

*Commonwealth of Kentucky*  
*Comprehensive Annual*  
*Financial Report*



*Fiscal Year Ended*  
*June 30, 2008*





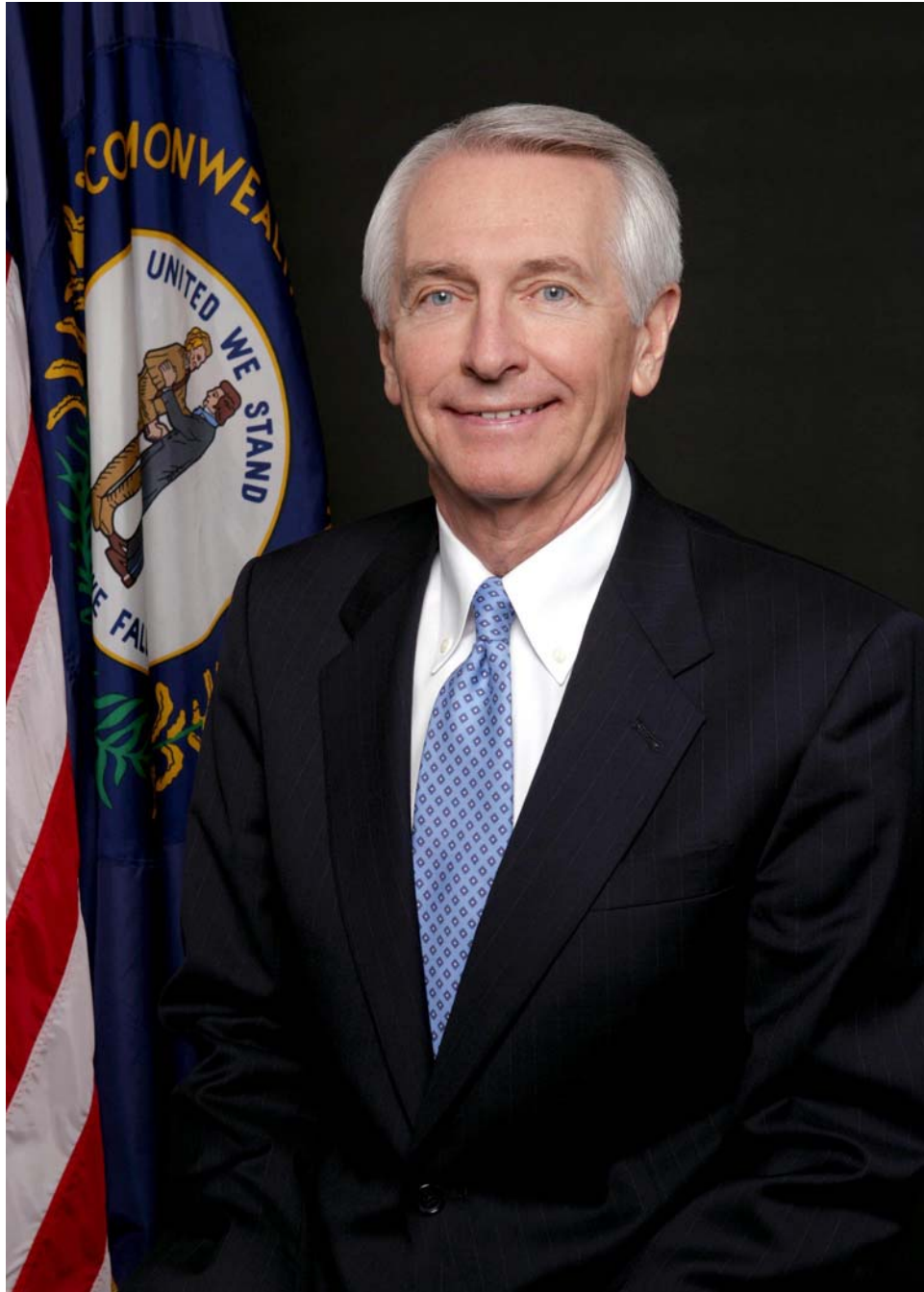
Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2008

Steven L. Beshear, Governor



Prepared by:  
Finance and Administration Cabinet  
Jonathan Miller, Secretary

Office of the Controller  
Edgar C. Ross, Controller



Steven L. Beshear  
Governor



COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR

STEVEN L. BESHEAR  
GOVERNOR

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SUITE 100  
FRANKFORT, KY 40601  
(502) 564-2611  
FAX: (502) 564-2517

December 19, 2008

My Fellow Kentuckians:

I am pleased to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the year ended June 30, 2008. This report conforms to the highest standards of financial reporting and reflects our commitment to sound financial management and strengthening the financial condition of the Commonwealth.

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

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

Sincerely,

A handwritten signature in black ink, reading "Steven L. Beshear".

Steven L. Beshear

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# INTRODUCTORY SECTION

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STEVEN L. BESHEAR

GOVERNOR

**OFFICE OF THE SECRETARY**  
Finance and Administration Cabinet

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JONATHAN MILLER

Secretary

December 19, 2008

The Honorable Steven Beshear  
Governor, Commonwealth of Kentucky  
The Capitol Building  
Frankfort, KY 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, 2008. 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, 2008, 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 Public Employees' Deferred Compensation Authority, 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,

Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Artisan Center, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Horse Park Foundation, Kentucky Council on Postsecondary Education, Kentucky Community 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 current slowdown has now been officially labeled a recession by the National Bureau of Economic Research (NBER). According to the NBER the national recession began a year ago in December 2007, though the impact on Kentucky was not felt until Fiscal Year (FY) 2009. In the beginning of FY08, most of the key economic statistics showed the economy was robust and poised to reach even greater heights. Real GDP was up by a heady 4.9 percent and industrial production was increasing strongly. Inflation, however, was heading towards 3.0 percent as crude oil prices approached \$70 per barrel. But this was regarded as a minor blip and attributed to a "risk premium". Then, two months into the fiscal year, the subprime mortgage crisis came to light and the crisis quickly spread as it became apparent that the subprime loans had been packaged and sold as investment grade securities. By the middle of the year the Fed had lowered the federal funds rate to 2.0 percent and commodity prices were soaring. By the end of the fiscal year we had had two quarters of job losses and industrial production had contracted.

The broadest measure of economic performance is real gross domestic product (GDP). It is an inflation-adjusted measure of the total output of goods and services produced in the United States. By most measures the economy slowed down substantially in FY08; but real GDP increased by 2.4 percent compared to 2.0 percent growth in the previous year. This seeming anomaly stems from soaring exports and a sharp drop in imports. Real output is forecasted to contract by 0.9 percent in FY09 followed by a further decline of 1.7 percent in FY10.

