,085	86
Board of Elections	4,878	5,257	5,200	57
School Facilities Construction Commission	107,589	107,589	98,231	9,358
Executive Branch Ethics Commission	435	435	426	9
Commission on Human Rights	1,841	1,843	1,842	1
Commission on Women	266	266	239	27
Council on Postsecondary Education	56,931	56,934	56,527	407
Emergency Medical Services Board	2,394			
Budget Reserve Trust Fund	119,015	231,490		231,490
<b>Personnel Cabinet:</b>				
General Operations	1,806	1,807	1,807	
State Salary Compensation Fund	8,000	3,843		3,843
State Group Health Insurance	2,476	2,476	2,408	68

	Original	Final	Actual	Variance
<b>Cabinet for Universities:</b>				
Eastern Kentucky University	\$ 77,924	\$ 77,924	\$ 77,924	\$
Kentucky State University	27,501	27,501	27,501	
Morehead State University	45,463	45,463	45,463	
Murray State University	55,279	55,279	55,279	
Northern Kentucky University	53,876	53,876	53,876	
University of Kentucky	318,568	318,568	318,568	
University of Louisville	187,485	187,485	187,485	
Western Kentucky University	80,224	80,224	80,224	
Kentucky Community and Technical College System	212,927	215,321	215,321	
<b>Finance and Administration:</b>				
General Administration & Support	10,281	10,281	10,124	157
Special Accounts - Capital Construction	22,146	22,146	22,146	
Debt Service	328,147	328,147	262,629	65,518
Office of the Controller	10,954	10,954	10,399	555
Department for Facilities Management	7,518	7,518	7,518	
Kentucky Retirement Systems		12,000	12,000	
Kentucky Higher Education Assistance Authority	167,019	167,019	166,274	745
Special Accounts - Tobacco Settlement		107,850	107,850	
Finance - County Costs	19,181	19,831	19,502	329
Department of Revenue: General Operations	71,880	71,908	71,908	
Office of Property Valuation Administrators	32,769	32,921	32,921	
Appropriations Not Otherwise Classified:				
Judgements	47	3,647	3,612	35
Board of Claims Awards	1,000	750	662	88
Guardian Ad Litem		7,600	7,600	
Prior Year Claims	400	7,626	7,624	2
Unredeemed Checks Refunded	1,500	1,590	1,471	119
Involuntary Commitments	60	60	35	25
Blanket Employee Bonds	100	100	80	20
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	250	1,763	1,762	1
Attorney General Expense	225	192	184	8
Medical Malpractice Liability Insurance Reimbursements	185	185	123	62
<b>Total General Government</b>	<b>2,326,547</b>	<b>2,595,349</b>	<b>2,271,306</b>	<b>324,043</b>
<b>Legislative and Judicial:</b>				
General Assembly	19,155	19,498	14,751	4,747
Legislative Research Commission	33,214	33,363	31,005	2,358
Judicial Retirement System	3,247	3,247	3,244	3
Court of Justice - Court Facility Use	444	444		444
Court of Justice - Operation and Administration	180,542	180,542	180,542	
Court of Justice - Local Facility Support	66,595	66,594	60,555	6,039
<b>Total Legislative and Judicial</b>	<b>303,197</b>	<b>303,688</b>	<b>290,097</b>	<b>13,591</b>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	Original	Final	Actual	Variance
<b>Commerce:</b>				
<b>Economic Development:</b>				
Office of the Secretary	\$ 16,619	\$ 16,619	\$ 15,927	\$ 692
Financial Incentives	12,012	12,965	2,590	10,375
Existing Business Development	3,457	3,457	3,287	170
New Business Development	1,365	1,365	1,365	
<b>Commerce Cabinet: Office of the Secretary</b>	<b>3,089</b>	<b>3,089</b>	<b>3,089</b>	
Breaks Interstate Park		191	191	
Kentucky State Fair Board	397	397	397	
Kentucky Horse Park	1,708	1,708	1,705	3
Department of Parks	27,978	28,973	28,973	
Office of Energy Policy	2,342	2,341	2,299	42
Department of Travel	7,131	7,141	7,141	
Berea Artisans Center	156	159	159	
<b>Total Commerce</b>	<b>76,254</b>	<b>78,405</b>	<b>67,123</b>	<b>11,282</b>
<b>Education:</b>				
General Administration and Program Support	2,425	2,425	2,425	
Commission on the Deaf and Hard of Hearing	920	920	920	
Kentucky Heritage Council	940	940	940	
Kentucky Arts Council	4,203	4,203	4,186	17
Department of Education:				
Support Education Excellence In KY (SEEK)	2,681,183	2,680,888	2,670,263	10,625
Executive Policy and Management	672	672	672	
Bureau of Support Services	36,926	36,926	36,926	
Learning Results Services	807,170	755,980	731,316	24,664
Kentucky Educational Television	14,695	14,695	14,695	
Kentucky Historical Society	8,763	8,767	8,767	
Kentucky Center for the Arts	1,114	1,114	1,114	
Education Professional Standards Board	10,372	10,372	10,372	
Libraries and Archives -				
Direct Local Aid	7,031	7,031	7,031	
General Operations	7,274	7,274	7,274	
Teachers' Retirement System	157,326	169,326	169,326	
Workforce Investment:				
Office of the Blind	1,335	1,338	1,338	
Technical Education	30,227	30,132	30,132	
Vocational Rehabilitation	13,090	13,090	13,090	
<b>Total Education and Humanities</b>	<b>3,785,666</b>	<b>3,746,093</b>	<b>3,710,787</b>	<b>35,306</b>
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Services	28,370	28,371	28,371	
Department for Community Based Services	316,034	316,181	316,181	
Governor's Office of Wellness and Physical Activity		1,000	574	426
Office of the Inspector General	6,646	6,653	6,653	
Office of Health Policy	636	638	638	
Department for Aging and Independent Living		16,071	16,071	
Department for Public Health	70,900	69,948	69,926	22
Department for Mental Health and Mental Retardation	185,755	185,809	185,808	1
Department for Human Support Services	41,528	77,277	77,272	5
Office of the Ombudsman	3,568	3,570	3,569	1
Department for Medicaid Services	37,882	37,884	37,731	153
Medicaid Services Benefits	1,002,008	1,002,008	1,002,008	
Commission for Children With Special Health Care Needs	5,835	5,838	5,838	
<b>Total Human Resources</b>	<b>1,699,162</b>	<b>1,751,248</b>	<b>1,750,640</b>	<b>608</b>

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Justice:</b>				
Office of the Secretary	\$ 13,797	\$ 13,817	\$ 13,816	\$ 1
Department of State Police	69,646	73,510	73,510	
Department of Juvenile Justice	84,006	84,025	84,025	
Department for Public Advocacy	29,771	29,771	29,771	
Department of Corrections:				
Management	7,254	7,268	7,268	
Adult Institutions	232,201	242,801	242,801	
Local Jail Allotment	16,279	16,279	16,042	237
Community Services and Local Facilities	114,497	114,561	114,560	1
<b>Total Justice</b>	<u>567,451</u>	<u>582,032</u>	<u>581,793</u>	<u>239</u>
<b>Natural Resources and Environmental Protection:</b>				
General Administration & Support	8,752	8,752	8,752	
Kentucky River Authority	368	370	370	
Kentucky Nature Preserves Commission	1,167	1,167	1,167	
Environmental Protection	25,612	25,612	25,611	1
Department for Natural Resources	14,895	17,554	17,554	
Mine Safety and Licensing	9,523	10,273	10,273	
Surface Mining Reclamation and Enforcement	10,652	10,652	10,481	171
<b>Total Natural Resources and Environmental Protection</b>	<u>70,969</u>	<u>74,380</u>	<u>74,208</u>	<u>172</u>
<b>Public Protection and Regulation:</b>				
Board of Claims and Crime Victims Compensation	848	851	851	
Board of Tax Appeals	471	471	471	
Kentucky Racing Commission	1,710			
Public Service Commission	12,625	12,625	10,470	2,155
Mine Safety Review Commission	201	201	163	38
Department - of Alcoholic Beverage Control	1,441	3,160	3,160	
of Housing, Buildings, and Construction	2,524	2,525	2,525	
of Insurance	6,500	6,500	6,500	
Labor - Workplace Standards	2,453	2,455	2,390	65
<b>Total Public Protection and Regulation</b>	<u>28,773</u>	<u>28,788</u>	<u>26,530</u>	<u>2,258</u>
<b>Transportation:</b>				
Public Transportation	10,491	11,357	8,001	3,356
<b>Total Transportation</b>	<u>10,491</u>	<u>11,357</u>	<u>8,001</u>	<u>3,356</u>
Total Expenditures	<u>8,868,510</u>	<u>9,171,340</u>	<u>8,780,485</u>	<u>390,855</u>
Excess of Revenues Over (Under) Expenditures	(220,834)	(337,931)	15,428	353,359
Fund Balance at July 1, as Restated		424,049	856,401	
Non-Budgeted Items			(1,910)	(1,910)
Fund Balance at June 30	<u>\$ (220,834)</u>	<u>\$ 86,118</u>	<u>\$ 869,919</u>	<u>\$ 783,801</u>

**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, 2007**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 1,063,065	\$ 1,057,165	\$ 1,061,881	\$ 4,716
Licenses, fees, and permits	131,587	125,435	131,813	6,378
Charges for services	15,350	14,610	13,733	(877)
Fines and forfeits	6	6	1	(5)
Interest and other investment income	9,000	15,300	16,055	755
Other revenues	4,167	2,617	2,460	(157)
Total Budgeted Revenues	1,223,175	1,215,133	1,225,943	10,810
<b>Non-Budgeted:</b>				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Transfers in (interfund)			15,811	15,811
Transfers in (intrafund)			2,879	2,879
Total Non-Budgeted Revenue			18,690	18,690
Total Revenues	1,223,175	1,215,133	1,244,633	29,500
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor				
Office of Homeland Security	350	350	223	127
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	110	140
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				



**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, 2007**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
	\$	\$	\$	\$
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				
Personnel				
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				
<b>Personnel Cabinet:</b>				
General Operations				
Public Employee Deferred Compensation Authority				
<b>Universities, Colleges, and Related Entities:</b>				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
<b>Finance and Administration:</b>				
General Administration and Support	400	400	400	
Office of the Controller				
The Commonwealth Office of Technology				
Kentucky Higher Education Assistance Authority				
Finance - County Costs				
Kentucky Retirement Systems				
Department of Revenue: General Operations	2,000	1,598	1,598	
Office of Property Valuation Administrators		402	402	
Department for Facilities Management				
<b>Total General Government</b>	<u>3,000</u>	<u>3,000</u>	<u>2,733</u>	<u>267</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	145	114	31
				1,043	1,043	957	86
				55	65	62	3
				164	164	143	21
				76	76	55	21
				2,408	2,408	2,343	65
				4,657	4,807	4,524	283
				63	63	52	11
				167	167	165	2
				11	11	7	4
				86	86	70	16
				127	171	146	25
				83	83	76	7
155				401			
				135	135	82	53
				754	755	693	62
				1,037	1,066	1,065	1
				265	265	264	1
				22	22	22	
				1,398	1,398	1,209	189
				92	102	83	19
				238	238	192	46
				64	64	49	15
				63	78	64	14
				2,744	2,744	2,158	586
				603	603	574	29
293	303	295	8	2	149	148	1
19,099	19,100	9,522	9,578	6,611	8,811	7,841	970
				26	26		26
				19,130	19,130	16,746	2,384
				6,009	6,009	6,009	
				196,738	196,738	162,867	33,871
				37,672	37,672	30,924	6,748
				113,668	113,668	69,594	44,074
				89,475	89,474	85,351	4,123
				126,536	126,536	102,253	24,283
				1,410,165	1,410,165	916,869	493,296
				581,817	581,817	63,986	517,831
				215,475	215,475	112,316	103,159
				418,540	419,096	133,292	285,804
				7,846	7,847	3,885	3,962
1,000	1,000		1,000	2,053	2,153	1,309	844
863	2,113	1,355	758	150	150	43	107
1,726	1,726	1,470	256	39,045	39,644	37,617	2,027
				1,950	1,950	1,519	431
				22,581	22,581	21,507	1,074
				4,382	4,781	3,567	1,214
				4,319	4,319	3,484	835
				1,017	1,017	914	103
<u>248,213</u>	<u>272,345</u>	<u>145,630</u>	<u>126,715</u>	<u>3,392,229</u>	<u>3,413,983</u>	<u>1,871,313</u>	<u>1,542,670</u>

**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, 2007**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Legislative and Judicial:</b>				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operation and Administration				
<b>Total Legislative and Judicial</b>				
<b>Commerce:</b>				
<b>Economic Development:</b>				
Office of the Secretary				
Financial Incentives				
Existing Business Development				
New Business Development				
<b>Commerce: Office of the Secretary</b>				
Department of Parks				
Office of Energy Policy				
Department of Travel				
Berea Artisans Center				
Department of Fish and Wildlife Resources				
<b>Total Commerce</b>				
<b>Education:</b>				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
General Administration and Program Support				
Department of Education:				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
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				
<b>Total Education and Humanities</b>				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	683	682	159	523
				1,786	1,786		1,786
				89	293	122	171
4,319	4,523	3,249	1,274	33,818	33,848	16,583	17,265
4,320	4,524	3,249	1,275	36,376	36,609	16,864	19,745
				1,340	1,340	207	1,133
				1,790	1,789	1,704	85
155	155	122	33	210	210	199	11
				747	747	499	248
				1,046	1,256	1,213	43
2,383	2,383	580	1,803	5,400	6,105	2,139	3,966
				8,700	8,700	7,267	1,433
				2,169	2,169	2,133	36
10,064	11,827	11,231	596	28,779	31,282	31,088	194
12,602	14,365	11,933	2,432	50,181	53,598	46,449	7,149
				590	590	349	241
				193	1,343	1,148	195
669	780	750	30	469	789	150	639
745	865	702	163	442	632	334	298
190	190	132	58	6,393	6,393	5,864	529
679,119	720,368	688,302	32,066	2,621	2,621	1,927	694
8,528	8,528	6,436	2,092	7,210	7,209	6,088	1,121
700	700	202	498	1,066	1,784	1,605	179
1,004	1,004	651	353	761	761	518	243
4,379	4,379	2,517	1,862	1,417	1,417	1,088	329
424	874	749	125	9	209	136	73
1,965	2,114	2,052	62	1,444	1,444	1,198	246
				9,409	9,409	8,264	1,145
9,349	9,350	7,533	1,817	1,955	2,256	2,180	76
122,219	122,219	93,873	28,346	3,000	3,000	681	2,319
15,189	15,188	13,367	1,821	20,165	20,165	19,812	353
46,642	46,642	44,892	1,750	2,674	2,674	2,123	551
891,122	933,201	862,158	71,043	59,818	62,696	53,465	9,231