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 1.3 percent for the year after increasing by 3.0 percent in FY07. Most of the slump was in the motor vehicles sector which declined by 8.6 percent. The sharp decline in durable goods is a result of the subprime lending fiasco and the subsequent contraction in the housing market. The decline in asset values has meant that home equity loans have dried up and with it the ability of households to purchase durable goods like automobiles and furniture.

Consumption of nondurable goods also faltered in FY08. The average growth in the demand for clothing, fuel, and pharmaceuticals was halved from 3.2 percent in FY07 to 1.6 percent in FY08. The spike in crude oil prices caused gasoline purchases to decline by 2.1 percent. The purchase of services comprises over half of overall consumption. Consumer spending on services grew unabated from last year. These services include those related to household operations, medical services, transportation, and recreation.

In the short run, the outlook for consumption is quite dismal. The sharp drop in consumer confidence has affected their shopping decisions. Real consumption is expected to drop by 1.5 percent in FY09, but an increase of 1.2 percent is expected in the following year.

The decline of the housing market was felt strongly in the investment component of real GDP. After increasing at the rate of 6.2 percent in FY06 real investment declined by 5.7 percent in FY07 followed by a further decline of 7.6 percent in FY08. Residential fixed investment constitutes one-fourth of the total investment category. The market had been built up strongly on the basis of creative lending in the subprime market, i.e., to borrowers who could ill afford the loans. Residential investments were down 13.3 percent for the year. Overall investment is expected to deteriorate by a further 11.4 percent in the first year of the biennium followed by a further decline of 6.3 percent in FY10.

Government spending is less than a fifth of total GDP and was up by a relatively strong 2.6 percent in FY08. The growth is attributable to defense spending in support of the surge in Iraq. The weak dollar resulted in exports growths surpassing increase in imports: 10.4 percent vs. 0.1 percent. In FY09 and FY10, the export position is expected to change substantially. The strong dollar is forecasted to dampen export growth to 4.8 percent in FY09 followed by a drop of 1.4 percent in the following year. The weak U.S. economy is expected to lower the amount of imports in both years of the biennium.

Employment has slowed steadily over the last two years. Total nonfarm employment is estimated to have increased by 0.7 percent during FY08, but had flattened to zero-growth during the fourth quarter. The major gains were in natural resources and mining which includes oil and natural gas (up 5.0 percent for the year); education and health services (up 3.0 percent); and leisure and hospitality (up 2.5 percent). Manufacturing employment declined by 2.2 percent for the year. Predictably, employment in construction was down 3.2 percent for the year. The unemployment rate for FY08 was relatively low at 4.9 percent, but this statistic is not a good indicator of an economic slowdown because of the discouraged worker syndrome. Essentially, a sluggish labor market has a dispiriting effect on job-seekers. This causes them to drop out of the labor force and they remain uncounted for the purpose of determining the unemployment rate.

During the current recession the outlook for U.S. employment is quite dismal. Nonfarm employment is expected to decline by 1.2 percent in FY09 followed by a further drop of 1.9 percent in the following year. Manufacturing is expected to be hardest hit with declines of 5.3 percent and 8.6 percent.

Inflation surged in to 3.7 percent in FY08 as energy prices reached record highs. The benchmark U.S. crude oil, West Texas Intermediate, averaged \$97 per barrel. The weak global economy has, however, successfully cut off demand and energy prices as well as most commodity prices have started to fall. Inflation is expected to be just 0.9 percent in FY09 followed by a decline in average prices of 0.7 percent in FY10.

### ***Kentucky's Economy***

The strength of the national economy is typically gauged by increase in output as measured by real GDP. The performance of state economies is measured by personal income and employment. The Kentucky economy slowed substantially in FY08. Income and employment growth lost momentum in each quarter, though the ratcheting downwards was not as pronounced as in the U.S. economy. Nationally, the housing crisis gained center stage in August 2007. Initially the housing bubble had little impact on the state economy because real estate prices had not soared as in California and Florida, and Kentucky, unlike Ohio, had very limited exposure to the subprime market. However, by the middle of the fiscal year the mortgage-related lending problems had spread to the rest of the country by affecting the availability of credit and causing worry in the financial markets.

In FY08, Kentucky's personal income is estimated to have increased by 4.6 percent to \$133.4 billion. Wages and salaries comprise about 53 percent of total income. These were up by just 3.5 percent during the year. The recession is expected to take its toll on personal income weakening overall growth to 3.5 percent in FY09 and then to just 1.2 percent in the following year.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonfarm employment in Kentucky increased by 1.0 percent in FY08 resulting in the addition of 17,800 jobs.

The service-providing sectors posted an overall gain during the year with an increase of 1.2 percent compared to a 1.1 percent decline in the goods-producing sector. Government jobs account for 17 percent of total nonfarm employment and were up 2.3 percent for the year.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. The goods-producing sectors account for 19 percent of all in-state jobs compared to the national average of 16 percent. In the recent past the relative strength of this sector had been a disadvantage as cheap foreign crude kept coal prices low and manufacturing facilities moved to low-cost centers abroad.

In FY08, manufacturing employment was down 2.3 percent and by the last quarter had contracted further by 3.0 percent. The hardest hit was taken by the transportation equipment sector which accounts for over one-fifth of all manufacturing jobs in Kentucky. High fuel prices dramatically drove down the sales of Louisville-based Ford lines like the Explorer and the F-series trucks. The fallout from the subprime crisis has also affected consumer confidence and dampened demand for the relatively fuel-efficient Camry.

During the next two years the employment outlook is bleak. Total nonfarm employment is forecasted to decline by 1.0 percent in FY09 and by 1.7 percent in FY10. Manufacturing employment is expected to take the brunt of the slowdown with declines of 3.5 percent and 7.3 percent during the 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, 2008, the BRTF has a balance of \$214.8 million which was maintained throughout the fiscal year.

### ***Major Initiatives***

Fiscal year 2008 was the second fiscal year of the Commonwealth's 2006-2008 biennial period. From a fiscal perspective, FY08 presented a mixed financial condition. Overall, General Fund spending in FY08, increased by 7.6 percent. Tax revenues increased by only 1.0 percent. Funds from prior years and other resources served as the primary financing means for the increase in spending. There were areas that included some substantial spending increases. These were concentrated in education, human services, and corrections. Funding for elementary and secondary education, the largest portion of the budget, increased 7 percent. A significant portion of the increase was targeted to

raising teacher salaries across the Commonwealth in an effort to attain parity with the teacher pay of surrounding states. For postsecondary education, spending was up by 4 percent. Human services spending increased 15 percent: the Medicaid program increased 15 percent, and spending for mental health and mental retardation programs increased by 7.5 percent. Criminal justice system spending went up 10 percent with corrections spending increasing by 16 percent primarily to contend with growing inmate population.

Fiscal year 2008 was also a year in which the Commonwealth's new Governor came into Office, Governor Steven Beshear. Despite the spending increases slated for FY08, the new Governor inherited a revenue and a budget shortfall of \$265 million that had to be addressed immediately. The shortfall was in part a tax revenue shortfall of \$118 million, combined with increased appropriations made by the General Assembly in Sessions after the 2006 Session. The shortfall was addressed by using the Commonwealth's \$145 million surplus, \$76 million in spending cuts, and the rest from other resources. Moreover, there were specific areas of the government where \$150 million in supplemental funding was added to FY08 budgets; primarily for the Medicaid program (\$112 million), and for the increasing prison population (\$24 million).

The Commonwealth capital program enacted for the 2006-08 biennial period was budgeted at an unprecedented level. The majority of it was financed through the issuance of debt. The capital budget 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 was 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 2007 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. In FY08, much of this capital budget was put into place and represented one of the largest capital spending years the Commonwealth has seen.

During FY08, the Commonwealth addressed a significant policy and financial issue, how to finance the large unfunded liabilities of its pension systems, and how to structure future employee benefits to ensure a sustainable pension system. Pension reform legislation was passed by a Special Session of the General Assembly in June 2008. The legislation puts in place a phased-in financing plan to achieve the necessary actuarial contributions to the systems. The financing plan includes specific graduated targets over a period of years. Benefits and related eligibility requirements for future employees were significantly changed to modernize the benefits and to reduce the future pension liabilities of the systems.

## **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 2008 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$573,089	2.96 %	\$853

No general obligation bonds were authorized or outstanding at June 30, 2008.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2008 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, 2007. This is the 21st 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,



Jonathan Miller, Secretary  
Finance and Administration Cabinet





**STEVEN L. BESHEAR**  
Governor

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

**EDGAR C. ROSS**  
Controller

December 19, 2008

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, 2008, 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, 2007

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.



A handwritten signature in black ink, appearing to read "M. L. Rut".

President

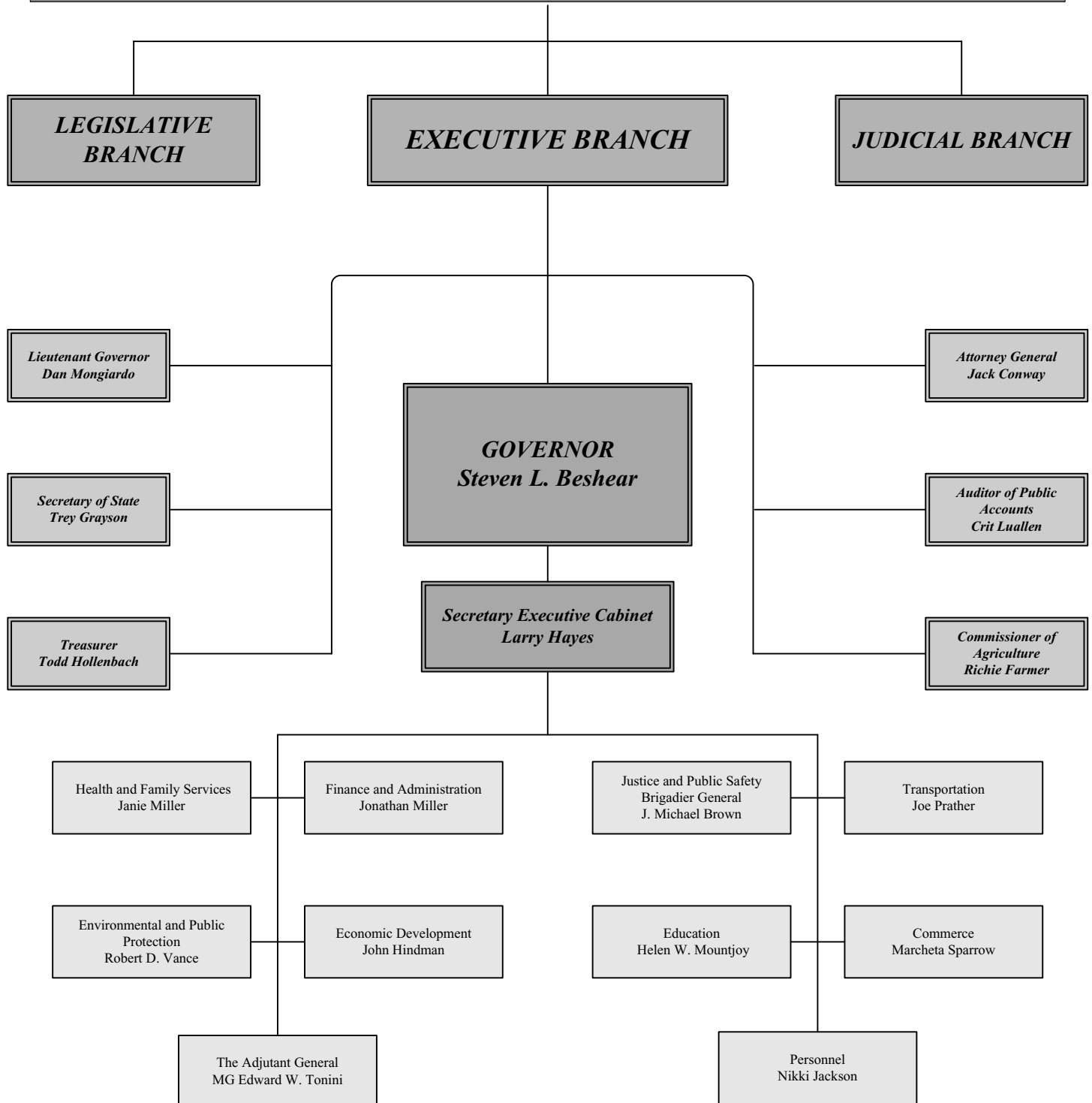
A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

# COMMONWEALTH OF KENTUCKY

## ELECTORATE OF KENTUCKY

*"UNITED WE STAND, DIVIDED WE FALL"*



\*Principal Officials at June 30, 2008

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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, 2008, 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 component units and funds 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 component units and funds 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:**

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

**Certain portions of the Internal Service Funds within the Risk Management Fund including:**

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

**Certain Fiduciary Funds including:**

- Kentucky Retirement System
- Kentucky Teachers' Retirement System
- Judicial Form Retirement System
- Kentucky Public Employees' Deferred Compensation Authority

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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
- 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	2.42%	.38%
Primary Government - Business-Type Activities	41.13%	34.48%
Component Units	98.96%	98.89%
<b>Fund Financial Statements:</b>		
Governmental Funds - Non-Major Funds	45.35%	6.17%
Proprietary Funds - Business-Type Activities - Enterprise Funds	41.13%	34.00%
Proprietary Funds - Governmental Activities - Internal Service Funds	4.64%	15.73%
Fiduciary Funds - Pension and Insurance Trust Funds	100.00%	100.00%
Component Units	98.96%	98.89%

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, 2008, 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 108 through 123, and information about infrastructure assets reported using the modified approach on pages 124 and 125, and claims development information for entity risk pools on page 126, 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 130 through 181 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 184 through 205 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 19, 2008

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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, 2008. 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, 2008, by \$16.2 billion, a decrease of \$1.29 billion related to current year activity. Assets of the Commonwealth's business-type activities exceeded liabilities by \$47 million, a decrease in net assets of \$28 million related to current year activity. Total net assets decreased by \$1.3 billion to \$16.3 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2008, by \$6.67 billion, an increase of \$282 million related to current year activity.