**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, 2007**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Support	\$	\$	\$	\$
Department for Disability Determination Services				
Department for Community Based Services				
Office of Inspector General				
Office of Health Policy				
Department for Aging and Independent Living				
Department for Public Health				
Department for Mental Health and Mental Retardation				
Office of the Ombudsman				
Department for Medicaid Services				
Medicaid Services Benefits				
Commission for Children with Special Health Care Needs				
Department for Human Support Services				
<b>Total Human Resources</b>				
<b>Justice:</b>				
Office of the Secretary				
Department of State Police	50,000	50,000	50,000	
Kentucky Vehicle Enforcement	13,975	13,975	13,975	
Department for Public Advocacy				
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Correctional Institutions				
Community Service and Local Facilities				
<b>Total Justice</b>	63,975	63,975	63,975	
<b>Natural Resources and Environmental Protection:</b>				
General Administration & Support				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	300	300	1	299
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
<b>Total Natural Resources and   Environmental Protection</b>	300	300	1	299
<b>Public Protection and Regulation:</b>				
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				
<b>Total Public Protection and Regulation</b>				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 29,349	\$ 29,349	\$ 26,978	\$ 2,371	\$ 8,882	\$ 9,232	\$ 9,106	\$ 126
48,584	48,584	36,756	11,828	66	66	58	8
511,118	532,074	488,804	43,270	133,506	137,007	128,445	8,562
13,692	13,692	13,017	675	2,523	2,173	1,781	392
				606	1,429	957	472
	12,552	11,345	1,207		10,916	943	9,973
169,426	179,515	177,420	2,095	71,483	79,386	75,151	4,235
44,300	44,209	38,370	5,839	207,572	241,842	219,688	22,154
2,204	2,304	2,287	17	50	50	9	41
56,946	81,390	77,567	3,823	14,075	23,741	17,849	5,892
3,100,931	3,230,211	3,185,010	45,201	383,401	448,670	445,370	3,300
4,379	4,379	3,903	476	6,696	6,696	6,601	95
24,397	11,844	11,767	77	657	1,063	963	100
<u>4,005,326</u>	<u>4,190,103</u>	<u>4,073,224</u>	<u>116,879</u>	<u>829,517</u>	<u>962,271</u>	<u>906,921</u>	<u>55,350</u>
9,666	11,517	10,187	1,330	3,340	4,537	3,739	798
13,445	13,445	11,576	1,869	16,714	16,714	15,594	1,120
5,162	5,849	5,673	176	1,666	1,666	1,113	553
1,618	2,154	1,935	219	6,816	6,816	6,163	653
14,720	14,720	14,487	233	12,200	13,200	13,200	
1,874	3,673	2,498	1,175	46,367	46,367	45,648	719
	570	68	502	129	129	129	
1,707	1,898	816	1,082	5,435	5,750	5,735	15
75	599	289	310	4,369	4,409	4,406	3
<u>48,267</u>	<u>54,425</u>	<u>47,529</u>	<u>6,896</u>	<u>97,036</u>	<u>99,588</u>	<u>95,727</u>	<u>3,861</u>
1,532	1,532	1,437	95	6,708	6,708	6,292	416
				5,437	5,437	5,297	140
				267	267	241	26
55	100	81	19	379	379	338	41
19,047	20,247	19,114	1,133	40,294	59,583	53,411	6,172
9,134	9,134	6,836	2,298	5,704	5,880	3,463	2,417
581	716	709	7	1,437	2,149	1,593	556
18,314	18,314	15,657	2,657	3,478	3,478	1,661	1,817
22,000	22,000	9,475	12,525				
<u>70,663</u>	<u>72,043</u>	<u>53,309</u>	<u>18,734</u>	<u>63,704</u>	<u>83,881</u>	<u>72,296</u>	<u>11,585</u>
				1,189	1,339	1,155	184
540	1,290	1,272	18	2,119	2,119	1,305	814
				27,935	27,935	20,140	7,795
				100	140	140	
216	216	183	33	850	850	21	829
				3,578	3,578	3,525	53
	36		36	3,300	3,300	2,899	401
				9,224	9,224	7,362	1,862
				15,868	15,869	13,034	2,835
	2,382		2,382	21,098	21,099	14,255	6,844
<u>3,344</u>	<u>3,344</u>	<u>2,968</u>	<u>376</u>	<u>85,261</u>	<u>85,453</u>	<u>63,836</u>	<u>21,617</u>
<u>4,100</u>	<u>7,268</u>	<u>4,423</u>	<u>2,845</u>				

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Transportation:</b>				
Administration & Support	\$ 69,218	\$ 77,682	\$ 67,839	\$ 9,843
Revenue Sharing	306,726	305,544	247,811	57,733
Air Transportation	4,000	10,000	3,128	6,872
Highways	904,108	927,178	560,650	366,528
Public Transportation				
Vehicle Regulation	17,396	17,375	15,886	1,489
Debt Service	162,710	162,710	146,099	16,611
Transfers to Capital Projects	10,285	10,285	10,285	
1990 Economic Development Bond Projects				
2005 GARVEE Bond Series				
2005 Ed Bond Series				
<b>Total Transportation</b>	<u>1,474,443</u>	<u>1,510,774</u>	<u>1,051,698</u>	<u>459,076</u>
Total Expenditures	<u>1,541,718</u>	<u>1,578,049</u>	<u>1,118,407</u>	<u>459,642</u>
Excess of Revenues over (under)				
Expenditures	<u>(318,543)</u>	<u>(362,916)</u>	<u>126,226</u>	<u>489,142</u>
<b>Other Financing Sources (Uses)</b>				
Receipts From Trustees				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(318,543)	(362,916)	126,226	489,142
Fund Balances at July 1, as Restated		1,045	324,731	
Non-Budgeted Items			(2,972)	(2,972)
Fund Balances at June 30	<u>\$ (318,543)</u>	<u>\$ (361,871)</u>	<u>\$ 447,985</u>	<u>\$ 809,856</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$ 26	\$ 28	\$	\$ 28
					102,200	58,178	44,022
15	567	176	391	5,502	9,466	5,655	3,811
1,465,077	1,465,078	642,513	822,565	874,544	117,915	45,996	71,919
40,204	40,204	29,527	10,677	556	556	437	119
3,286	3,285	889	2,396	5,017	5,620	3,602	2,018
				4,674	4,674		4,674
					406,628	85,534	321,094
				237,091	587,091	210,224	376,867
<u>1,508,582</u>	<u>1,509,134</u>	<u>673,105</u>	<u>836,029</u>	<u>1,127,410</u>	<u>1,234,178</u>	<u>409,626</u>	<u>824,552</u>
<u>6,793,195</u>	<u>7,057,408</u>	<u>5,874,560</u>	<u>1,182,848</u>	<u>5,741,532</u>	<u>6,032,257</u>	<u>3,536,497</u>	<u>2,495,760</u>
		(85,686)				1,793,949	
						233	
						233	
		(85,686)				1,794,182	
		279,950				1,278,693	
		(8,608)				(2,006,282)	
<u>\$</u>	<u>\$</u>	<u>\$ 185,656</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,066,593</u>	<u>\$</u>

## Budgetary Reporting

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

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose. 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**  
**Notes To Required Supplementary Information**  
**June 30, 2007**

**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, 2007, 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, 2007:				
Budgetary basis	\$ 869,919	\$ 447,985	\$ 185,656	\$ 1,066,593
Adjustments:				
Accrued revenues	250,811	117,551	418,201	60,248
Accrued expenditures	(254,393)	(58,515)	(465,799)	(49,589)
Accrued transfers (net)	(15,001)		(6,783)	6,754
Total Accruals (1)	<u>(18,583)</u>	<u>59,036</u>	<u>(54,381)</u>	<u>17,413</u>
Reclassifications and other adjustments:				
Inventory balances (1)	5,452	37,388	63	3,395
To reclassify financial and other resources into financial statement fund types (2)	(1,594)	1,158	(148,079)	(724,535)
To record financial resources available as non-budgeted funds (3)	<u>(42,000)</u>			<u>14,710</u>
Fund Balance				
Fund balance June 30, 2007:				
GAAP Basis	<u>\$ 813,194</u>	<u>\$ 545,567</u>	<u>\$ (16,741)</u>	<u>\$ 377,576</u>

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

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2007**

**Infrastructure Assets Reported Using the Modified Approach**

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include approximately 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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Good	51.9%	50.4%	45.3%	42.0%	48.3%
Fair	32.9%	35.7%	39.5%	38.2%	34.4%
Poor	15.2%	13.9%	15.2%	19.8%	17.3%

**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**  
**Notes To Required Supplementary Information**  
**June 30, 2007**

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>
2006	7.2%
2005	6.2%
2004	5.7%
2003	5.3%
2002	5.2%

**Estimated and Actual Costs to Maintain**

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

	<u>Roadways</u>	<u>Bridges</u>	<u>Total</u>
<u>Fiscal Year 2008:</u>			
Estimated	\$ 707.8	\$ 181.5	\$ 889.3
<u>Fiscal Year 2007:</u>			
Estimated	\$ 700.0	\$ 120.0	\$ 820.0
Actual	\$ 817.4	\$ 114.1	\$ 931.5
<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

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

<b>State Workers' Compensation</b>										
	<b>Fiscal and Policy Year Ended</b>									
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Earned Premiums	\$ 16,121	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812	\$ 23,395
Administrative Expense	404	513	526	533	545	777	480	385	1,149	1,127
Incurring Claims as Originally Estimated	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161
Claims Paid (Cumulative) as of:										
End of Fiscal Year	2,819	2,702	3,128	3,790	3,846	3,733	3,656	4,520	4,131	4,898
One Year Later	5,697	5,833	6,332	7,216	7,320	7,449	7,225	7,233	7,862	
Two Years Later	7,179	7,604	7,811	8,987	9,260	9,330	8,596	9,347		
Three Years Later	8,017	8,726	8,678	10,252	10,414	10,627	10,008			
Four Years Later	8,653	9,305	9,441	11,254	11,236	11,432				
Five Years Later	9,313	9,818	9,976	11,945	11,990					
Six Years Later	9,707	10,211	10,320	12,886						
Seven Years Later	10,117	10,622	10,661							
Eight Years Later	10,405	11,079								
Nine Years Later	10,940									
Re-estimation of Incurred Claims:										
End of Fiscal Year	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161
One Year Later	12,876	13,623	16,584	19,315	20,172	20,514	19,209	18,824	17,769	
Two Years Later	13,473	15,543	16,033	19,186	18,805	19,888	18,694	17,659		
Three Years Later	14,416	15,617	16,189	19,067	19,198	19,894	18,682			
Four Years Later	14,492	15,497	15,449	19,382	19,546	19,442				
Five Years Later	15,001	15,039	15,626	19,532	19,233					
Six Years Later	14,870	15,524	15,720	20,002						
Seven Years Later	14,987	15,786	15,871							
Eight Years Later	15,217	15,575								
Nine Years Later	15,262									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	2,019	2,278	547	904	(267)	(1,900)	(1,637)	(3,241)	(1,725)	

SOURCE: Compilation Report

**Kentucky Employees Health Plan**

	<b>2006</b>	<b>2007</b>
Earned Premiums	\$ 578,263	\$ 1,091,702
Administrative Expense	28,998	57,782
Incurring Claims as Originally Estimated	467,315	1,042,931
Claims Paid (Cumulative) as of:		
End of Fiscal Year	398,456	974,764
One Year Later	473,766	
Re-estimation of Incurred Claims:		
End of Fiscal Year	473,872	1,042,931
One Year Later		
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	6,557	

SOURCE: Audited Financial Statements

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## **OTHER SUPPLEMENTARY INFORMATION**

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**COMBINING AND INDIVIDUAL FUND STATEMENTS AND  
SCHEDULES - NON MAJOR FUNDS**

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## NON-MAJOR GOVERNMENTAL FUNDS

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### **Debt Service Fund**

**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.

**Turnpike Authority of Kentucky** - accounts for the payment of principal, interest, and administrative fees due on debt issued to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

### **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** – was created to issue debt, which is used 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, 2007  
 (Expressed in Thousands)**

	<b>Debt Service Funds</b>	
	<b>Primary Government</b>	<b>Turnpike Authority of Kentucky</b>
<b>Assets</b>		
Cash and cash equivalents	\$	\$ 147,141
Cash with fiscal agents	34,073	
Investments, net of amortization	7,815	227,655
Invested security collateral		
Receivables, net		5,181
Notes receivable		
Capital lease receivable	313,460	
Interfund receivables		124,075
Interfund loan receivable		
Inventories		
Total Assets	<u>\$ 355,348</u>	<u>\$ 504,052</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Accounts payable	\$	\$ 3,232
Interfund payables	4,742	122,580
Obligations under securities lending		
Deferred revenue	313,460	
Total Liabilities	<u>318,202</u>	<u>125,812</u>
<b>Fund Balances:</b>		
Reserved for:		
Inventories		
Long-term receivables		
Deposit with fiscal agents	34,073	
Unreserved, reported in:		
Special revenue funds		
Debt service fund	3,073	378,240
Total Fund Balances	<u>37,146</u>	<u>378,240</u>
Total Liabilities and Fund Balances	<u>\$ 355,348</u>	<u>\$ 504,052</u>

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 103,715	\$ 15,763	\$ 130,147	\$ 396,766
95,163	73,346	84,814	34,073
53,009		57,236	488,793
41,158	1,144	15,557	110,245
1,065			63,040
3,658	122,580	17,160	1,065
11,018			313,460
24			267,473
<u>\$ 308,810</u>	<u>\$ 212,833</u>	<u>\$ 304,914</u>	<u>\$ 1,685,957</u>
\$ 2,385	\$ 477	\$ 7,836	\$ 13,930
14,517	124,075	7,200	273,114
53,009		57,237	110,246
18,005		1,110	332,575
<u>87,916</u>	<u>124,552</u>	<u>73,383</u>	<u>729,865</u>
24			24
1,065			1,065
			34,073
219,805	88,281	231,531	539,617
<u>220,894</u>	<u>88,281</u>	<u>231,531</u>	<u>381,313</u>
<u>\$ 308,810</u>	<u>\$ 212,833</u>	<u>\$ 304,914</u>	<u>\$ 1,685,957</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
<b>Revenues</b>		
Taxes	\$	\$
Licenses, fees, and permits		
Intergovernmental		
Charges for services	40,553	
Fines and forfeits		
Interest and other investment income	3,076	15,986
Increase (decrease) in fair value of investments	10	
Securities lending income		
Other revenues		2,341
Total Revenues	43,639	18,327
<b>Expenditures</b>		
Current:		
General government		
Legislative and judicial		
Commerce		
Education and humanities		
Human resources		
Justice		
Natural resources and environmental protection		
Public protection and regulation		
Transportation		
Debt service:		
Principal retirement	184,299	101,510
Interest and fiscal charges	143,011	57,286
Other expenditures	13,775	2,185
Securities lending expense		
Total Expenditures	341,085	160,981
Excess (Deficiency) of Revenues over (under) Expenditures	(297,446)	(142,654)
<b>Other Financing Sources (Uses)</b>		
Transfers in	318,634	147,303
Transfers out	(1,796)	(89)
Capitalized leases		
Issuance of bonds:		
Refunding issues	105,085	
Premiums	7,295	
Proceeds from notes	206,245	
Payments to refunded bond escrow agent	(330,193)	
Total Other Financing Sources (Uses)	305,270	147,214
Net Change in Fund Balances	7,824	4,560
Fund Balances at July 1, as Restated	29,322	373,680
Increase (Decrease) in Inventory		
Fund Balances at June 30	\$ 37,146	\$ 378,240

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 118,428	\$	\$ 12	\$ 118,440
989		1,756	2,745
1,012		1,520	2,532
51,053		100,909	192,515
16,227		3,040	19,267
8,594	16,671	19,478	63,805
1,343		337	1,690
3,149		3,400	6,549
57,888		17,416	77,645
<u>258,683</u>	<u>16,671</u>	<u>147,868</u>	<u>485,188</u>
117,350	268,799	67,920	454,069
2		1	3
41			41
50,162		14,202	64,364
1,266		21,383	22,649
		2,226	2,226
1,064		7,714	8,778
7		165	172
2		53,348	53,350
			285,809
			200,297
			15,960
3,033		3,275	6,308
<u>172,927</u>	<u>268,799</u>	<u>170,234</u>	<u>1,114,026</u>
<u>85,756</u>	<u>(252,128)</u>	<u>(22,366)</u>	<u>(628,838)</u>
408,667	145,953	175,416	1,195,973
(500,506)	(147,303)	(169,478)	(819,172)
1		3	4
			105,085
			7,295
			206,245
			(330,193)
<u>(91,838)</u>	<u>(1,350)</u>	<u>5,941</u>	<u>365,237</u>
(6,082)	(253,478)	(16,425)	(263,601)
226,979	341,759	247,956	1,219,696
(3)			(3)
<u>\$ 220,894</u>	<u>\$ 88,281</u>	<u>\$ 231,531</u>	<u>\$ 956,092</u>

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## **SCHEDULE OF FUND ACTIVITIES**