#### Fund Highlights:

As of the close of FY08, the Commonwealth's governmental funds reported combined ending fund balances of \$2.44 billion, a decrease of \$434 million in comparison with the prior year. Of this total amount, \$1.2 billion was reserved and the balance of approximately \$1.24 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$(2) million at June 30, 2008.

Enterprise funds reported net assets of \$47 million, of which \$601 million was restricted or invested in capital assets, and the balance of \$(554) million was unrestricted.

#### Long-Term Debt:

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$780 million to \$5.13 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 FY08. Additional details of these activities can be found in Note 15 beginning on Page 93.

### 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 \$16.3 billion at the end of 2008, as compared to \$17.4 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$20.2 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 \$1.45 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 \$(5.4) 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, 2008 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	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 6,107,703	\$ 5,785,325	\$ 1,426,390	\$ 1,479,348	\$ 7,534,093	\$ 7,264,673
Capital Assets	20,424,553	19,651,695	290,577	267,335	20,715,130	19,919,030
Other Assets	5,566	2,047	11,643	13,552	17,209	15,599
Total Assets	26,537,822	25,439,067	1,728,610	1,760,235	28,266,432	27,199,302
Non Current Liabilities	7,603,291	5,747,270	1,493,605	1,587,339	9,096,896	7,334,609
Other Liabilities	2,699,004	2,314,605	188,419	180,444	2,887,423	2,495,049
Total Liabilities	10,302,295	8,061,875	1,682,024	1,767,783	11,984,319	9,829,658
Invested in Capital Assets						
Net of Related Debt	19,911,942	17,947,656	290,365	267,144	20,202,307	18,214,800
Restricted	1,139,727	1,237,151	310,216	359,605	1,449,943	1,596,756
Unrestricted	(4,816,142)	(1,807,615)	(553,995)	(634,297)	(5,370,137)	(2,441,912)
Total Net Assets	\$ 16,235,527	\$ 17,377,192	\$ 46,586	\$ (7,548)	\$ 16,282,113	\$ 17,369,644

## 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 FY08. The Commonwealth received program revenues of \$10 billion and general revenues (including transfers) of \$10.4 billion for total revenues of \$20.4 billion during FY08. Expenses for the Commonwealth during FY08 were \$21.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$1.3 billion, net of contributions, transfers and special items.

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

	2008 Governmental Activities	2007 Governmental Activities	2008 Business-Type Activities	2007 Business-Type Activities	2008 Total	2007 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 971,106	\$ 1,057,311	\$ 2,624,758	\$ 2,492,096	\$ 3,595,864	\$ 3,549,407
Operating Grants and Contributions	5,554,089	5,261,989	53,838		5,607,927	5,261,989
Capital Grants and Contributions	750,184	658,132	1,735	476	751,919	658,608
General Revenues:						
Income Taxes	3,910,750	3,937,079			3,910,750	3,937,079
Sales Taxes	4,828,223	4,623,126			4,828,223	4,623,126
Property Taxes	497,326	503,853			497,326	503,853
Other Taxes	558,608	536,951			558,608	536,951
Investment Earnings	31,335	57,070	16,531	97,726	47,866	154,796
Other	618,125	425,791	18,805	3,052	636,930	428,843
Total Revenues	<u>17,719,746</u>	<u>17,061,302</u>	<u>2,715,667</u>	<u>2,593,350</u>	<u>20,435,413</u>	<u>19,654,652</u>
Expenses:						
Governmental Activities:						
General Government	4,370,883	3,708,700			4,370,883	3,708,700
Legislative and Judicial	335,635	313,010			335,635	313,010
Commerce	107,774	96,486			107,774	96,486
Education and Humanities	4,852,742	4,608,914			4,852,742	4,608,914
Human Resources	6,904,568	6,468,225			6,904,568	6,468,225
Justice	845,153	803,120			845,153	803,120
Natural Resources and Environmental Protection	197,265	191,052			197,265	191,052
Public Protection and Regulation	97,360	116,770			97,360	116,770
Transportation	1,170,102	1,123,493			1,170,102	1,123,493
Interest Expense	254,488	266,388			254,488	266,388
Business-type Activities:						
State Parks			104,672	111,973	104,672	111,973
Kentucky Lottery Corporation			599,490	563,549	599,490	563,549
Kentucky Horse Park			12,799	10,624	12,799	10,624
Kentucky Public Employees Health Plan			1,288,981	1,152,794	1,288,981	1,152,794
Insurance Administration			117,817	176,338	117,817	176,338
Unemployment Compensation			493,397	450,629	493,397	450,629
Total Expenses	<u>19,135,970</u>	<u>17,696,158</u>	<u>2,617,156</u>	<u>2,465,907</u>	<u>21,753,126</u>	<u>20,162,065</u>
Increase (Decrease) in Net Assets Before Transfers	(1,416,224)	(634,856)	98,511	127,443	(1,317,713)	(507,413)
Transfers	126,716	169,150	(126,716)	(169,150)		
Change in Net Assets	<u>(1,289,508)</u>	<u>(465,706)</u>	<u>(28,205)</u>	<u>(41,707)</u>	<u>(1,317,713)</u>	<u>(507,413)</u>
Net Assets, July 1, as restated	17,525,035	17,842,898	74,791	34,159	17,599,826	17,877,057
Net Assets, June 30	<u>\$ 16,235,527</u>	<u>\$ 17,377,192</u>	<u>\$ 46,586</u>	<u>\$ (7,548)</u>	<u>\$ 16,282,113</u>	<u>\$ 17,369,644</u>

## Governmental Activities:

The slowing economy, during the fiscal year, caused revenues to decline resulting in the decrease in net assets of governmental activities by \$1.29 billion or 7.4 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 36 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	\$ 4,370,883	\$ 744,776	\$ 3,626,107
Legislative and Judicial	335,635	16,606	319,029
Commerce	107,774	67,913	39,861
Education and Humanities	4,852,742	906,616	3,946,126
Human Resources	6,904,568	4,534,335	2,370,233
Justice	845,153	61,252	783,901
Natural Resources and Environmental Protection	197,265	107,595	89,670
Public Protection and Regulation	97,360	73,470	23,890
Transportation	1,170,102	762,816	407,286
<b>Totals</b>	<b>\$ 18,881,482</b>	<b>\$ 7,275,379</b>	<b>\$ 11,606,103</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 \$28 million. Program revenues generated by the operations of the State Parks, Kentucky Horse Park, Kentucky Public Employees Health Plan, and Unemployment Compensation 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 Insurance Administration were sufficient to cover program expenses.

**Table 5** (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 104,672	\$ 57,605	\$ 47,067
Kentucky Lottery Corporation	599,490	778,211	(178,721)
Kentucky Horse Park	12,799	8,498	4,301
Kentucky Public Employees Health Plan	1,288,981	1,270,899	18,082
Insurance Administration	117,817	129,870	(12,053)
Unemployment Compensation	493,397	435,248	58,149
<b>Totals</b>	<b>\$ 2,617,156</b>	<b>\$ 2,680,331</b>	<b>\$ (63,175)</b>

## Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2008 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 \$16.2 billion and the condition of the State's business-type activities improved so that assets exceed their liabilities by \$47 million.
- The State's total net assets decreased during the year by \$1.3 billion. Net assets of governmental activities decreased by \$1.3 billion, while net assets of business-type activities decreased by \$28 million.
- The major reason for the decline in net assets of the governmental activities was due to an increase in the liability for pensions and other post employment benefits, due to a change in actuarial calculations for contributions. The primary cause of the increase in business-type activities net assets is attributable to claims liability decreases 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**

At June 30, 2008, the Commonwealth's governmental funds reported combined ending fund balances of \$2.44 billion, a decrease of \$434 million in comparison with the prior year. \$1.21 billion of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is \$1.23 billion.

### **General Fund**

The General Fund is the primary operating fund of the Commonwealth. The fund balance at June 30, 2008, was \$288 million. The balance reported reflects a decrease of \$525 million from the previously reported amount, which represents a decline of 65%. The major factor for the decline is attributable to the slow national and state economy which has reduced tax revenues.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at June 30, 2008, has \$290 million as reserved fund balance and a negative (\$2.0) million unreserved. The unreserved represents the amount available for current expenditures.

The following governmental funds experienced significant changes during the year:

### **Major Special Revenue Funds**

The major special revenue funds experienced normal cyclical changes in revenues and expenditures. The significant change in fund balance recorded in the Agency Revenue Fund is attributable to the issuance of General Receipt Notes. These notes are to be repaid by the revenues of the agency for which they were issued.

**Proprietary Funds** - The Commonwealth's proprietary funds reported net assets of \$229.4 million, which included \$46.5 million in the enterprise funds and \$182.9 million in the internal service funds. This is a total increase in net assets of \$9.4 million from the previous year.

The overall increase in net assets is due to a restatement which reduced liabilities in the Petroleum Storage Tank Environmental Assurance Program of \$82.3 million. However, this increase is offset by a decline in fair value of investments for the Workers Compensation Fund and an increase in claims expense in the Petroleum Storage Tank Environmental Assurance Program. These programs are within the Insurance Administration Fund. The Unemployment Compensation Fund also reflected a large decrease due to the increase in unemployment benefit payments during the year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year, as the national and state economy declined, the official revenue forecast for the General Fund was decreased to reflect those deteriorating conditions. However, General Fund revenues, for the year, exceeded the final budgetary estimates by approximately \$108 million. The original budgeted expenditures were increased to offset the increased demands for health services and an additional amount was authorized for the expenditure of Tobacco Settlement Funds. With continued oversight actual expenditures for the year were approximately \$475 million less than the final budgeted amount.

## **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, 2008, amounts to \$21.7 billion, with accumulated depreciation of \$985 million, leaving a net book value of \$20.7 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 3.9 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$773 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$81.9 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 five years.
- Actual expenditures necessary to maintain and preserve infrastructure assets at target condition levels were approximately 11.9% greater than the estimate for fiscal year 2008.

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 increased by \$174 million to \$3.6 billion, a 5.00% increase during the current fiscal year. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source, and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2008. 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 6.8 percent, substantially higher than the 5.4 percent in October 2007. The national unemployment rate has also increased from 4.8 percent in October last year to 6.5 percent.

Both the national and Kentucky economies are under stress from the sub prime mortgage crisis and the resulting fall in housing prices. This has been further exacerbated by the spike in energy prices in the first part of the year. In particular crude oil prices were well above \$100 per barrel range for almost two months.

The economy is expected to contract sharply in the current fiscal year, with some recovery in fiscal year 2010.

## **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, 2008**  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 5)	\$ 850,783	\$ 185,948	\$ 1,036,731	\$ 1,114,275
Cash with fiscal agents (Note 5)	51,454		51,454	
Restricted cash (Note 5)		2,046	2,046	
Investments, net of amortization (Note 5)	1,853,677	730,502	2,584,179	2,593,968
Invested security collateral	764,565		764,565	
Receivables, net (Note 4)	2,010,348	262,871	2,273,219	4,672,485
Notes receivable	7,684		7,684	
Capital lease receivable (Note 4)	459,200		459,200	
Internal balances (Note 7)	(3,257)	3,257		
Inventories	58,596	3,230	61,826	37,170
Prepaid expenses	9,393	607	10,000	18,356
Deferred charges	45,260		45,260	94,555
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		237,383	237,383	519,641
Investments (Note 5)		546	546	1,065,665
Capital assets (Note 6):				
Land	143,039	22,578	165,617	215,883
Improvements other than buildings	15,172	98,247	113,419	163,380
Buildings	1,128,088	218,461	1,346,549	4,435,808
Machinery and equipment	562,892	58,755	621,647	1,519,964
Other capital assets				99,231
Easements and other intangibles	111,883	2,322	114,205	
Less: Accumulated depreciation and amortization	(789,874)	(195,540)	(985,414)	(2,923,994)
Construction in progress	2,019,952	85,754	2,105,706	565,755
Infrastructure	17,233,401		17,233,401	
Total Capital Assets	20,424,553	290,577	20,715,130	4,076,027
Other assets	5,566	11,643	17,209	364,592
Total Assets	26,537,822	1,728,610	28,266,432	14,556,734
<b>Liabilities</b>				
Accounts payable (Note 4)	1,541,925	52,896	1,594,821	398,577
Tax refunds payable	349,437		349,437	
Unearned revenue	43,077	135,523	178,600	164,942
Other liabilities				104,501
Liabilities from restricted assets				23,148
Obligations under securities lending	764,565		764,565	
Noncurrent liabilities:				
Due within one year (Note 15)	624,224	279,911	904,135	411,693
Due in more than one year (Note 15)	6,979,067	1,213,694	8,192,761	6,783,671
Total Liabilities	10,302,295	1,682,024	11,984,319	7,886,532
<b>Net Assets</b>				
Invested in capital assets, net of related debt	19,911,942	290,365	20,202,307	2,835,309
Restricted for:				
Debt service	405,028		405,028	254,908
Capital projects	231,768	14,493	246,261	200,772
Highways	502,931		502,931	
Unemployment benefits		285,235	285,235	
Other purposes (Note 1)		10,488	10,488	2,318,600
Unrestricted	(4,816,142)	(553,995)	(5,370,137)	1,060,613
Total Net Assets	\$ 16,235,527	\$ 46,586	\$ 16,282,113	\$ 6,670,202