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**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES BY SOURCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed In Thousands)

Revenues by Source	June 30, 2007
Taxes:	
Sales and gross receipts	\$ 3,304,067
Income:	
Individual	2,986,196
Corporations	963,879
Property	555,353
Coal severance	272,896
Licenses and privileges	11,056
Inheritance and estate	46,535
Miscellaneous	2,867
Total Taxes	<u>8,142,849</u>
Licenses, fees, and permits	33,687
Intergovernmental	16,238
Charges for services	9,773
Fines and forfeits	50,879
Interest and other investment income	36,251
Securities lending income	14,503
Increase (decrease) in fair value of investments	407
Other revenues	144,989
Total Revenues by Source	<u>\$ 8,449,576</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed In Thousands)

	<b>June 30, 2007</b>
<b>General Government:</b>	
Personal services	\$ 234,569
Utilities, rentals, and other services	46,189
Commodities and supplies	30,768
Grants and subsidies	1,601,107
Capital outlay	421
Travel	3,054
Judgments and contingent liabilities	6,211
Other	6,791
Total General Government	<u>1,929,110</u>
<b>Legislative and Judicial:</b>	
Personal services	190,405
Utilities, rentals, and other services	70,682
Commodities and supplies	11,793
Grants and subsidies	4,125
Capital outlay	2,301
Travel	4,245
Total Legislative and Judicial	<u>283,551</u>
<b>Commerce:</b>	
Personal services	25,061
Utilities, rentals, and other services	2,759
Commodities and supplies	1,101
Grants and subsidies	13,440
Capital Outlay	1
Travel	362
Total Commerce	<u>42,724</u>
<b>Education and Humanities:</b>	
Personal services	100,324
Utilities, rentals, and other services	14,635
Commodities and supplies	10,810
Grants and subsidies	3,459,299
Capital outlay	302
Travel	2,937
Judgments and contingent liabilities	1
Total Education and Humanities	<u>3,588,308</u>
<b>Human Resources:</b>	
Personal services	189,553
Utilities, rentals, and other services	37,309
Commodities and supplies	7,510
Grants and subsidies	1,496,755
Capital Outlay	1,038
Travel	6,199
Judgments and contingent liabilities	3,471
Total Human Resources	<u>1,741,835</u>
<b>Justice:</b>	
Personal services	326,675
Utilities, rentals, and other services	38,649
Commodities and supplies	25,024
Grants and subsidies	197,892
Capital outlay	4,750
Claims	1
Travel	3,462
Judgments and contingent liabilities	(9,004)
Total Justice	<u>587,449</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed In Thousands)

	<b>June 30, 2007</b>
<b>Natural Resources and Environmental Protection:</b>	
Personal services	\$ 59,549
Utilities, rentals, and other services	5,914
Commodities and supplies	3,044
Grants and subsidies	1,898
Capital outlay	410
Travel	523
Judgments and contingent liabilities	(7)
Total Natural Resources and Environmental Protection	<u>71,331</u>
<b>Public Protection and Regulation:</b>	
Personal services	30,255
Utilities, rentals, and other services	1,250
Commodities and supplies	246
Grants and subsidies	200
Capital outlay	88
Travel	190
Judgments and contingent liabilities	(75)
Total Public Protection and Regulation	<u>32,154</u>
<b>Transportation:</b>	
Personal services	1,381
Commodities and supplies	96
Grants	6,073
Total Transportation	<u>7,550</u>
<b>Securities Lending Expense</b>	<u>13,967</u>
Total Expenditures	<u>\$ 8,297,979</u>

**SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE**  
**TRANSPORTATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed In Thousands)

	<b>June 30, 2007</b>
Revenues:	
Licenses, fees and permits	\$ 132,183
Taxes	1,077,891
Charges for services	5,688
Fines and forfeits	1
Interest and other investment income	17,829
Increase (decrease) in fair value of investments	3,247
Securities lending income	7,271
Other revenues	2,460
Total Revenues	<u>1,246,570</u>
Expenditures:	
Transportation:	
General administration and support	57,461
Motor vehicle regulation	15,886
Justice - state police	50,186
Highways	559,332
Aviation	2,360
Securities lending expense	7,002
Other	265,165
Total Expenditures	<u>957,392</u>
Excess of Revenues over (under) Expenditures	289,178
Other financing sources (uses):	
Operating transfers in	15,812
Operating transfers out	(179,255)
Capitalized leases	1,614
Total Other Financing Sources (Uses)	<u>(161,829)</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	127,349
Fund Balance at July 1	415,441
Increase (decrease) in inventories	2,777
Fund Balance at June 30	<u>\$ 545,567</u>

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## INTERNAL SERVICE FUNDS

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

**Fleet Management Fund** - accounts for expenses incurred and reimbursements received for the management and maintenance of the Commonwealth's motor vehicle fleet.

**Computer Services Fund** - accounts for expenses incurred and reimbursements received for computer and related data processing services.

**Prison Industries Fund** - accounts for expenses incurred and reimbursements received for industrial operations within the correctional system.

**Central Printing Fund** - accounts for expenses incurred and reimbursements received by the Division of Printing.

**Property Management Fund** - accounts for expenses incurred and reimbursements received for space rental and maintenance operations.

**Risk Management Fund** accounts for the self-insurance operations administered by the State which include the following programs:

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

**State Workers' Compensation Program** - accounts for monies received by the Personnel Cabinet from State agencies and expended for claims of job related injuries to State employees.

**Transportation Cabinet's Self-Insured Workers' Compensation Trust Program** - provides workers' compensation insurance for the employees of the Transportation Cabinet.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	<u>Fleet Management</u>	<u>Computer Services</u>	<u>Prison Industries</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,237	\$ 13,044	\$ 274
Cash with fiscal agent	4,676		
Receivables, net	95	271	339
Interfunds receivable	374	2,795	447
Inventories	20	301	2,767
Prepaid expenses	28	710	
Total Current Assets	<u>7,430</u>	<u>17,121</u>	<u>3,827</u>
Noncurrent assets:			
Investments, net	1,571	19,190	161
Land			726
Improvements other than buildings			
Buildings		1,978	4,034
Machinery and equipment	92,146	36,569	3,582
Less: Accumulated depreciation	(58,796)	(29,460)	(4,678)
Construction in progress		2,733	186
Total Capital Assets	<u>33,350</u>	<u>11,820</u>	<u>3,850</u>
Total Noncurrent Assets, Net	<u>34,921</u>	<u>31,010</u>	<u>4,011</u>
Total Assets	<u>42,351</u>	<u>48,131</u>	<u>7,838</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	7,599	9,006	1,344
Interfund payables	69	15	64
Claims liability			
Claims adjustment liability			
Capital lease obligations	2,571	29	6
Compensated absences	69	1,925	361
Notes payable			
Deferred revenue		184	
Total Current Liabilities	<u>10,308</u>	<u>11,159</u>	<u>1,775</u>
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations	9,442	20	4
Compensated absences	85	1,811	347
Notes payable			
Total Noncurrent Liabilities	<u>9,527</u>	<u>1,831</u>	<u>351</u>
Total Liabilities	<u>19,835</u>	<u>12,990</u>	<u>2,126</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	21,337	9,039	3,821
Unrestricted	1,179	26,102	1,891
Total Net Assets	<u>\$ 22,516</u>	<u>\$ 35,141</u>	<u>\$ 5,712</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2007
\$ 309	\$ 2,579	\$ 9,094	\$ 27,537
			4,676
8	623	639	1,344
90		1,274	5,521
		3,741	3,178
<u>407</u>	<u>3,202</u>	<u>14,748</u>	<u>46,735</u>
186	7,939	6,415	35,462
	15,020		15,746
	3,144		3,144
	250,637		256,649
1,592	1,684		135,573
(1,018)	(131,194)		(225,146)
	61,452		64,371
<u>574</u>	<u>200,743</u>		<u>250,337</u>
<u>760</u>	<u>208,682</u>	<u>6,415</u>	<u>285,799</u>
<u>1,167</u>	<u>211,884</u>	<u>21,163</u>	<u>332,534</u>
120	2,223	403	20,695
	59	70	277
		13,998	13,998
		875	875
111	346		3,063
53	600	88	3,096
	134	66	384
<u>284</u>	<u>3,362</u>	<u>15,500</u>	<u>42,388</u>
		120,331	120,331
		7,274	7,274
379	4,663		14,508
59	455	55	2,812
<u>438</u>	<u>5,118</u>	<u>127,660</u>	<u>144,925</u>
<u>722</u>	<u>8,480</u>	<u>143,160</u>	<u>187,313</u>
84	194,750		229,031
361	8,654	(121,997)	(83,810)
<u>\$ 445</u>	<u>\$ 203,404</u>	<u>\$ (121,997)</u>	<u>\$ 145,221</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 28,796	\$ 67,777	\$ 12,550
Other revenues	280	287	2
Total Operating Revenues	<u>29,076</u>	<u>68,064</u>	<u>12,552</u>
<b>Operating Expenses:</b>			
Personal services	1,650	40,702	5,459
Utilities, rentals, and other services	2,942	14,177	847
Commodities and supplies	19,569	12,006	5,323
Grants and subsidies			1,091
Depreciation and amortization	8,065	4,484	323
Travel		135	20
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Total Operating Expenses	<u>32,226</u>	<u>71,504</u>	<u>13,063</u>
Operating Income (Loss)	<u>(3,150)</u>	<u>(3,440)</u>	<u>(511)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of fixed assets	(974)		(383)
Increase (decrease) in fair value of investments	2	57	
Interest expense		(4)	(1)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	<u>(972)</u>	<u>53</u>	<u>(384)</u>
Income (Loss) before Capital contributions and Transfers	(4,122)	(3,387)	(895)
Capital contributions	414	171	
Transfers in		18,134	27
Transfers out	(4,756)	(4,910)	(8)
Change in Net Assets	(8,464)	10,008	(876)
Net Assets at July 1, as Restated	30,980	25,133	6,588
Net Assets at June 30	<u>\$ 22,516</u>	<u>\$ 35,141</u>	<u>\$ 5,712</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2007
\$ 2,270	\$ 28,753	\$ 36,339	\$ 176,485
2,270	3	36,339	572
950	14,394	3,181	66,336
412	12,520	5,389	36,287
209	10,341	16	47,464
186	6,409	10	1,091
	7	1,349	19,467
	1	26,652	172
1,757	43,672	1,241	1,349
513	(14,916)	37,838	26,653
		(1,499)	1,241
(45)	(7)		200,060
	454	406	(23,003)
(5)	(236)	3	(1,409)
		52	406
(50)	211	461	516
			(246)
463	(14,705)	(1,038)	52
			(681)
	2,813		(23,684)
	(1,580)	(270)	585
463	(13,472)	(1,308)	20,974
(18)	216,876	(120,689)	(11,524)
\$ 445	\$ 203,404	\$ (121,997)	\$ 158,870
			145,221

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

	Fleet Management	Computer Services	Prison Industries
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$	\$	\$
Cash received from customers - state	29,025	67,168	3,541
Cash payments to suppliers for goods and services	(19,763)	969	9,251
Cash payments for employee salaries and benefits	(1,658)	(17,527)	(6,564)
Cash payments for claims expense		(40,534)	(5,433)
Cash payments from other sources	280	287	3
Cash payments to other sources			(1,091)
Net Cash Provided (Used) by Operating Activities	<u>7,884</u>	<u>10,363</u>	<u>(293)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds		18,134	27
Transfers to other funds	(4,756)	(4,910)	(8)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(4,756)</u>	<u>13,224</u>	<u>19</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(1,416)	(3,402)	(524)
Principal paid on revenue bond maturities and equipment contracts		(31)	(7)
Interest paid on revenue bonds and equipment contracts		(4)	(1)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(1,416)</u>	<u>(3,437)</u>	<u>(532)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(664)	(10,513)	289
Proceeds from the sale of investment securities			
Interest and dividends on investments	2	58	
Net Cash Provided (Used) in Investing Activities	<u>(662)</u>	<u>(10,455)</u>	<u>289</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,050	9,695	(517)
Cash and Cash Equivalents at July 1	1,187	5,006	857
Cash and Cash Equivalents at June 30	<u>\$ 2,237</u>	<u>\$ 14,701</u>	<u>\$ 340</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ (3,150)	\$ (3,440)	\$ (511)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	8,065	4,484	323
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(89)	108	(12)
Interfund receivables	317	1,542	254
Inventories	2	(29)	(329)
Prepaid expenses	(1)	1,716	
Increase (decrease) in liabilities:			
Accounts payable	2,689	7,012	(121)
Interfund payables	59	(42)	57
Claims liability			
Compensated absences	(8)	302	46
Deferred revenue		(1,290)	
Net Cash Provided by Operating Activities	<u>\$ 7,884</u>	<u>\$ 10,363</u>	<u>\$ (293)</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$ 2	\$ 57	\$
Contributions of capital assets	414	171	
Capital assets acquired through leases	12,013		
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 12,429</u>	<u>\$ 228</u>	<u>\$</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2007
\$	\$	\$	\$
	27,979		98,688
2,309	181	34,496	76,231
(738)	(21,308)	(3,911)	(69,811)
(1,057)	(14,345)	(3,289)	(66,316)
	(1)	(24,697)	(24,698)
	3	52	625
		(1,305)	(2,396)
514	(7,491)	1,346	12,323
	2,813		20,974
	(1,580)	(270)	(11,524)
	1,233	(270)	9,450
(86)	(25,816)		(31,244)
(17)	(332)		(387)
(5)	(236)		(246)
(108)	(26,384)		(31,877)
(153)		(916)	(11,957)
	31,294		31,294
	454	397	911
(153)	31,748	(519)	20,248
253	(894)	557	10,144
56	3,473	8,537	19,116
\$ 309	\$ 2,579	\$ 9,094	\$ 29,260
\$	\$	\$	\$
513	(14,916)	(1,499)	(23,003)
186	6,409	52	19,467
			52
8		(639)	(624)
31	(593)	(1,271)	280
(15)		1,594	(371)
			3,309
33	1,502	(226)	10,889
(135)	51	70	60
		3,203	3,203
(107)	56	(5)	284
		67	(1,223)
\$ 514	\$ (7,491)	\$ 1,346	\$ 12,323
\$	\$	\$	\$
	454	3	516
508			585
\$ 508	\$ 454	\$ 3	\$ 12,521
			\$ 13,622

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## **CAPITAL ASSETS**

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**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE**  
**JUNE 30, 2007**  
(Expressed In Thousands)

	<b>June 30, 2007</b>
<b>Governmental Funds Capital Assets</b>	
Land	\$ 120,469
Improvements other than buildings	12,137
Buildings	813,854
Machinery and equipment	411,150
Other intangibles	1,872
Easements	55,256
Construction in progress	2,003,884
Infrastructure	16,520,655
Total Governmental Funds Capital Assets	<b>\$ 19,939,277</b>
<b>Investments in Governmental Funds Capital Assets by Source</b>	
General Fund	\$ 111,524
Special Revenue Funds	2,269,942
Donations	101,865
Other	35,551
Capital Projects Fund:	
State appropriations	52,300
Revenue bonds	452,031
Federal grants	120,057
Other	37,956
Infrastructure (A)	16,520,655
Capital assets acquired prior to July 1, 1984 (A)	153,031
Capital assets acquired after July 1, 1984 (A)	84,365
Total Governmental Funds Capital Assets	<b>\$ 19,939,277</b>

- (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, 2007**  
(Expressed in Thousands)

<b>FUNCTION</b>	<u>Land</u>	<u>Improvements Other Than Buildings</u>	<u>Buildings</u>
General Government	\$ 15,993	\$ 3,696	\$ 166,869
Legislative & Judicial	55		
Commerce	59,610	2,283	24,585
Education & Humanities	1,285	663	40,528
Human Resources	1,766	578	74,236
Justice	3,953	4,917	340,046
Natural Resources and Environmental Protection	21,573		1,538
Public Protection and Regulation			
Transportation	16,234		166,052
<b>Total Governmental Funds Capital Assets</b>	<u><u>\$ 120,469</u></u>	<u><u>\$ 12,137</u></u>	<u><u>\$ 813,854</u></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.