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, 2008**  
(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	\$ 4,370,883	\$ 494,587	\$ 205,001	\$ 45,188
Legislative and judicial	335,635	15,225	1,381	
Commerce	107,774	41,821	25,093	999
Education and humanities	4,852,742	68,609	838,007	
Human resources	6,904,568	200,913	4,332,696	726
Justice	845,153	24,096	36,572	584
Natural resources and environmental protection	197,265	42,511	65,083	1
Public protection and regulation	97,360	66,495	6,975	
Transportation	1,170,102	16,849	43,281	702,686
Interest expense	254,488			
Total Governmental Activities	<u>19,135,970</u>	<u>971,106</u>	<u>5,554,089</u>	<u>750,184</u>
Business-Type Activities:				
State Parks	104,672	57,605		
Kentucky Lottery Corporation	599,490	778,211		
Kentucky Horse Park	12,799	6,763		1,735
Kentucky Public Employees Health Plan	1,288,981	1,270,899		
Insurance Administration	117,817	129,870		
Unemployment Compensation	493,397	381,410	53,838	
Total Business-Type Activities	<u>2,617,156</u>	<u>2,624,758</u>	<u>53,838</u>	<u>1,735</u>
Total Primary Government	<u>\$ 21,753,126</u>	<u>\$ 3,595,864</u>	<u>\$ 5,607,927</u>	<u>\$ 751,919</u>
<b>Component Units:</b>				
Authorities:				
Kentucky Housing Corporation	\$ 304,846	\$ 164,250	\$ 158,426	\$
Kentucky Higher Education Student Loan Corporation	143,060	151,556		
School Facilities Construction Commission	53,461		6,792	
Universities, Colleges, & Related Entities:				
University of Kentucky	1,912,879	1,187,971	383,871	13,503
University of Louisville	815,558	397,336	234,771	
Kentucky Community and Technical College System	518,704	92,336	77,863	
Other component units	1,694,729	570,068	520,635	19,822
Total Component Units	<u>\$ 5,443,237</u>	<u>\$ 2,563,517</u>	<u>\$ 1,382,358</u>	<u>\$ 33,325</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		Totals	Component Units
Governmental Activities	Business-Type Activities		
\$ (3,626,107)	\$	\$ (3,626,107)	
(319,029)		(319,029)	
(39,861)		(39,861)	
(3,946,126)		(3,946,126)	
(2,370,233)		(2,370,233)	
(783,901)		(783,901)	
(89,670)		(89,670)	
(23,890)		(23,890)	
(407,286)		(407,286)	
(254,488)		(254,488)	
(11,860,591)		(11,860,591)	
	(47,067)	(47,067)	
	178,721	178,721	
	(4,301)	(4,301)	
	(18,082)	(18,082)	
	12,053	12,053	
	(58,149)	(58,149)	
	63,175	63,175	
(11,860,591)	63,175	(11,797,416)	
			\$ 17,830
			8,496
			(46,669)
			(327,534)
			(183,451)
			(348,505)
			(584,204)
			(1,464,037)
4,828,223		4,828,223	
3,512,908		3,512,908	
397,842		397,842	
497,326		497,326	
33,049		33,049	
310,294		310,294	
51,423		51,423	
163,842		163,842	
11,923		11,923	331,249
31,335	16,531	47,866	(32,532)
10,123	59	10,182	98
596,079	18,746	614,825	1,447,533
126,716	(126,716)		
10,571,083	(91,380)	10,479,703	1,746,348
(1,289,508)	(28,205)	(1,317,713)	282,311
17,525,035	74,791	17,599,826	6,387,891
\$ 16,235,527	\$ 46,586	\$ 16,282,113	\$ 6,670,202

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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.

### Debt Service Fund

The Debt Service Fund 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.

## Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page ..... 130

**COMMONWEALTH OF KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents (Note 5)	\$ 515,298	\$ 17,990	\$ 6	\$ 16,017	\$	\$	\$ 279,465	\$ 828,776
Cash with fiscal agents (Note 5)						35,425		35,425
Restricted cash (Note 5)				16,029				16,029
Investments, net of amortization (Note 5)	199,518	399,049		438,921	253,582	17,807	495,996	1,804,873
Invested security collateral	147,307	147,103		116,317	108,679		245,159	764,565
Receivables, net (Note 4)	867,706	134,184	836,632	74,430	18,006		78,731	2,009,689
Notes receivable				6,957			728	7,685
Capital lease receivable (Note 4)						459,200		459,200
Interfunds receivable (Note 7)	17,959	924	36,017	66,754	10,339		276,704	408,697
Interfund loans receivable (Note 7)	102,974	11,098		45,000			37,710	196,782
Inventories	9,897	39,880	64	3,554			14	53,409
Other assets							3,532	3,532
Total Assets	<u>\$ 1,860,659</u>	<u>\$ 750,228</u>	<u>\$ 872,719</u>	<u>\$ 783,979</u>	<u>\$ 390,606</u>	<u>\$ 512,432</u>	<u>\$ 1,418,039</u>	<u>\$ 6,588,662</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable (Note 4)	\$ 822,115	\$ 96,350	\$ 554,417	\$ 56,095	\$ 6,948	\$	\$ 25,866	\$ 1,561,791
Tax refunds payable	349,437							349,437
Interfunds payable (Note 7)	87,104	2,439	49,151	10,404	602		267,696	417,396
Interfund loans payable (Note 7)			156,098		37,710	2,974		196,782
Obligations under securities lending	147,307	147,103		116,317	108,679		245,159	764,565
Deferred revenue	166,525	23,425	143,592	25,496	4,899	459,200	40,476	863,613
Total Liabilities	<u>1,572,488</u>	<u>269,317</u>	<u>903,258</u>	<u>208,312</u>	<u>158,838</u>	<u>462,174</u>	<u>579,197</u>	<u>4,153,584</u>
<b>Fund Balances:</b>								
Reserved for:								
Encumbrances		563,396			73,853			637,249
Statutory obligations	65,436	93,364						158,800
Budget stabilization	214,775							214,775
Inventories	9,897	39,880	64	3,554			14	53,409
Long-term receivables				6,957			728	7,685
Deposit with fiscal agents				16,029		35,425		51,454
Capital outlay					85,821			85,821
Unreserved, reported in:								
General fund	(1,937)							(1,937)
Special revenue funds		(215,729)	(30,603)	549,127			483,330	786,125
Debt service fund						14,833	354,770	369,603
Capital projects fund					72,094			72,094
Total Fund Balances	<u>288,171</u>	<u>480,911</u>	<u>(30,539)</u>	<u>575,667</u>	<u>231,768</u>	<u>50,258</u>	<u>838,842</u>	<u>2,435,078</u>
Total Liabilities and Fund Balances	<u>\$ 1,860,659</u>	<u>\$ 750,228</u>	<u>\$ 872,719</u>	<u>\$ 783,979</u>	<u>\$ 390,606</u>	<u>\$ 512,432</u>	<u>\$ 1,418,039</u>	<u>\$ 6,588,662</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, 2008  
(Expressed in Thousands)**

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Total Fund Balances - Governmental Funds	\$ 2,435,078
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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	127,296	
Buildings, equipment, and other depreciable assets	1,423,875	
Infrastructure	17,233,401	
Accumulated depreciation	(572,177)	
Construction in progress	<u>1,940,390</u>	20,152,785

Certain revenues are earned but not available, and therefore, are deferred in the funds.	820,769
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	51,981
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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.	182,908
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease obligations	(15,933)	
Compensated absences	(224,751)	
Judgements and contingencies	(12,606)	
Net pension obligations	<u>(1,757,644)</u>	(2,010,934)

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	(3,617,080)	
Notes payable	(1,516,350)	
Unamortized premiums and discounts	(207,094)	
Less deferred amounts on refundings	19,244	
Accrued interest payable	<u>(75,780)</u>	<u>(5,397,060)</u>

Net Assets of Governmental Activities	<u>\$ 16,235,527</u>
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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, 2008**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Taxes	\$ 8,315,737	\$ 1,096,348	\$	\$ 336,049	\$	\$	\$ 123,456	\$ 9,871,590
Licenses, fees, and permits	35,266	126,930	57	145,945			1,215	309,413
Intergovernmental	80,041		5,995,780	35,099	24,306	31,158	2,732	6,169,116
Charges for services	17,278	10,078	116	572,873			158,460	758,805
Fines and forfeits	52,654	48	1	8,984			36,211	97,898
Interest and other investment income	20,882	19,443	1,336	17,554	23,548	4,692	62,378	149,833
Increase (decrease) in fair value of investments	(738)	2,759		2,821	940	(10)	757	6,529
Securities lending income	6,084	6,075		4,804	4,488		10,125	31,576
Other revenues	156,912	5,302	82,093	172,009	52		58,187	474,555
Total Revenues	8,684,116	1,266,983	6,079,383	1,296,138	53,334	35,840	453,521	17,869,315
<b>Expenditures</b>								
Current:								
General government	1,990,222		81,935	118,589			511,984	2,702,730
Legislative and judicial	312,739		2,219	23,878			3	338,839
Commerce	36,772		13,697	49,600			466	100,535
Education and humanities	3,846,451		850,064	44,586			59,359	4,800,460
Human resources	2,066,657		4,335,230	872,673			26,554	7,301,114
Justice	634,835		39,933	90,402			2,100	767,270
Natural resources and environmental protection	76,251		50,890	51,305			14,511	192,957
Public protection and regulation	17,338		4,445	74,209			1,490	97,482
Transportation	6,124	1,161,582	677,695	193,318			51,865	2,090,584
Debt service:								
Principal retirement						207,663	134,070	341,733
Interest and fiscal charges						152,162	58,169	210,331
Other expenditures						17,495	3,530	21,025
Securities lending expense	5,159	5,151		4,073	3,806		8,585	26,774
Capital outlay:								
Buildings					582,550			582,550
Total Expenditures	8,992,548	1,166,733	6,056,108	1,522,633	586,356	377,320	872,686	19,574,384
Excess (Deficiency) of Revenues over (under) Expenditures	(308,432)	100,250	23,275	(226,495)	(533,022)	(341,480)	(419,165)	(1,705,069)
<b>Other Financing Sources (Uses)</b>								
Transfers in	349,423		160	550,588	49,482	324,808	1,083,305	2,357,766
Transfers out	(570,791)	(167,445)	(37,402)	(619,061)	(119,344)		(744,240)	(2,258,283)
Capitalized leases	2,182	48	169	875			6	3,280
Issuance of bonds:								
New issues					372,017	118		372,135
Refunding issues						100,000		100,000
Premiums				14,114	10,767	21,441		46,322
Issuance of notes				477,909	263,951	8,225		750,085
Payments to refunded bond escrow agent						(100,000)		(100,000)
Total Other Financing Sources (Uses)	(219,186)	(167,397)	(37,073)	424,425	576,873	354,592	339,071	1,271,305
Net Change in Fund Balances	(527,618)	(67,147)	(13,798)	197,930	43,851	13,112	(80,094)	(433,764)
Fund Balances at July 1,	813,194	545,567	(16,741)	377,576	187,917	37,146	918,946	2,863,605
Increase (decrease) in inventories	2,595	2,491		161			(10)	5,237
Fund Balances at June 30	\$ 288,171	\$ 480,911	\$ (30,539)	\$ 575,667	\$ 231,768	\$ 50,258	\$ 838,842	\$ 2,435,078

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, 2008**  
(Expressed in Thousands)

Net Change in Fund Balances-Total Governmental Funds	\$	(433,764)
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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	(16,468)	
Donated assets, fair market value	21,667	
Buildings, equipment, and other depreciable assets	35,745	
Infrastructure	709,910	
Accumulated depreciation	<u>(55,151)</u>	695,703

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		327,708
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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	4,686	
Inventories	<u>5,237</u>	9,923

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.		37,687
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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	(1,070,699)	
Capital lease payments	8,856	
Compensated absence payments	7,251	
Litigation payments	<u>230</u>	(1,054,362)

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	(1,268,542)	
Repayment of bond principal	341,733	
Payment to refunded bond escrow agent	100,000	
Accrued interest	(59,260)	
Deferred issue costs	<u>13,666</u>	(872,403)

Change in Net Assets of Governmental Activities	\$	<u>(1,289,508)</u>
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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 Fund* 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, 2008**  
(Expressed in Thousands)