(2) Assets with a total of \$9,117,(373) were previously reported in the General Government function but are now reported in the Transportation function as a result of a reorganization.

<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, 2007</u>
\$ 34,622	\$ 1,872	\$ 32,776	\$ 44,494	\$	\$ 300,322
10,543					10,598
22,158			480		109,116
39,499		12,792	591		95,358
20,238			6,112		102,930
75,269			154,136		578,321
36,211		9,688	19		69,029
4,021					4,021
168,589			1,798,052	16,520,655	18,669,582
<u>\$ 411,150</u>	<u>\$ 1,872</u>	<u>\$ 55,256</u>	<u>\$ 2,003,884</u>	<u>\$ 16,520,655</u>	<u>\$ 19,939,277</u>

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
General Government	\$ 278,303	\$ 27,730	\$ 5,711	\$ 300,322
Legislative & Judicial	11,429	10	841	10,598
Commerce	97,564	13,716	2,164	109,116
Education & Humanities	88,184	8,262	1,088	95,358
Human Resources	100,579	4,158	1,807	102,930
Justice	578,884	20,291	20,854	578,321
Natural Resources and Environmental Protection	61,864	8,532	1,367	69,029
Public Protection and Regulation	3,411	831	221	4,021
Transportation	18,149,147	1,906,998	1,386,563	18,669,582
Total Governmental Funds Capital Assets	<u>\$ 19,369,365</u>	<u>\$ 1,990,528</u>	<u>\$ 1,420,616</u>	<u>\$ 19,939,277</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.

(2) Assets with a total of \$9,117,(373) were previously reported in the General Government function but are now reported in the Transportation function as a result of a reorganization.

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## PENSION (AND OTHER POST EMPLOYMENT BENEFIT) TRUST FUNDS

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

**Kentucky Employees Retirement System** 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.

**County Employees Retirement System** 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.

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

**Kentucky Teachers' Retirement System** 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 Retirement 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 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 POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Assets</b>				
Cash and short-term investments:				
Cash	\$ 310	\$ 101	\$ 333	\$ 381
Short-term investments	184,957	20,977	67,102	63,155
Total Cash and Short-Term Investments	<u>185,267</u>	<u>21,078</u>	<u>67,435</u>	<u>63,536</u>
Receivables:				
Investments - accounts receivable	22,755	2,112	23,843	7,180
Interest receivable				
Accounts receivable	21,810	1,787	31,236	11,754
Total Receivables	<u>44,565</u>	<u>3,899</u>	<u>55,079</u>	<u>18,934</u>
Investments at fair value:				
Corporate and government bonds	1,326,278	133,395	1,434,224	432,239
Common stocks	3,645,971	303,951	3,624,492	1,060,131
Mortgages	572,802	46,952	633,529	178,666
Mutual funds				
Real estate	2,345	1,943	2,360	2,415
Total Investments at Fair Value	<u>5,547,396</u>	<u>486,241</u>	<u>5,694,605</u>	<u>1,673,451</u>
Invested security collateral	1,137,425	118,723	1,386,461	349,591
Capital assets, net	643	54	1,089	96
Prepaid expenses				
Total Assets	<u>6,915,296</u>	<u>629,995</u>	<u>7,204,669</u>	<u>2,105,608</u>
<b>Liabilities</b>				
Accounts payable	4,714	496	5,273	1,082
Obligations under securities lending	1,137,425	118,723	1,386,461	349,591
Total Liabilities	<u>1,142,139</u>	<u>119,219</u>	<u>1,391,734</u>	<u>350,673</u>
<b>Net assets held in trust for employee retirement benefit</b>	<u>\$ 5,773,157</u>	<u>\$ 510,776</u>	<u>\$ 5,812,935</u>	<u>\$ 1,754,935</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement System</b>	<b>Legislators' Retirement System</b>	<b>Deferred Compensation System</b>	<b>Totals June 30, 2007</b>
\$ 56	\$ 5,388	\$ 140	\$ 47	\$ 4,882	\$ 11,638
6,137	429,562	1,845	3,656	28,319	805,710
6,193	434,950	1,985	3,703	33,201	817,348
1,553	65,561				123,004
1,167	31,011	1,383	266		1,649
2,720	96,572	78	6	24,136	122,985
		1,461	272	24,136	247,638
94,457	4,207,776	91,705	17,576		7,737,650
234,365	10,114,620	182,274	50,000		19,215,804
38,275	262,431				1,732,655
	5,074			1,491,858	1,496,932
481	381,694				391,238
367,578	14,971,595	273,979	67,576	1,491,858	30,574,279
140,338	867,562				4,000,100
11	3,085				4,978
	86				86
516,840	16,373,850	277,425	71,551	1,549,195	35,644,429
121	13,257			163	25,106
140,338	867,562				4,000,100
140,459	880,819			163	4,025,206
<b>\$ 376,381</b>	<b>\$ 15,493,031</b>	<b>\$ 277,425</b>	<b>\$ 71,551</b>	<b>\$ 1,549,032</b>	<b>\$ 31,619,223</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Additions</b>				
Contributions:				
Employer	\$ 88,249	\$ 13,237	\$ 124,261	\$ 61,553
Member	116,254	13,245	121,979	43,650
Total Contributions	<u>204,503</u>	<u>26,482</u>	<u>246,240</u>	<u>105,203</u>
Other Contributions:				
Participant fees				
Other receipts				
Total Other Income				
Investment income:				
Net increase (decrease) in fair value of investments	620,802	63,641	594,889	190,026
Interest	169,521	14,820	173,309	51,758
Dividends				
Real estate operating income, net				
Securities lending income, net	67,410	7,109	82,521	20,692
Total Investment Income	<u>857,733</u>	<u>85,570</u>	<u>850,719</u>	<u>262,476</u>
Less: Investment expense	7,997	717	7,658	2,497
Less: Securities lending expense	65,084	6,856	79,566	19,946
Net Investment Income	<u>784,652</u>	<u>77,997</u>	<u>763,495</u>	<u>240,033</u>
Total Additions	<u>989,155</u>	<u>104,479</u>	<u>1,009,735</u>	<u>345,236</u>
<b>Deductions</b>				
Benefit payments	640,201	28,514	365,648	115,604
Refunds	9,489	1,662	11,396	2,562
Administrative expenses	7,070	611	12,197	1,073
Other deductions, net	14		22	1
Total Deductions	<u>656,774</u>	<u>30,787</u>	<u>389,263</u>	<u>119,240</u>
<b>Change in Net Assets</b>	332,381	73,692	620,472	225,996
<b>Net Assets Held in Trust</b>				
Net Assets at July 1, as Restated	5,440,134	437,029	5,191,377	1,528,845
Adjustment to net assets	642	55	1,086	94
Net Assets at June 30	<u>\$ 5,773,157</u>	<u>\$ 510,776</u>	<u>\$ 5,812,935</u>	<u>\$ 1,754,935</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement System</b>	<b>Legislators' Retirement System</b>	<b>Deferred Compensation System</b>	<b>Totals June 30, 2007</b>
\$ 6,142	\$ 439,914	\$ 3,617	\$ 722	\$ 4,894	\$ 742,589
5,152	269,688	2,690	285	141,415	714,358
<u>11,294</u>	<u>709,602</u>	<u>6,307</u>	<u>1,007</u>	<u>146,309</u>	<u>1,456,947</u>
		853	290	7,445	7,445
		<u>853</u>	<u>290</u>	<u>7,445</u>	<u>1,143</u>
					<u>8,588</u>
38,496	1,617,337	27,904	7,589	106,591	3,267,275
11,318	254,955	4,633	1,010	80,441	761,765
	165,184	2,711	766		168,661
	30,344				30,344
8,344	52,672				238,748
<u>58,158</u>	<u>2,120,492</u>	<u>35,248</u>	<u>9,365</u>	<u>187,032</u>	<u>4,466,793</u>
508	8,668	235		3,016	31,296
8,055	51,330				230,837
49,595	2,060,494	35,013	9,365	184,016	4,204,660
<u>60,889</u>	<u>2,770,096</u>	<u>42,173</u>	<u>10,662</u>	<u>337,770</u>	<u>5,670,195</u>
37,187	1,106,817	15,656	2,423	97,065	2,409,115
47	14,823	83			40,062
126	7,353	220	133	6,060	34,843
		1,435	639		2,111
<u>37,360</u>	<u>1,128,993</u>	<u>17,394</u>	<u>3,195</u>	<u>103,125</u>	<u>2,486,131</u>
23,529	1,641,103	24,779	7,467	234,645	3,184,064
352,841	13,851,928	252,646	64,084	1,314,387	28,433,271
11					1,888
<u>\$ 376,381</u>	<u>\$ 15,493,031</u>	<u>\$ 277,425</u>	<u>\$ 71,551</u>	<u>\$ 1,549,032</u>	<u>\$ 31,619,223</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>	
	<b>Non-Hazardous</b>	<b>Hazardous</b>
<b>Assets</b>		
Cash and short-term investments:		
Cash	\$ 1	\$ 10
Short-term investments	33,998	27,737
Total Cash and Short-Term Investments	<u>33,999</u>	<u>27,747</u>
Receivables:		
Investments - accounts receivable	1,822	733
Accounts receivable	6,116	1,077
Total Receivables	<u>7,938</u>	<u>1,810</u>
Investments at fair value:		
Corporate and government bonds	67,683	23,331
Common stocks	555,185	228,045
Mutual funds	15	15
Real estate		
Total Investments at Fair Value	<u>622,883</u>	<u>251,391</u>
Invested security collateral	110,898	82,368
Prepaid expenses		
Total Assets	<u>775,718</u>	<u>363,316</u>
<b>Liabilities</b>		
Accounts payable	1,262	62
Obligations under securities lending	110,898	82,368
Total Liabilities	<u>112,160</u>	<u>82,430</u>
<b>Net assets held in trust for retiree's health insurance</b>	<u>\$ 663,558</u>	<u>\$ 280,886</u>

County Employees Retirement System		State Police Retirement System	Kentucky Teachers' Retirement System	Totals June 30, 2007
Non-Hazardous	Hazardous			
\$ 21	\$ 16	\$ 6	\$	\$ 54
100,996	51,975	9,879	136,896	361,481
<u>101,017</u>	<u>51,991</u>	<u>9,885</u>	<u>136,896</u>	<u>361,535</u>
3,050	1,607	367		7,579
19,514	6,743	366	5,728	39,544
<u>22,564</u>	<u>8,350</u>	<u>733</u>	<u>5,728</u>	<u>47,123</u>
121,460	64,034	12,835		289,343
840,203	445,919	109,325		2,178,677
61	37			128
		7		7
<u>961,724</u>	<u>509,990</u>	<u>122,167</u>		<u>2,468,155</u>
344,074	179,488	31,974		748,802
			121	121
<u>1,429,379</u>	<u>749,819</u>	<u>164,759</u>	<u>142,745</u>	<u>3,625,736</u>
1,262	175	211	1,973	4,945
344,074	179,488	31,974		748,802
<u>345,336</u>	<u>179,663</u>	<u>32,185</u>	<u>1,973</u>	<u>753,747</u>
\$ 1,084,043	\$ 570,156	\$ 132,574	\$ 140,772	\$ 2,871,989

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	Kentucky Employees Retirement System	
	Non-Hazardous	Hazardous
<b>Additions</b>		
Contributions:		
Employer	\$ 64,014	\$ 19,535
Employee		
Total Contributions	<u>64,014</u>	<u>19,535</u>
Other Contributions:		
Recovery Income	12,196	105
Medicare D Receipts	10,744	204
Total Other Income	<u>22,940</u>	<u>309</u>
Investment income:		
Net increase (decrease) in fair value of investments	64,426	38,760
Interest	14,737	5,888
Securities lending income, net	5,750	4,055
Total Investment Income	<u>84,913</u>	<u>48,703</u>
Less: Investment expense	554	286
Less: Securities lending expense	5,482	3,876
Net Investment Income	<u>78,877</u>	<u>44,541</u>
Total Additions	<u>165,831</u>	<u>64,385</u>
<b>Deductions</b>		
Benefit payments		
Refunds		
Administrative expenses	3,199	84
Self funding insurance cost	44,264	401
Healthcare Premiums Subsidies	66,590	6,472
Other deductions, net	805	
Total Deductions	<u>114,858</u>	<u>6,957</u>
<b>Change in Net Assets</b>	50,973	57,428
<b>Net Assets Held in Trust</b>		
Net Assets at July 1, as Restated	612,585	223,458
Net Assets at June 30	<u>\$ 663,558</u>	<u>\$ 280,886</u>

County Employees Retirement System		State Police Retirement System	Kentucky Teachers' Retirement System	Totals June 30, 2007
Non-Hazardous	Hazardous			
\$ 147,609	\$ 70,073	\$ 6,489	\$ 113,234	\$ 420,954
			53,100	53,100
<u>147,609</u>	<u>70,073</u>	<u>6,489</u>	<u>166,334</u>	<u>474,054</u>
13,997	191	8	25	26,522
9,623	657	362	10,312	31,902
<u>23,620</u>	<u>848</u>	<u>370</u>	<u>10,337</u>	<u>58,424</u>
166,070	78,402	19,151		366,809
22,244	11,789	2,786	6,722	64,166
16,646	8,706	1,620		36,777
<u>204,960</u>	<u>98,897</u>	<u>23,557</u>	<u>6,722</u>	<u>467,752</u>
998	535	133		2,506
15,907	8,321	1,548		35,134
<u>188,055</u>	<u>90,041</u>	<u>21,876</u>	<u>6,722</u>	<u>430,112</u>
<u>359,284</u>	<u>160,962</u>	<u>28,735</u>	<u>183,393</u>	<u>962,590</u>
			169,578	169,578
3,040	320	105	6	6
41,058	2,616	1,228	4,651	11,399
44,141	28,991	5,288		89,567
				151,482
				805
<u>88,239</u>	<u>31,927</u>	<u>6,621</u>	<u>174,235</u>	<u>422,837</u>
271,045	129,035	22,114	9,158	539,753
812,998	441,121	110,460	131,614	2,332,236
<u>\$ 1,084,043</u>	<u>\$ 570,156</u>	<u>\$ 132,574</u>	<u>\$ 140,772</u>	<u>\$ 2,871,989</u>

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## AGENCY FUNDS

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

**Commonwealth Choice** 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, 2007**  
(Expressed in Thousands)

	<u>Commonwealth Choice Program</u>	<u>County Fees Trust Fund</u>	<u>Special Deposit Trust Fund</u>	<u>Totals June 30, 2007</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 4,087	\$ 201	\$ 176,456	\$ 180,744
Investments, net of amortization			107,144	107,144
Invested security collateral			352,631	352,631
Receivables, net		11,231	73,659	84,890
Total Assets	<u>\$ 4,087</u>	<u>\$ 11,432</u>	<u>\$ 709,890</u>	<u>\$ 725,409</u>
<b>Liabilities</b>				
Accounts payable	\$	\$	\$ 252,330	\$ 252,330
Amounts held in custody for others	4,087	11,432	104,929	120,448
Obligations under securities lending			352,631	352,631
Total Liabilities	<u>\$ 4,087</u>	<u>\$ 11,432</u>	<u>\$ 709,890</u>	<u>\$ 725,409</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**  
(Expressed in Thousands)

	<u>Balances</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2007</u>
<b>COMMONWEALTH CHOICE PROGRAM</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 6,970	\$ 4,295	\$ 7,178	\$ 4,087
Total assets	<u>\$ 6,970</u>	<u>\$ 4,295</u>	<u>\$ 7,178</u>	<u>\$ 4,087</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 6,970	\$ 4,295	\$ 7,178	\$ 4,087
Total liabilities	<u>\$ 6,970</u>	<u>\$ 4,295</u>	<u>\$ 7,178</u>	<u>\$ 4,087</u>
<b>COUNTY FEES TRUST FUND</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 185	\$ 108,813	\$ 108,797	\$ 201
Accounts Receivable	3,239	11,231	3,239	11,231
Total assets	<u>\$ 3,424</u>	<u>\$ 120,044</u>	<u>\$ 112,036</u>	<u>\$ 11,432</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 3,424	\$ 120,044	\$ 112,036	\$ 11,432
Total liabilities	<u>\$ 3,424</u>	<u>\$ 120,044</u>	<u>\$ 112,036</u>	<u>\$ 11,432</u>
<b>SPECIAL DEPOSIT TRUST FUND</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 201,358	\$ 588,863	\$ 613,765	\$ 176,456
Investments	123,259	51,741	67,856	107,144
Invested security collateral	285,256	67,375		352,631
Accounts receivable	42,141	31,518		73,659
Total assets	<u>\$ 652,014</u>	<u>\$ 739,497</u>	<u>\$ 681,621</u>	<u>\$ 709,890</u>
<u>Liabilities</u>				
Accounts payable	\$ 243,009	\$ 9,321	\$	\$ 252,330
Amounts held in custody for others	123,749		18,820	104,929
Obligations under securities lending	285,256	67,375		352,631
Total liabilities	<u>\$ 652,014</u>	<u>\$ 76,696</u>	<u>\$ 18,820</u>	<u>\$ 709,890</u>
<b>ALL AGENCY FUNDS</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 208,513	\$ 701,971	\$ 729,740	\$ 180,744
Investments	123,259	51,741	67,856	107,144
Invested security collateral	285,256	67,375		352,631
Accounts receivable	45,380	42,749	3,239	84,890
Total assets	<u>\$ 662,408</u>	<u>\$ 863,836</u>	<u>\$ 800,835</u>	<u>\$ 725,409</u>
<u>Liabilities</u>				
Accounts payable	\$ 243,009	\$ 9,321	\$	\$ 252,330
Amounts held in custody for others	134,143	124,339	138,034	120,448
Obligations under securities lending	285,256	67,375		352,631
Total liabilities	<u>\$ 662,408</u>	<u>\$ 201,035</u>	<u>\$ 138,034</u>	<u>\$ 725,409</u>

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## **NON-MAJOR COMPONENT UNITS - COMBINING**

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**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF NET ASSETS  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2007**

(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2007
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 199,552	\$ 212,992	\$ 412,544
Restricted cash	2,932	56,921	59,853
Investments, net of amortization	130,965	7,390	138,355
Accounts receivable, net	102,881	77,404	180,285
Interest receivable	5,736	1,346	7,082
Inventories	1,023	6,411	7,434
Prepaid expenses	986	5,133	6,119
Other current assets	15,582	12,866	28,448
Total Current Assets	<u>459,657</u>	<u>380,463</u>	<u>840,120</u>
Noncurrent assets:			
Restricted cash	10,096	165,536	175,632
Long-term investments, net	125,515	201,448	326,963
Restricted long-term investments	7,972	154,099	162,071
Long-term receivables	459,337	30,691	490,028
Deferred charges	407		407
Land	26,452	52,989	79,441
Improvements other than buildings		66,717	66,717
Buildings	361,361	1,230,013	1,591,374
Machinery and equipment	74,468	344,807	419,275
Other capital assets	3,827		3,827
Less: Accumulated depreciation and amortization	(214,201)	(810,091)	(1,024,292)
Construction in progress	61,384	124,304	185,688
Total Capital Assets	<u>313,291</u>	<u>1,008,739</u>	<u>1,322,030</u>
Other assets	35,113	7,359	42,472
Total Noncurrent Assets	<u>951,731</u>	<u>1,567,872</u>	<u>2,519,603</u>
Total Assets	<u>1,411,388</u>	<u>1,948,335</u>	<u>3,359,723</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	12,131	54,673	66,804
Current portion of long-term debt:			
Notes payable	735	3,636	4,371
Bonds payable	17,217	18,829	36,046
Capital lease obligations	3,263	23,912	27,175
Compensated absences	2,800	14,546	17,346
Claims liability	7,911	2,298	10,209
Deferred revenues	16,342	32,923	49,265
Payable from restricted assets		14,886	14,886
Other current liabilities	2,104	33,995	36,099
Total Current Liabilities	<u>62,503</u>	<u>199,698</u>	<u>262,201</u>
Noncurrent liabilities:			
Notes payable	788	19,291	20,079
Bonds payable	158,716	289,917	448,633
Capital lease obligations	67,258	58,043	125,301
Compensated absences	969	320	1,289
Other long-term liabilities		55,255	55,255
Total Noncurrent Liabilities	<u>227,731</u>	<u>422,826</u>	<u>650,557</u>
Total Liabilities	<u>290,234</u>	<u>622,524</u>	<u>912,758</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	264,667	622,041	886,708
Restricted for:			
Debt service		26,196	26,196
Capital projects	469	92,634	93,103
Other purposes	739,036	352,055	1,091,091
Unrestricted	116,982	232,885	349,867
Total Net Assets	<u>\$ 1,121,154</u>	<u>\$ 1,325,811</u>	<u>\$ 2,446,965</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

	<b>Non-Major Component Units - Authorities</b>	<b>Non-Major Component Units - Universities</b>	<b>Totals June 30, 2007</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 483,623	\$ 1,084,041	\$ 1,567,664
Depreciation	2,160		2,160
Total expenses	<u>485,783</u>	<u>1,084,041</u>	<u>1,569,824</u>
<b>Program Revenues:</b>			
Charges for services	118,815	411,888	530,703
Operating grants and contributions	271,085	270,636	541,721
Capital grants and contributions		1,722	1,722
Total Program Revenues	<u>389,900</u>	<u>684,246</u>	<u>1,074,146</u>
<b>Net Program (Expense) Revenue</b>	<u>(95,883)</u>	<u>(399,795)</u>	<u>(495,678)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	320	40,265	40,585
Unrestricted investment earnings	23,102	42,521	65,623
Gain on sale of capital assets		182	182
Miscellaneous general	178,761	509,299	688,060
Total General Revenues	<u>202,183</u>	<u>592,267</u>	<u>794,450</u>
Change in Net Assets	<u>106,300</u>	<u>192,472</u>	<u>298,772</u>
Net Assets at July 1, as Restated	1,014,854	1,133,339	2,148,193
Net Assets at June 30	<u>\$ 1,121,154</u>	<u>\$ 1,325,811</u>	<u>\$ 2,446,965</u>



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## NON-MAJOR COMPONENT UNITS - AUTHORITIES

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**Kentucky River Authority** – is responsible for the maintenance of the Commonwealth’s locks and dams on the Kentucky River.

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

**Bluegrass State Skills Corporation** - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

**Kentucky State Fair Board** - accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

**Kentucky Center for the Arts Corporation** - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

**Kentucky 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.

**World Games 2010 Foundation, Inc.** - is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park, to finance the operations of the World Equestrian Games in 2010.

**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, 2007**  
(Expressed in Thousands)

	<u>Kentucky River Authority</u>	<u>Kentucky Higher Education Assistance Authority</u>	<u>Bluegrass State Skills Corporation</u>	<u>Kentucky State Fair Board</u>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 973	\$ 5,832	\$	\$ 9,411
Restricted cash	2,932			
Investments, net of amortization		636		
Accounts receivable, net	398	17,944	1,627	2,891
Interest receivable	63	93		
Inventories				
Prepaid expenses				709
Other current assets		450		
Total Current Assets	<u>4,366</u>	<u>24,955</u>	<u>1,627</u>	<u>13,011</u>
Noncurrent assets:				
Restricted cash		8,842		509
Long-term investments, net		8,880		19,583
Restricted long-term investments				
Long-term receivables				
Deferred charges		163		
Land	532			24,520
Buildings	408	11,986		296,536
Machinery and equipment	456	5,674		5,227
Other capital assets				
Less: Accumulated depreciation and amortization	(2,095)	(7,482)		(122,883)
Construction in progress	3,336			57,890
Total Capital Assets	<u>2,637</u>	<u>10,178</u>		<u>261,290</u>
Other assets	15,000	12,196		956
Total Noncurrent Assets	<u>17,637</u>	<u>40,259</u>		<u>282,338</u>
Total Assets	<u>22,003</u>	<u>65,214</u>	<u>1,627</u>	<u>295,349</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	1,182	833	1,593	1,642
Current portion of long-term debt:				
Notes payable				
Bonds payable				
Capital lease obligations		400		2,863
Compensated absences	22	470	34	1,117
Claims liability				
Deferred revenues				4,932
Other current liabilities		56		365
Total Current Liabilities	<u>1,204</u>	<u>1,759</u>	<u>1,627</u>	<u>10,919</u>
Noncurrent liabilities:				
Notes payable				
Bonds payable				
Capital lease obligations		6,590		60,668
Compensated absences	54		18	
Total Noncurrent Liabilities	<u>54</u>	<u>6,590</u>	<u>18</u>	<u>60,668</u>
Total Liabilities	<u>1,258</u>	<u>8,349</u>	<u>1,645</u>	<u>71,587</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	17,638	3,383		209,524
Restricted for:				
Capital projects				
Other purposes	2,932	53,482		9,194
Unrestricted	175		(18)	5,044
Total Net Assets	<u>\$ 20,745</u>	<u>\$ 56,865</u>	<u>\$ (18)</u>	<u>\$ 223,762</u>

Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 3,560	\$ 2,256	\$ 46,850	\$ 48	\$ 55,742	\$ 5,861	\$ 2,871
831	4,034		176	124,124		
1,075	1,446	1	4	58,499	14,785	
29	113	68		5,022		
26	662		335			
259						
	295	6,001				
5,780	8,806	52,920	563	243,387	20,646	2,871
	587					
16,338	436	4,869		70,305	3,459	1,645
	4,637					
	617	24,935		431,978		
	7					
129	76		1,167		28	
31,571	13,491		6,930		422	
17,812	44,564		641			
	2,779					
(35,792)	(44,532)		(581)			
13,720	16,378		8,157		450	
4,334				1,383		
34,392	22,662	29,804	8,157	503,666	3,909	1,645
40,172	31,468	82,724	8,720	747,053	24,555	4,516
3,308	1,186	12	75	853		
	6			15,222		
160	933		54		10	
333	349			1,185		
3,801	2,474	12	129	17,260	10	
				142,442		
	840		49		8	
	840		49	142,442	8	
3,801	3,314	12	178	159,702	18	
9,594	16,372		8,156			
	469					
7,171	5,606	16,545		587,351		
19,606	5,707	66,167	386		24,537	4,516
\$ 36,371	\$ 28,154	\$ 82,712	\$ 8,542	\$ 587,351	\$ 24,537	\$ 4,516

Continued

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2007**

(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	World Games 2010 Foundation, Inc.	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2007
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 3,934	\$ 60,773	\$ 227	\$ 1,214	\$ 199,552
Restricted cash					2,932
Investments, net of amortization				1,164	130,965
Accounts receivable, net	419	3,645	6	141	102,881
Interest receivable	67	281			5,736
Inventories					1,023
Prepaid expenses			11	7	986
Other current assets	236		8,600		15,582
Total Current Assets	<u>4,656</u>	<u>64,699</u>	<u>8,844</u>	<u>2,526</u>	<u>459,657</u>
Noncurrent assets:					
Restricted cash	158				10,096
Long-term investments, net					125,515
Restricted long-term investments	2,335			1,000	7,972
Long-term receivables	1,748			59	459,337
Deferred charges	237				407
Land					26,452
Buildings				17	361,361
Machinery and equipment			48	46	74,468
Other capital assets				1,048	3,827
Less: Accumulated depreciation and amortization			(6)	(830)	(214,201)
Construction in progress				158	61,384
Total Capital Assets			<u>42</u>	<u>439</u>	<u>313,291</u>
Other assets			1,244		35,113
Total Noncurrent Assets	<u>4,478</u>	<u>64,699</u>	<u>1,286</u>	<u>1,498</u>	<u>951,731</u>
Total Assets	<u>9,134</u>	<u>64,699</u>	<u>10,130</u>	<u>4,024</u>	<u>1,411,388</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	131	1,015	162	139	12,131
Current portion of long-term debt:					
Notes payable			729		735
Bonds payable	1,995				17,217
Capital lease obligations					3,263
Compensated absences					2,800
Claims liability		7,911			7,911
Deferred revenues		1,830	8,898		16,342
Other current liabilities			498		2,104
Total Current Liabilities	<u>2,126</u>	<u>10,756</u>	<u>10,287</u>	<u>139</u>	<u>62,503</u>
Noncurrent liabilities:					
Notes payable			788		788
Bonds payable	16,274				158,716
Capital lease obligations					67,258
Compensated absences					969
Total Noncurrent Liabilities	<u>16,274</u>	<u>64,699</u>	<u>788</u>	<u>139</u>	<u>227,731</u>
Total Liabilities	<u>18,400</u>	<u>10,756</u>	<u>11,075</u>	<u>139</u>	<u>290,234</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt					264,667
Restricted for:					
Capital projects					469
Other purposes		53,943		2,812	739,036
Unrestricted	(9,266)		(945)	1,073	116,982
Total Net Assets	<u>\$ (9,266)</u>	<u>\$ 53,943</u>	<u>\$ (945)</u>	<u>\$ 3,885</u>	<u>\$ 1,121,154</u>



**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

	<u>Kentucky River Authority</u>	<u>Kentucky Higher Education Assistance Authority</u>	<u>Bluegrass State Skills Corporation</u>	<u>Kentucky State Fair Board</u>
<b>Expenses:</b>				
Operating and other expenses	\$ 2,690	\$ 201,935	\$ 3,743	\$ 46,613
Depreciation				
Total expenses	<u>2,690</u>	<u>201,935</u>	<u>3,743</u>	<u>46,613</u>
<b>Program Revenues:</b>				
Charges for services	1,408	26,272		40,371
Operating grants and contributions		183,355		
Total Program Revenues	<u>1,408</u>	<u>209,627</u>		<u>40,371</u>
<b>Net Program (Expense) Revenue</b>	<u>(1,282)</u>	<u>7,692</u>	<u>(3,743)</u>	<u>(6,242)</u>
<b>General Revenues:</b>				
Unrestricted grants and contributions				
Unrestricted investment earnings	337			
Miscellaneous general	370		3,750	53,077
Total General Revenues	<u>707</u>		<u>3,750</u>	<u>53,077</u>
Change in Net Assets	<u>(575)</u>	<u>7,692</u>	<u>7</u>	<u>46,835</u>
Net Assets at July 1, as Restated	21,320	49,173	(25)	176,927
Net Assets at June 30	<u>\$ 20,745</u>	<u>\$ 56,865</u>	<u>\$ (18)</u>	<u>\$ 223,762</u>

Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 11,302	\$ 29,375	\$ 14,164	\$ 2,601	\$ 120,834	\$ 112	\$
2,160						
<u>13,462</u>	<u>29,375</u>	<u>14,164</u>	<u>2,601</u>	<u>120,834</u>	<u>112</u>	
5,270	1,870	1,154	1,736	11,474		49
1,695	10,955		803	43,070		
<u>6,965</u>	<u>12,825</u>	<u>1,154</u>	<u>2,539</u>	<u>54,544</u>		<u>49</u>
<u>(6,497)</u>	<u>(16,550)</u>	<u>(13,010)</u>	<u>(62)</u>	<u>(66,290)</u>	<u>(112)</u>	<u>49</u>
320						
2,071	955	1,747	1	14,149	732	232
<u>3,222</u>	<u>15,865</u>	<u>4,246</u>		<u>89,774</u>	<u>8,450</u>	
<u>5,613</u>	<u>16,820</u>	<u>5,993</u>	<u>1</u>	<u>103,923</u>	<u>9,182</u>	<u>232</u>
<u>(884)</u>	<u>270</u>	<u>(7,017)</u>	<u>(61)</u>	<u>37,633</u>	<u>9,070</u>	<u>281</u>
37,255	27,884	89,729	8,603	549,718	15,467	4,235
<u>\$ 36,371</u>	<u>\$ 28,154</u>	<u>\$ 82,712</u>	<u>\$ 8,542</u>	<u>\$ 587,351</u>	<u>\$ 24,537</u>	<u>\$ 4,516</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	World Games 2010 Foundation, Inc.	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2007
<b>Expenses:</b>					
Operating and other expenses	\$ 5,555	\$ 40,841	\$ 2,485	\$ 1,373	\$ 483,623
Depreciation					2,160
Total expenses	<u>5,555</u>	<u>40,841</u>	<u>2,485</u>	<u>1,373</u>	<u>485,783</u>
<b>Program Revenues:</b>					
Charges for services	4,901	23,619	290	401	118,815
Operating grants and contributions	241	28,142	1,250	1,574	271,085
Total Program Revenues	<u>5,142</u>	<u>51,761</u>	<u>1,540</u>	<u>1,975</u>	<u>389,900</u>
<b>Net Program (Expense) Revenue</b>	<u>(413)</u>	<u>10,920</u>	<u>(945)</u>	<u>602</u>	<u>(95,883)</u>
<b>General Revenues:</b>					
Unrestricted grants and contributions					320
Unrestricted investment earnings		2,579		299	23,102
Miscellaneous general				7	178,761
Total General Revenues		<u>2,579</u>		<u>306</u>	<u>202,183</u>
Change in Net Assets	<u>(413)</u>	<u>13,499</u>	<u>(945)</u>	<u>908</u>	<u>106,300</u>
Net Assets at July 1, as Restated	(8,853)	40,444		2,977	1,014,854
Net Assets at June 30	<u>\$ (9,266)</u>	<u>\$ 53,943</u>	<u>\$ (945)</u>	<u>\$ 3,885</u>	<u>\$ 1,121,154</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
COMPONENT UNITS-AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

	Non-major		Totals June 30, 2007
	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$	\$ 49	\$ 49
Cash payments to suppliers for goods and services	(211)		(211)
Cash payments for employee salaries and benefits	(101)		(101)
Cash payments from other sources	4,165		4,165
Net Cash Provided (Used) by Operating Activities	<u>3,853</u>	<u>49</u>	<u>3,902</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(450)		(450)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(450)</u>		<u>(450)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(1,456)	(114)	(1,570)
Interest and dividends on investments	732	232	964
Net Cash Provided (Used) in Investing Activities	<u>(724)</u>	<u>118</u>	<u>(606)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,679	167	2,846
	3,182	2,704	5,886
Cash and Cash Equivalents at June 30	<u>\$ 5,861</u>	<u>\$ 2,871</u>	<u>\$ 8,732</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 8,338	\$ 49	\$ 8,387
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(4,285)		(4,285)
Increase (decrease) in liabilities:			
Accounts payable	(203)		(203)
Compensated absences	3		3
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,853</u>	<u>\$ 49</u>	<u>\$ 3,902</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$ 7	\$ 4	\$ 11
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 7</u>	<u>\$ 4</u>	<u>\$ 11</u>



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## **NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**

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### **Universities, Colleges, and Related Entities**

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

**Eastern Kentucky University  
Western Kentucky University  
Morehead State University  
Murray State University  
Northern Kentucky University  
Kentucky State University**

**Kentucky Council on Postsecondary Education** – established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky's postsecondary education system.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**JUNE 30, 2007**  
(Expressed in Thousands)

	<b>Eastern Kentucky University</b>	<b>Western Kentucky University</b>	<b>Morehead State University</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 34,239	\$ 74,886	\$ 13,371
Restricted cash			6,379
Investments, net of amortization	4,110	3,280	
Accounts receivable, net	34,050	2,923	9,018
Interest receivable	250	521	15
Inventories	333	1,891	1,927
Prepaid expenses	1,373	729	
Other current assets		10,064	665
<b>Total Current Assets</b>	<b>74,355</b>	<b>94,294</b>	<b>31,375</b>
Noncurrent assets:			
Restricted cash	5,679	37,118	
Long-term investments, net	59,414	104,970	34,124
Restricted long-term investments			
Long-term receivables	5,195	14,747	3,922
Land	7,882	8,542	16,958
Improvements other than buildings	19,368	23,079	
Buildings	238,972	305,394	171,025
Machinery and equipment	65,953	75,921	62,010
Less: Accumulated depreciation and amortization	(158,238)	(160,711)	(129,550)
Construction in progress	4,571	36,951	1,530
<b>Total Capital Assets</b>	<b>178,508</b>	<b>289,176</b>	<b>121,973</b>
Other assets		4,556	105
<b>Total Noncurrent Assets, Net</b>	<b>248,796</b>	<b>450,567</b>	<b>160,124</b>
<b>Total Assets</b>	<b>323,151</b>	<b>544,861</b>	<b>191,499</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	19,708	8,552	7,566
Current portion of long-term debt:			
Notes payable		1,811	130
Bonds payable	4,110	7,014	2,445
Capital lease obligations	1,550	3,006	452
Compensated absences	3,829	2,573	
Claims liability	108	693	
Deferred revenues	8,380	7,660	2,985
Payable from restricted assets	319	1,648	164
Other current liabilities	499	5,589	797
<b>Total Current Liabilities</b>	<b>38,503</b>	<b>38,546</b>	<b>14,539</b>
Noncurrent liabilities:			
Notes payable		1,330	
Bonds payable	27,395	136,590	20,300
Capital lease obligations	20,312	479	4,346
Compensated absences			
Other long-term liabilities	233	41,398	4,350
<b>Total Noncurrent Liabilities</b>	<b>47,940</b>	<b>179,797</b>	<b>28,996</b>
<b>Total Liabilities</b>	<b>86,443</b>	<b>218,343</b>	<b>43,535</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	122,841	111,927	92,572
Restricted for:			
Debt service	6,645	5,444	
Capital projects	5,055	46,787	
Other purposes	43,510	89,972	38,155
Unrestricted	58,657	72,388	17,237
<b>Total Net Assets</b>	<b>\$ 236,708</b>	<b>\$ 326,518</b>	<b>\$ 147,964</b>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>Kentucky Council on Postsecondary Education</b>	<b>Totals June 30, 2007</b>
\$ 29,948	\$ 51,397	\$ 9,039	\$ 112	\$ 212,992
	24,942	1,406	24,194	56,921
4,451	17,625	2,985	6,352	7,390
415	145			77,404
1,965	232	63		1,346
904	1,435	330	362	6,411
2,053	73		11	5,133
<u>39,736</u>	<u>95,849</u>	<u>13,823</u>	<u>31,031</u>	<u>12,866</u>
				<u>380,463</u>
33,992	76,251	12,496		165,536
	2,376		564	201,448
71,251	51,612	15,030	16,206	154,099
3,604	1,903	860	460	30,691
10,109	7,849	1,649		52,989
9,787	10,585	3,898		66,717
190,774	209,449	114,399		1,230,013
51,803	57,429	31,078	613	344,807
(143,623)	(123,728)	(93,867)	(374)	(810,091)
26,890	46,323	8,039		124,304
<u>145,740</u>	<u>207,907</u>	<u>65,196</u>	<u>239</u>	<u>1,008,739</u>
1,047	1,619	32		7,359
<u>255,634</u>	<u>341,668</u>	<u>93,614</u>	<u>17,469</u>	<u>1,567,872</u>
<u>295,370</u>	<u>437,517</u>	<u>107,437</u>	<u>48,500</u>	<u>1,948,335</u>
7,842	6,265	1,263	3,477	54,673
1,674		21		3,636
985	3,130	1,145		18,829
135	18,233	536		23,912
3,932	2,332	1,230	650	14,546
1,487		10		2,298
5,562	6,619	1,717		32,923
	12,755			14,886
2,158	39	384	24,529	33,995
<u>23,775</u>	<u>49,373</u>	<u>6,306</u>	<u>28,656</u>	<u>199,698</u>
15,745	2,100	116		19,291
25,353	72,125	8,154		289,917
1,331	25,118	6,457		58,043
			320	320
999	7,404	871		55,255
<u>43,428</u>	<u>106,747</u>	<u>15,598</u>	<u>320</u>	<u>422,826</u>
<u>67,203</u>	<u>156,120</u>	<u>21,904</u>	<u>28,976</u>	<u>622,524</u>
107,251	138,479	48,732	239	622,041
5,825	8,282			26,196
12,036	28,756			92,634
66,569	65,218	29,348	19,283	352,055
36,486	40,662	7,453	2	232,885
<u>\$ 228,167</u>	<u>\$ 281,397</u>	<u>\$ 85,533</u>	<u>\$ 19,524</u>	<u>\$ 1,325,811</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES  
JUNE 30, 2007**

(Expressed in Thousands)

	<b>Eastern Kentucky University</b>	<b>Western Kentucky University</b>	<b>Morehead State University</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 245,473	\$ 250,144	\$ 124,410
Total Expenses	<u>245,473</u>	<u>250,144</u>	<u>124,410</u>
<b>Program Revenues:</b>			
Charges for services	65,917	125,650	44,500
Operating grants and contributions	98,710	37,675	32,837
Capital grants and contributions			
Total Program Revenues	<u>164,627</u>	<u>163,325</u>	<u>77,337</u>
<b>Net Program (Expense) Revenue</b>	<u>(80,846)</u>	<u>(86,819)</u>	<u>(47,073)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	2,291	31,059	
Unrestricted investment earnings	11,012	12,217	2,230
Gain on sale of capital assets		15	
Miscellaneous general	82,084	90,594	56,145
Total General Revenues	<u>95,387</u>	<u>133,885</u>	<u>58,375</u>
Change in Net Assets	<u>14,541</u>	<u>47,066</u>	<u>11,302</u>
Net Assets at July 1, as Restated	222,167	279,452	136,662
Net Assets at June 30	<u>\$ 236,708</u>	<u>\$ 326,518</u>	<u>\$ 147,964</u>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>KY Council Postsecondary Education</b>	<b>Totals June 30, 2007</b>
<b>\$</b> 146,561	<b>\$</b> 158,237	<b>\$</b> 56,144	<b>\$</b> 103,072	<b>\$</b> 1,084,041
146,561	158,237	56,144	103,072	1,084,041
70,403	87,545	17,523	350	411,888
21,726	31,281	15,428	32,979	270,636
	1,231	9	482	1,722
92,129	120,057	32,960	33,811	684,246
(54,432)	(38,180)	(23,184)	(69,261)	(399,795)
4,672	1,277	966		40,265
11,295	4,104	1,649	14	42,521
167				182
65,590	117,094	41,275	56,517	509,299
81,724	122,475	43,890	56,531	592,267
27,292	84,295	20,706	(12,730)	192,472
200,875	197,102	64,827	32,254	1,133,339
<b>\$</b> 228,167	<b>\$</b> 281,397	<b>\$</b> 85,533	<b>\$</b> 19,524	<b>\$</b> 1,325,811



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# STATISTICAL SECTION

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This part of the Commonwealth of Kentucky's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

## **Financial Trends**

The schedules presented, in this section, contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective included 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, in this section, contain information to help the reader assess the Commonwealth's most significant revenue source, which is personal income tax.

## **Debt Capacity**

The schedules presented, in this section, contain information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt, and the Commonwealth's ability to issue additional debt in the future.

## **Demographic Information**

The schedules presented, in this section, offer demographic and economic indicators to help the reader understand the environment within the Commonwealth, and the financial impact of those activities.

## **Operating Information**

The schedules presented, in this section, offer operating data to help the reader understand how the information in the Commonwealth's financial report relates to the services it provided and the activities performed, by the governmental agencies.

**COMMONWEALTH OF KENTUCKY  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE LAST TEN FISCAL YEARS  
(Expressed in Thousands)**

	2007	2006	2005	2004
<b>General Fund:</b>				
Reserved	\$ 295,917	\$ 183,555	\$ 76,505	\$ 85,834
Unreserved	517,277	713,339	593,472	303,623
Total General Fund	<u>\$ 813,194</u>	<u>\$ 896,894</u>	<u>\$ 669,977</u>	<u>\$ 389,457</u>
<b>All Other Governmental Funds:</b>				
Reserved	\$ 704,496	\$ 597,827	\$ 664,265	\$ 941,891
Unreserved, reported in:				
Debt Service Fund	381,313	377,202	292,406	293,654
Special Revenue Funds	1,031,387	1,394,633	1,112,499	603,323
Capital Projects Funds	(66,785)	(129,103)	(120,098)	(201,248)
Total All Other Governmental Funds	<u>\$ 2,050,411</u>	<u>\$ 2,240,559</u>	<u>\$ 1,949,072</u>	<u>\$ 1,637,620</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.

2003	2002	2001	2000	1999	1998
\$ 114,415	\$ 123,502	\$ 404,057	\$ 431,571	\$ 370,696	\$ 386,988
183,922	(36,033)	(8,870)	206,795	116,858	428,178
<u>\$ 298,337</u>	<u>\$ 87,469</u>	<u>\$ 395,187</u>	<u>\$ 638,366</u>	<u>\$ 487,554</u>	<u>\$ 815,166</u>
\$ 575,983	\$ 1,064,829	\$ 947,481	\$ 1,027,135	\$ 1,078,766	\$ 826,475
354,836	316,560	282,653	22,147	23,210	26,301
969,767	1,219,937	1,111,739	1,313,600	1,076,281	827,053
(36,012)	(265,510)	(300,205)	(102,863)	(22,818)	235,373
<u>\$ 1,864,574</u>	<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>

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

	2007	2006	2005	2004
<b>Revenues</b>				
Taxes	\$ 9,668,573	\$ 9,465,785	\$ 8,745,358	\$ 7,933,198
Licenses, fees, and permits	303,849	294,575	287,045	265,699
Intergovernmental	5,810,270	5,662,112	5,351,830	5,150,705
Charges for services	752,532	781,105	728,998	616,638
Fines and forfeits	80,741	90,118	86,771	95,745
Interest and other investment income	163,833	111,894	84,006	75,980
Increase (decrease) in fair value of investments	11,241	(5,799)	9,408	(40,558)
Securities lending income	36,673	39,918	16,831	15,549
Other revenues	517,266	597,088	611,966	625,008
Total Revenues	<u>17,344,978</u>	<u>17,036,796</u>	<u>15,922,213</u>	<u>14,737,964</u>
<b>Expenditures</b>				
Current:				
General government	2,591,176	2,444,023	2,131,008	1,933,909
Legislative and judicial	303,799	302,303	277,792	265,847
Commerce	96,572	81,037	66,609	65,518
Education and humanities	4,554,565	4,395,948	4,091,135	3,823,798
Human resources	6,764,174	6,602,797	6,188,350	5,984,514
Justice	727,178	710,142	633,662	563,890
Natural resources and environmental protection	195,980	171,407	161,899	149,401
Public protection and regulation	98,517	67,329	73,868	112,587
Transportation	1,825,318	1,661,585	1,520,371	1,724,342
Debt Service:				
Principal retirement	285,809	246,404	247,290	286,166
Interest and fiscal charges	200,297	174,972	190,225	181,424
Other expenditures	15,960	26,649	26,574	78,052
Securities lending expense	35,318	38,144	15,619	13,123
Capital outlay:				
Buildings	583,302	446,855	279,953	293,761
Total Expenditures	<u>18,277,965</u>	<u>17,369,595</u>	<u>15,904,355</u>	<u>15,476,332</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(932,987)</u>	<u>(332,799)</u>	<u>17,858</u>	<u>(738,368)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,216,889	2,124,893	1,791,143	1,781,871
Transfers from component units				
Transfers out	(2,041,824)	(1,969,206)	(1,645,143)	(1,563,679)
Transfers to component units				
Capitalized leases	7,364	6,079	18,905	5,359
Proceeds from the sale of bonds:				
New issues	159,140	445,350	213,750	508,991
Refunding issues	105,085		257,685	601,879
Premiums	16,610	21,416	53,484	103,316
Discounts				
Proceeds from notes	520,354	(58)	232,760	171,260
Other financing sources				
Payments to refunded bond escrow agent	(330,193)		(258,550)	(944,495)
Total Other Financing Sources (Uses)	<u>653,425</u>	<u>628,474</u>	<u>664,034</u>	<u>664,502</u>
<b>Net Change in Fund Balances</b>	<u>\$ (279,562)</u>	<u>\$ 295,675</u>	<u>\$ 681,892</u>	<u>\$ (73,866)</u>
<b>Debt service as a percentage of noncapital expenditures</b>	<u>2.75%</u>	<u>2.49%</u>	<u>2.82%</u>	<u>3.18%</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.

	2003	2002	2001	2000	1999	1998
\$	7,777,612	\$ 7,474,709	\$ 7,534,101	\$ 7,385,286	\$ 7,075,495	\$ 6,871,848
	252,123	308,209	200,239	203,608	188,304	170,454
	5,093,078	4,821,756	4,208,631	4,602,881	3,825,985	3,809,686
	548,226	506,924	426,173	359,782	298,952	289,555
	73,691	54,169	54,297	49,986	53,024	47,265
	133,532	188,385	213,523	175,062	156,499	191,986
	15,614	13,548	18,577	(11,169)	(16,171)	
	506,272	406,869	616,361	230,325	185,881	218,883
	<u>14,400,148</u>	<u>13,774,569</u>	<u>13,271,902</u>	<u>12,995,761</u>	<u>11,767,969</u>	<u>11,599,677</u>
	1,889,243	2,036,798	672,605	541,008	556,913	652,980
	246,838	239,515	216,608	212,978	186,168	165,645
	62,486	58,741	51,283	52,941	49,927	45,953
	3,752,918	3,584,412	3,442,741	3,351,422	3,250,456	3,187,712
	5,650,039	5,563,087	5,110,365	5,109,752	4,368,927	4,253,354
	575,237	564,427	553,499	511,106	451,532	402,149
	135,349	143,924	127,048	125,724	120,938	112,923
	139,299	120,764	124,725	131,350	130,245	115,479
	1,695,652	1,724,061	1,588,052	1,502,356	1,356,322	1,135,102
	260,977	227,648	265,689	133,153	197,363	213,500
	195,126	124,625	181,006	191,429	158,225	222,986
	4,153	(14,727)	(36,637)	(21,874)	2,110	1,543
	244,419	483,145	309,011	225,409	266,165	135,106
	<u>14,851,736</u>	<u>14,856,420</u>	<u>12,605,995</u>	<u>12,066,754</u>	<u>11,095,291</u>	<u>10,644,432</u>
	(451,588)	(1,081,851)	665,907	929,007	672,678	955,245
	1,926,260	1,698,673	1,268,907	1,650,318	2,233,184	1,286,809
	(1,676,970)	(1,523,710)	(1,552,020)	(1,524,032)	(2,370,750)	(1,229,747)
	7,592	6,414	(1,428,957)	(1,048,810)	(910,373)	(825,063)
			941	987	1,638	570
		653,696	516,697	91,658	252,337	244,493
		322,659	410,706	288,667	35,745	44,264
		44,824				
		(4,798)				
		19,135	100,400	99,618		
					13,008	
	(1,567)	(321,565)	(463,429)	(271,985)	(31,304)	
	<u>255,315</u>	<u>895,328</u>	<u>(1,145,813)</u>	<u>(713,579)</u>	<u>(776,515)</u>	<u>(478,674)</u>
\$	<u>(196,273)</u>	<u>(186,523)</u>	<u>(479,906)</u>	<u>215,428</u>	<u>(103,837)</u>	<u>476,571</u>
	<u>3.24%</u>	<u>2.48%</u>	<u>3.33%</u>	<u>2.56%</u>	<u>3.30%</u>	<u>4.17%</u>



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

	2007	2006	2005	2004	2003	2002
<b>Governmental Activities:</b>						
Invested in capital assets, net of related debt	\$ 17,947,656	\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
Restricted	1,237,151	1,376,301	1,081,388	994,827	1,189,894	1,524,926
Unrestricted	(1,807,615)	(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
Total Governmental Activities Net Assets	<u>17,377,192</u>	<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>
<b>Business-type Activities:</b>						
Invested in Capital Assets, net of related debt	267,144	254,623	249,728	257,794	249,023	220,996
Restricted	359,605	392,318	375,488	382,173	464,354	451,761
Unrestricted	(634,297)	(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
Total Business-Type Activities Net Assets	<u>(7,548)</u>	<u>34,159</u>	<u>(7,830)</u>	<u>(81,911)</u>	<u>(60,742)</u>	<u>(242,808)</u>
<b>Primary Government:</b>						
Invested in capital assets, net of related debt	18,214,800	17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
Restricted	1,596,756	1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
Unrestricted	(2,441,912)	(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
Total Primary Government Net Assets	<u>\$ 17,369,644</u>	<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 SIX FISCAL YEARS  
(Expressed in Thousands)**

	2007	2006	2005	2004	2003	2002
<b>Function/Program Revenues</b>						
<b>Primary Government:</b>						
Governmental Activities:						
Charges for Services:						
General government	\$ 375,662	\$ 374,655	\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
Legislative and judicial	14,558	13,667	11,314	11,111	9,755	8,752
Commerce	42,267	34,390	35,002	34,689	32,247	27,918
Education and humanities	85,538	102,783	106,059	14,185	8,789	9,298
Human Resources	197,556	106,238	181,921	138,487	418,444	419,916
Justice	22,189	33,185	22,790	23,011	18,631	32,730
Natural resources and environmental protection	39,412	33,205	31,094	39,311	19,961	21,547
Public protection and regulation	64,260	63,341	53,629	69,194	71,829	55,609
Transportation	215,869	202,569	227,700	207,151	235,700	247,265
Operating Grants and Contributions	5,261,989	5,139,428	4,915,115	4,528,038	4,583,434	4,366,372
Capital Grants and Contributions	658,132	597,282	520,194	524,936	547,363	646,847
<b>Total Governmental Activities</b>	<b>6,977,432</b>	<b>6,700,743</b>	<b>6,460,708</b>	<b>5,902,120</b>	<b>6,222,945</b>	<b>6,085,597</b>
Business-Type Activities:						
Charges for Services:						
State Parks	56,208	52,751	50,655	50,925	49,368	47,640
Lottery Corporation	744,222	742,312	707,260	725,252	673,485	638,728
Kentucky Horse Park	6,632	6,010	5,791	5,896	5,840	5,379
Insurance Administration	130,994	178,305	133,380	129,084	157,109	133,749
Kentucky Employee Health Insurance	1,158,078	595,435				
Unemployment Compensation	357,396	377,265	371,099	332,047	354,432	226,762
Operating Grants and Contributions	46,798	45,573	49,509	130,212	210,488	220,812
Capital Grants and Contributions	476	112	33	586	1,046	
<b>Total Business-Type Activities</b>	<b>2,500,804</b>	<b>1,997,763</b>	<b>1,317,727</b>	<b>1,374,002</b>	<b>1,451,768</b>	<b>1,273,070</b>
<b>Total Primary Government</b>	<b>\$ 9,478,236</b>	<b>\$ 8,698,506</b>	<b>\$ 7,778,435</b>	<b>\$ 7,276,122</b>	<b>\$ 7,674,713</b>	<b>\$ 7,358,667</b>
<b>Expenses</b>						
<b>Primary Government:</b>						
Governmental Activities:						
General government	\$ 3,708,700	\$ 2,714,165	\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
Legislative and judicial	313,010	305,466	282,389	268,001	247,503	243,571
Commerce	96,486	103,996	81,639	128,548	80,459	88,229
Education and humanities	4,608,914	4,421,812	4,092,896	3,824,742	3,752,426	3,639,130
Human Resources	6,468,225	6,259,383	5,897,619	5,630,683	5,646,075	5,576,596
Justice	803,120	794,698	702,796	564,202	616,236	611,350
Natural resources and environmental protection	191,052	207,369	164,498	150,380	136,057	114,496
Public protection and regulation	116,770	68,108	68,956	111,928	139,518	50,798
Transportation	1,123,493	1,263,891	1,191,512	1,020,786	1,062,576	1,093,070
Interest expense	266,388	250,622	201,564	200,315	227,926	335,499
<b>Total Governmental Activities</b>	<b>17,696,158</b>	<b>16,389,510</b>	<b>14,917,980</b>	<b>14,221,628</b>	<b>13,857,843</b>	<b>13,670,028</b>
Business-Type Activities:						
State Parks	111,973	90,283	92,193	92,287	88,423	97,706
Lottery Corporation	563,549	558,435	552,410	554,880	515,629	475,944
Kentucky Horse Park	10,624	9,690	9,387	11,732	8,562	6,715
Insurance Administration	176,338	70,683	101,312	77,241	83,536	156,851
Kentucky Employee Health Insurance	1,152,794	507,282				
Unemployment Compensation	450,629	396,052	429,007	556,870	490,348	612,112
<b>Total Business-Type Activities</b>	<b>2,465,907</b>	<b>1,632,425</b>	<b>1,184,309</b>	<b>1,293,010</b>	<b>1,186,498</b>	<b>1,349,328</b>
<b>Total Primary Government</b>	<b>\$ 20,162,065</b>	<b>\$ 18,021,935</b>	<b>\$ 16,102,289</b>	<b>\$ 15,514,638</b>	<b>\$ 15,044,341</b>	<b>\$ 15,019,356</b>
<b>Net (Expense)/Revenue</b>						
Governmental Activities	\$ (10,718,726)	\$ (9,688,767)	\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
Business-Type Activities	34,897	365,338	133,418	80,992	265,270	(76,258)
<b>Total Primary Government Net Expense</b>	<b>\$ (10,683,829)</b>	<b>\$ (9,323,429)</b>	<b>\$ (8,323,854)</b>	<b>\$ (8,238,516)</b>	<b>\$ (7,369,628)</b>	<b>\$ (7,660,689)</b>

	2007	2006	2005	2004	2003	2002
<b>General Revenues and Other Changes in Net Assets</b>						
Governmental Activities:						
Taxes:						
Sales and gross receipt	\$ 4,623,126	\$ 4,433,893	\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
Individual income	2,975,875	2,863,269	3,060,274	2,790,732	2,764,133	2,564,182
Corporate income	961,204	1,013,768	476,524	311,284	290,403	607,213
Property	503,853	492,532	479,815	462,062	439,129	450,134
License and privilege	42,738	73,679	142,962	142,048	162,929	92,953
Severance	279,924	290,203	237,512	194,369	176,300	158,354
Inheritance and estate	49,574	40,498	66,766	66,287	93,553	94,609
Miscellaneous taxes	164,715	161,663	180,045	152,921	149,089	147,126
Unrestricted grants and contributions	731	723	1,836	69,037	68,721	2
Unrestricted investment earnings	57,070	58,428	31,858	24,368	10,184	49,259
Gain on sale of capital assets	3,288	4,637			(73,096)	(3,768)
Miscellaneous general	421,772	499,657	456,736	468,056	392,330	344,484
Transfers	169,150	187,101	141,338	201,712	231,828	184,084
Total General Revenues and Transfers	<u>10,253,020</u>	<u>10,120,051</u>	<u>9,307,118</u>	<u>8,663,080</u>	<u>8,359,038</u>	<u>8,031,714</u>
Change in Net Assets	(465,706)	431,284	849,846	343,572	724,140	447,283
Net Assets at July 1, as Restated	17,842,898	17,387,699	16,599,992	16,326,992	15,546,140	15,178,801
Net Assets at June 30	<u>\$ 17,377,192</u>	<u>\$ 17,818,983</u>	<u>\$ 17,449,838</u>	<u>\$ 16,670,564</u>	<u>\$ 16,270,280</u>	<u>\$ 15,626,084</u>
Business-Type Activities:						
Unrestricted grants and contributions	\$	\$	\$	\$ 20	\$ (5,015)	\$ (370)
Unrestricted investment earnings	83,846	26,793	36,782	21,259	19,251	7,178
Gain on sale of capital assets	72	30	61	75	437	
Miscellaneous general	8,628	25,900	47,820	66,689	(1,987)	
Transfers	(169,150)	(187,101)	(141,338)	(201,712)	(231,828)	(184,084)
Total General Revenues and Transfers	<u>(76,604)</u>	<u>(134,378)</u>	<u>(56,675)</u>	<u>(113,669)</u>	<u>(219,142)</u>	<u>(177,276)</u>
Change in Net Assets	(41,707)	230,960	76,743	(32,677)	46,128	(253,534)
Net Assets at July 1, as Restated	34,159	(196,801)	(84,573)	(49,234)	(106,870)	10,726
Net Assets at June 30	<u>\$ (7,548)</u>	<u>\$ 34,159</u>	<u>\$ (7,830)</u>	<u>\$ (81,911)</u>	<u>\$ (60,742)</u>	<u>\$ (242,808)</u>
<b>Change in Net Assets</b>						
Governmental Activities	\$ (465,706)	\$ 431,284	\$ 849,846	\$ 343,572	\$ 724,140	\$ 447,283
Business-Type Activities	<u>(41,707)</u>	<u>230,960</u>	<u>76,743</u>	<u>(32,677)</u>	<u>46,128</u>	<u>(253,534)</u>
Total Primary Government Changes in Net Assets	<u>\$ (507,413)</u>	<u>\$ 662,244</u>	<u>\$ 926,589</u>	<u>\$ 310,895</u>	<u>\$ 770,268</u>	<u>\$ 193,749</u>

**COMMONWEALTH OF KENTUCKY  
PERSONAL INCOME TAX INFORMATION  
CALENDAR YEARS 2000 - 2005**

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

Ky Federal AGI ( from Ky form 740) Income Level	Calendar Year 2005			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
<b>Resident Taxpayer</b>				
less than \$25,001	749,994	45.67%	\$ 232,287,614	8.67%
\$25,001-\$50,000	413,637	25.19%	528,464,061	19.72%
\$50,001-\$100,000	355,529	21.65%	926,496,934	34.57%
\$100,001-\$200,000	96,439	5.87%	497,857,454	18.58%
\$200,001-\$500,000	21,064	1.28%	247,660,357	9.24%
Greater than \$500,000	5,498	0.33%	246,984,919	9.22%
<b>Total Resident</b>	<b>1,642,161</b>	<b>100.00%</b>	<b>2,679,751,339</b>	<b>100.00%</b>
<b>Non-Resident Taxpayer</b>				
less than \$25,001	47,274	38.17%	4,912,253	5.12%
\$25,001-\$50,000	22,338	18.04%	11,609,928	12.11%
\$50,001-\$100,000	21,123	17.06%	19,770,381	20.62%
\$100,001-\$200,000	12,408	10.02%	18,555,599	19.35%
\$200,001-\$500,000	8,539	6.90%	12,826,111	13.38%
Greater than \$500,000	12,157	9.82%	28,198,975	29.41%
<b>Total Non-Resident</b>	<b>123,839</b>	<b>100.00%</b>	<b>95,873,247</b>	<b>100.00%</b>
<b>Totals</b>	<b>\$ 1,766,000</b>		<b>\$ 2,775,624,586</b>	

**Personal Income Tax Rates**

**Tax Years 2000 - 2005**

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
	<b>2005</b>		<b>2000</b>		
Personal Income Tax Revenue	\$ 2,775,624,586	(A)	\$ 2,618,135,253		
Personal Income	90,881,750	(B)	68,851,883		
Average Effective Rate	3.3%		2.6%		

**Source of Tax Information:**

(A) Kentucky Department of Revenue

NOTE: Calendar year 2005 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 presented on a cash basis.

**Calendar Year 2000**

<b>Number of Filers</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
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%
<b>1,610,455</b>	<b>100.00%</b>	<b>2,514,997,961</b>	<b>100.00%</b>

<b>Number of Filers</b>	<b>Percentage of Total</b>	<b>Personal Income Tax Liability</b>	<b>Percentage of Total</b>
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%
<b>113,646</b>	<b>100.00%</b>	<b>103,137,292</b>	<b>100.00%</b>

<b>\$ 1,724,101.00</b>	<b>\$ 2,618,135,253</b>
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**COMMONWEALTH OF KENTUCKY**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**FOR CALENDAR YEARS 1997-2006**  
(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	
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%
2006	195,349,504	207,818,621	146,437,150	146,437,150	341,786,654	354,255,771	96.5%

SOURCE: Kentucky Department of Revenue

NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

**COMMONWEALTH OF KENTUCKY**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**FOR CALENDAR YEARS 1997-2006**  
(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
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%
2006	483,608	467,209	96.6%	25,253	492,462	101.8%

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, Except Ratio Data)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Governmental Activities Debt</b>				
Revenue Bonds (2)	\$ 3,442,634	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431
Notes (2)	910,310	554,790	373,990	186,970
Capital Leases (2)	39,079	28,450	32,518	17,252
Total Government Activities Debt	<u>4,392,023</u>	<u>4,129,708</u>	<u>3,643,274</u>	<u>3,429,653</u>
<b>Business-Type Activities Debt</b>				
Notes (2)				451
Capital Leases (2)	197	307	275	245
Total Business-Type Activities	<u>197</u>	<u>307</u>	<u>275</u>	<u>696</u>
<b>Total Primary Government Debt</b>	<u>\$ 4,392,220</u>	<u>\$ 4,130,015</u>	<u>\$ 3,643,549</u>	<u>\$ 3,430,349</u>
<b>Total Debt Ratios</b>				
Ratio of Total Debt to Personal Income	<u>4.83%</u>	<u>4.54%</u>	<u>4.26%</u>	<u>4.28%</u>
Total Debt Per Capita (1)	<u>\$ 1,052.43</u>	<u>\$ 989.60</u>	<u>\$ 878.83</u>	<u>\$ 833.05</u>
<b>Net Bonded Debt</b>				
Gross Bonded Debt	\$ 3,442,634	\$ 3,546,468	\$ 3,236,766	\$ 3,225,431
Less: Debt Service Funds	415,386	403,002	314,554	317,665
Net Bonded Debt	<u>\$ 3,027,248</u>	<u>\$ 3,143,466</u>	<u>\$ 2,922,212</u>	<u>\$ 2,907,766</u>
<b>Net Bonded Debt Ratios</b>				
Ratio of Net Bonded Debt to Governmental Funds Revenues	<u>17.77%</u>	<u>18.45%</u>	<u>18.35%</u>	<u>18.26%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 725.37</u>	<u>\$ 753.21</u>	<u>\$ 704.84</u>	<u>\$ 706.14</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

2003	2002	2001	2000	1999	1998
\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683	\$ 2,833,433
31,475	81,535	73,875	218,680	338,400	70,000
8,565	24,712	2,153	1,882	1,946	1,057
<u>3,205,263</u>	<u>3,511,293</u>	<u>3,020,867</u>	<u>2,536,095</u>	<u>2,519,029</u>	<u>2,904,490</u>
	339	1,697	3,055	4,412	5,769
<u>77</u>	<u>183</u>	<u>4,630</u>	<u>2,213</u>	<u>5,398</u>	<u>5,784</u>
<u>77</u>	<u>522</u>	<u>6,327</u>	<u>5,268</u>	<u>9,810</u>	<u>11,553</u>
<u>\$ 3,205,340</u>	<u>\$ 3,511,815</u>	<u>\$ 3,027,194</u>	<u>\$ 2,541,363</u>	<u>\$ 2,528,839</u>	<u>\$ 2,916,043</u>
<u>4.42%</u>	<u>4.98%</u>	<u>4.40%</u>	<u>3.93%</u>	<u>4.15%</u>	<u>5.06%</u>
<u>\$ 783.15</u>	<u>\$ 863.10</u>	<u>\$ 747.67</u>	<u>\$ 632.49</u>	<u>\$ 634.53</u>	<u>\$ 737.73</u>
\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683	\$ 2,833,433
354,836	329,267	529,164	301,432	314,306	306,479
<u>\$ 2,810,387</u>	<u>\$ 3,075,779</u>	<u>\$ 2,415,675</u>	<u>\$ 2,014,101</u>	<u>\$ 1,864,377</u>	<u>\$ 2,526,954</u>
<u>17.65%</u>	<u>19.32%</u>	<u>15.17%</u>	<u>12.65%</u>	<u>11.71%</u>	<u>15.87%</u>
<u>\$ 686.65</u>	<u>\$ 755.94</u>	<u>\$ 596.64</u>	<u>\$ 501.26</u>	<u>\$ 467.80</u>	<u>\$ 639.29</u>

**COMMONWEALTH OF KENTUCKY  
UNIVERSITY AND COLLEGE REVENUE BOND COVERAGE  
FOR THE LAST TEN FISCAL YEARS**  
(Expressed in Thousands, Except Ratio Data)

<b>Fiscal Year Ending June 30</b>	<b>Net Revenue Available For Debt Service</b>	<b>Debt Service Requirement</b>	<b>Coverage Ratio</b>
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
2007	613,592	43,071	14.25

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, 2007

<b>Company</b>	<b>Number of Locations</b>	<b>Number of Employees</b>
United Parcel Service, Inc.	15	11,860
Humana, Inc.	14	8,509
Toyota Motor Corp.	4	8,372
Ford Motor Co.	2	8,200
General Electric Co.	9	7,032
Dana Corp.	10	4,673
Delta Air Lines, Inc.	1	4,274
Johnson Controls, Inc.	13	4,272
Citigroup	2	3,900
Toyota Tsusho Corp.	13	3,258

SOURCE:  
Website Address: <http://www.thinkkentucky.com/kyedc/pdfs/kytop10m.pdf>

**COMMONWEALTH OF KENTUCKY  
DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 1997-2006**

<b>For the Year Ended December 31</b>	<b>Estimated Population</b>	<b>Per Capita Income</b>	<b>Unemployment Rate</b>
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%
2006	4,206,074	29,352	5.7%

SOURCE: Website Addresses: <http://www.bea.gov/bea/regional/spi/drill.cfm>  
<http://www.bls.gov/lau/lastrk06.htm>

**COMMONWEALTH OF KENTUCKY  
SOURCES OF PERSONAL INCOME  
FOR CALENDAR YEARS 1997-2006**  
(Expressed in Thousands, Except Percent Data)

Source	1997		1998		1999		2000		2001	
	Amount	Percent								
Farm	\$ 1,089,030	1.9%	\$ 957,190	1.6%	\$ 730,192	1.1%	\$ 1,361,530	2.0%	\$ 973,207	1.4%
Agriculture services, forestry, fisheries and others	381,650	0.7%	423,380	0.7%	462,975	0.7%	502,305	0.7%	521,571	0.7%
Mining	1,285,732	2.2%	1,348,968	2.2%	1,350,661	2.1%	1,197,845	1.7%	1,332,006	1.9%
Manufacturing	12,115,301	21.0%	12,666,832	20.8%	13,373,527	20.7%	13,945,732	20.3%	13,636,163	19.3%
Construction	3,327,836	5.8%	3,612,018	5.9%	3,922,877	6.1%	4,196,268	6.1%	4,330,236	6.1%
Wholesale and retail trade	8,799,661	15.3%	9,356,004	15.3%	10,032,800	15.5%	10,537,792	15.3%	10,699,135	15.2%
Finance, insurance and real estate	2,879,266	5.0%	3,102,800	5.1%	3,296,512	5.1%	3,690,749	5.4%	3,776,761	5.4%
Transportation and public utilities	4,139,689	7.2%	4,687,916	7.7%	5,005,048	7.7%	5,337,433	7.8%	5,495,944	7.8%
Services	12,756,524	22.1%	13,716,312	22.5%	14,716,433	22.8%	15,629,585	22.7%	16,507,154	23.4%
Government and government enterprises	10,820,753	18.8%	11,125,965	18.2%	11,770,589	18.2%	12,452,644	18.1%	13,218,964	18.8%
Earnings by Place of Work	<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>	<u>\$ 70,491,141</u>	<u>100.0%</u>

Source	2002*		2003**		2004**		2005**		2006**	
	Amount	Percent								
Farm	\$ 883,000	1.2%	\$ 854,000	1.1%	\$ 580,000	0.7%	\$ 1,520,500	1.7%	\$ 532,750	0.6%
Agriculture services, forestry, fisheries and others	521,000	0.7%	383,250	0.5%	359,250	0.4%	369,750	0.4%	422,500	0.4%
Mining	1,382,000	1.9%	1,310,500	1.6%	1,495,250	1.7%	1,879,750	2.1%	2,128,750	2.3%
Manufacturing	13,611,000	18.8%	14,816,000	18.5%	16,142,000	18.9%	16,364,000	18.0%	17,033,000	18.0%
Construction	4,276,000	5.9%	4,821,250	6.0%	4,819,750	5.6%	5,133,750	5.6%	5,225,750	5.5%
Wholesale and retail trade	11,088,000	15.3%	9,940,250	12.4%	10,475,250	12.3%	10,857,250	11.9%	11,430,750	12.1%
Finance, insurance and real estate	4,034,000	5.6%	4,962,750	6.2%	5,274,250	6.2%	5,487,250	6.0%	5,922,750	6.3%
Transportation and public utilities	5,478,000	7.6%	5,023,250	6.3%	5,386,750	6.3%	5,452,500	6.0%	5,653,750	6.0%
Services	17,285,000	23.8%	23,330,250	29.1%	24,756,000	29.0%	26,222,250	28.9%	27,810,500	29.4%
Government and government enterprises	13,940,000	19.2%	14,686,250	18.3%	16,196,000	18.9%	17,594,750	19.4%	18,420,500	19.5%
Earnings by Place of Work	<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>	<u>\$ 94,581,000</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  
FOR THE LAST TWO FISCAL YEARS**

	<u>2007</u>	<u>2006</u>
<b>Personnel</b>		
Number of Full Time Employees-		
Executive Branch	33,204	34,947
Health Insurance Expenditures -		
Percentage Increase	-1.80%	29%
<b>Education</b>		
K-12 Enrollment	668,337	664,606
K-12 Attendance Rate	94.60%	94.31%
K-12 Graduation Rate	83.26%	82.84%
Statewide Academic Index	81.80%	78.30%
Average ACT Score	20.7	20.6
GED Graduates	9,757	9,054
College Going Rate for 9th Graders	38%	37%
Postsecondary Education Enrollment	206,419	202,197
Bachelor's and Higher Degrees Awarded	27,042	26,544
<b>Justice and Public Safety</b>		
Incarcerated Population-Daily Average	20,772	19,943
Probation and Parole Average Daily		
Caseload	33,642	33,643
<b>Health and Family Services</b>		
Medicaid Enrollment-Average	710,000	699,595
Food Stamp Recipients-Monthly Average	595,366	598,486
Temporary Assistance for Needy		
Families (TANF)-Monthly Average	68,260	69,696
Children with substantiated incidences		
of abuse/neglect	15,500	15,526
<b>Environmental and Public Protection</b>		
Air Pollution Source Inspections	4,000	4,600
Waste Management Inspections	7,500	7,200
Acres of Land Reforested	2,000	1,600
Mine Permits Issued	954	1,025
Mine Reclamation and Enforcement		
Inspections	22,898	22,001
Mine Safety-Completed Inspections	2,364	2,500
<b>Transportation</b>		
Percentage of Total Road System		
Needing Improvement	15%	14%
Statewide Road Maintainance		
Rating (Top Score = 80)	80.1	79.1
Daily Miles Traveled-Percentage		
Changed (2005 Data)	0.1%	-0.3%
State-Maintained Lane Miles-		
Percent Change	0.2%	0.2%
Kentucky Road Construction Cost		
Index-Percent Increase (2005 Data)	32.0%	19.5%

**COMMONWEALTH OF KENTUCKY  
CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE LAST TWO FISCAL YEARS**

	<u>2007</u>	<u>2006</u>
<b><u>General Government</u></b>		
Number of Buildings	298	297
Number of Vehicles	426	258
Land (Acres)	39,497	34,192
<b><u>Commerce</u></b>		
Number of Resort Parks	17	17
Number of Recreation Parks	24	24
Number of Historic Sites	11	10
Area of State Parks (Acres)	42,428	45,137
<b><u>Education and Humanities</u></b>		
Number of Buildings	69	70
Number of Vehicles	134	209
Land (Acres)	2,568	2,372
<b><u>Human Resources</u></b>		
Number of Buildings	193	190
Number of Vehicles	165	215
Land (Acres)	1,206	1,206
<b><u>Justice</u></b>		
Number of Buildings	449	440
Number of Vehicles	1,668	3,911
Land (Acres)	8,795	9,044
<b><u>Natural Resources and Environmental Protection</u></b>		
Number of Buildings	27	25
Number of Vehicles	1,319	2,622
Land (Acres)	64,761	64,134
<b><u>Public Protection and Regulation</u></b>		
Number of Vehicles	86	44
<b><u>Transportation</u></b>		
Number of Lane Miles -State Maintained Highways	62,071	62,193
Number of State maintained Bridges		8,974
Land (Acres)	1,977	1,961

**COMMONWEALTH OF KENTUCKY  
OPERATING INFORMATION  
STATE GOVERNMENT EMPLOYEES BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS**

	2007	2006	2005	2004
<b><u>FULL-TIME EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	4,984	5,004	5,150	5,062
Legislative and judicial	3,626	3,445	3,332	3,138
Commerce	2,155	2,212	2,206	2,188
Education and humanities	2,984	2,906	2,923	3,158
Human resources	7,751	8,411	8,861	9,015
Justice	7,967	7,932	7,693	7,488
Natural resources and environmental protection	1,673	1,659	1,681	1,692
Public protection and regulation	1,194	1,199	1,164	1,112
Transportation	4,711	4,715	5,082	5,251
<b>Total full time employees</b>	<b>37,045</b>	<b>37,483</b>	<b>38,092</b>	<b>38,104</b>
<b><u>PART-TIME and TEMPORARY EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	757	781	787	665
Legislative and judicial	554	583	751	747
Commerce	1,548	1,516	1,522	1,525
Education and humanities	281	306	265	347
Human resources	165	114	97	69
Justice	33	50	49	27
Natural resources and environmental protection	67	54	51	38
Public protection and regulation	54	34	35	23
Transportation	202	165	126	80
<b>Total part-time and temporary employees</b>	<b>3,661</b>	<b>3,603</b>	<b>3,683</b>	<b>3,521</b>
<b>Total Employees</b>	<b>40,706</b>	<b>41,086</b>	<b>41,775</b>	<b>41,625</b>

2003	2002	2001	2000	1999	1998
5,317	5,514	5,160	5,154	5,063	4,660
3,177	2,861	3,047	2,957	2,806	2,724
2,348	2,357	2,412	2,398	2,397	1,646
2,026	3,184	3,218	3,402	3,347	4,496
9,395	9,607	9,489	9,068	9,005	8,522
7,139	7,121	7,002	6,663	6,691	6,288
1,575	1,564	1,580	1,601	1,497	1,453
1,819	1,815	1,821	1,778	1,539	1,441
5,860	6,057	6,123	6,061	5,979	5,657
<u>38,656</u>	<u>40,080</u>	<u>39,852</u>	<u>39,082</u>	<u>38,324</u>	<u>36,887</u>
684	707	746	729	756	1,028
720	516	696	706	690	718
1,587	1,468	1,431	1,522	1,463	2,128
408	468	507	415	450	2,074
112	289	215	225	150	705
33	66	93	89	57	130
26	31	35	35	25	80
33	33	48	58	56	86
88	117	257	261	262	705
<u>3,691</u>	<u>3,695</u>	<u>4,028</u>	<u>4,040</u>	<u>3,909</u>	<u>7,654</u>
<u>42,347</u>	<u>43,775</u>	<u>43,880</u>	<u>43,122</u>	<u>42,233</u>	<u>44,541</u>

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*Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2007*