	<b>Business-Type Activities-</b>		
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Horse Park</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 4,963	\$ 16,049	\$ 431
Cash on deposit with the Federal government (Note 5)			
Restricted cash (Note 5)			1,964
Investments, net of amortization (Note 5)		31,482	
Receivables, net (Note 4)	771	30,498	417
Interfunds receivable (Note 7)	138		
Inventories	2,475	117	638
Prepaid expenses	45	470	
Total Current Assets	8,392	78,616	3,450
Noncurrent assets:			
Restricted investments (Note 5)			
Investments, net of amortization (Note 5)	19,542	126,415	12,699
Receivables, net		4,731	46
Capital assets (Note 6):			
Land	17,683	442	4,453
Improvements other than buildings	80,262	354	17,631
Buildings	195,942	7,285	15,234
Machinery and equipment	14,142	39,591	3,653
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(131,494)	(38,659)	(24,749)
Construction in progress	59,988		25,766
Total Capital Assets	238,845	9,013	41,988
Other assets			
Total Noncurrent Assets	258,387	140,159	54,733
Total Assets	266,779	218,775	58,183
<b>Liabilities</b>			
Current liabilities:			
Accounts payable (Note 4)	5,719	6,727	951
Judgments payable	2		
Interfunds payable (Note 7)	410		12
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	67		27
Prize liability		55,668	
Compensated absences (Note 15)	2,658	932	260
Deferred revenue	859		72
Total Current Liabilities	9,715	63,327	1,322
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	53		65
Prize liability		116,323	
Compensated absences (Note 15)	3,091		332
Total Noncurrent Liabilities	3,144	116,323	397
Total Liabilities	12,859	179,650	1,719
<b>Net Assets</b>			
Invested in capital assets, net of related debt	238,725	9,013	41,896
Restricted for:			
Unemployment benefits			
Capital projects			14,493
Other purposes (Note 1)			
Unrestricted	15,195	30,112	75
Total Net Assets	\$ 253,920	\$ 39,125	\$ 56,464

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

Enterprise Funds				Governmental Activities-Internal Service Funds
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2008	
\$ 42,463	\$ 87,642	\$ 2,918	\$ 154,466	\$ 22,007
82		237,383	237,383	
			2,046	
			31,482	
19,293	113,042	94,073	258,094	659
102	3,879		4,119	6,342
			3,230	5,185
	92		607	4,706
61,940	204,655	334,374	691,427	38,899
546			546	
472,964	96,825	2,057	730,502	48,803
			4,777	
			22,578	15,743
			98,247	3,144
			218,461	261,579
1,369			58,755	129,437
			2,322	
(638)			(195,540)	(217,697)
			85,754	79,562
731			290,577	271,768
	11,643		11,643	
474,241	108,468	2,057	1,038,045	320,571
536,181	313,123	336,431	1,729,472	359,470
672	19,283	19,544	52,896	10,281
			2	
95		345	862	900
136,474	79,839		216,313	15,025
3,278			3,278	668
			94	3,608
			55,668	
545	161		4,556	2,754
629	102,656	31,307	135,523	234
141,693	201,939	51,196	469,192	33,470
1,063,254			1,063,254	122,942
29,439			29,439	5,928
			118	11,427
			116,323	
1,092	45		4,560	2,795
1,093,785	45		1,213,694	143,092
1,235,478	201,984	51,196	1,682,886	176,562
731			290,365	256,732
		285,235	285,235	
			14,493	
10,488			10,488	
(710,516)	111,139		(553,995)	(73,824)
\$ (699,297)	\$ 111,139	\$ 285,235	\$ 46,586	\$ 182,908

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(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	\$ 57,562	\$	\$
Lottery sales		778,211	
Horse park admissions and sales			6,763
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	566		1,559
Total Operating Revenues	<u>58,128</u>	<u>778,211</u>	<u>8,322</u>
<b>Operating Expenses:</b>			
Personal services	58,280		4,876
Utilities, rental, and other services	16,437	1,120	2,033
Commodities and supplies	20,608		652
Grants and subsidies			
Depreciation and amortization	8,935	3,052	633
Travel	392	64	12
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Prize expense		493,059	
Other expenses		92,401	3,443
Total Operating Expenses	<u>104,652</u>	<u>589,696</u>	<u>11,649</u>
Operating Income (Loss)	<u>(46,524)</u>	<u>188,515</u>	<u>(3,327)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of capital assets	(98)	37	(1,147)
Interest and other investment income	1	13,146	
Increase (decrease) in fair value of investments	38	4,113	144
Interest expense	(19)	(9,794)	(3)
Other revenues (expenses)		6,438	
Total Nonoperating Revenues (Expenses)	<u>(78)</u>	<u>13,940</u>	<u>(1,006)</u>
Income (Loss) before Capital Contributions and Transfers	(46,602)	202,455	(4,333)
Capital contributions			1,735
Transfers in	102,186		31,343
Transfers out	(32,754)	(198,343)	(44)
Change in Net Assets	<u>22,830</u>	<u>4,112</u>	<u>28,701</u>
Net Assets at July 1, as restated (Note 2)	231,090	35,013	27,763
Net Assets at June 30	<u>\$ 253,920</u>	<u>\$ 39,125</u>	<u>\$ 56,464</u>

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

Enterprise Funds				Governmental Activities- Internal Service Funds
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2008	
\$	\$	\$	\$	\$
			57,562	
			778,211	
			6,763	
129,870			129,870	
		430,762	430,762	
				172,649
957	1,270,899		1,273,981	637
130,827	1,270,899	430,762	2,677,149	173,286
18,191	3,319	1	84,667	60,662
1,911	877	6	22,384	36,756
669	66	601	22,596	28,953
		492,705	492,705	382
107			12,727	14,099
307	15		790	94
				1,053
89,619	1,282,992	84	1,372,695	26,783
(888)	317		(571)	(1,554)
			493,059	
7	1,395		97,246	
109,923	1,288,981	493,397	2,598,298	167,228
20,904	(18,082)	(62,635)	78,851	6,058
(8)			(1,216)	1,461
18,380			52,002	638
(28,431)	9,140	11,335	(24,137)	70
(11)		(1)	(9,827)	(756)
(7,875)	2,540		1,103	53
(17,945)	11,680	11,334	17,925	1,466
2,959	(6,402)	(51,301)	96,776	7,524
			1,735	
341	101		133,971	44,588
(24,861)	(2,641)	(2,044)	(260,687)	(14,425)
(21,561)	(8,942)	(53,345)	(28,205)	37,687
(677,736)	120,081	338,580	74,791	145,221
\$ (699,297)	\$ 111,139	\$ 285,235	\$ 46,586	\$ 182,908

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Business-Type Activities</b>		
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>	<b>Kentucky Horse Park</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$ 57,514	\$ 781,295	\$ 7,175
Cash received from customers - state	247		
Cash payments to suppliers for goods and services	(37,831)	(611,470)	(4,905)
Cash payments for employee salaries and benefits	(58,628)	(14,369)	(4,945)
Cash payments for claims expense			
Cash payments from other sources	566		
Cash payments to other sources			
Net Cash Provided (Used) by Operating Activities	(38,132)	155,456	(2,675)
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds	102,186		31,343
Transfers to other funds	(32,754)	(198,343)	(44)
Net Cash Provided (Used) by Noncapital Financing Activities	69,432	(198,343)	31,299
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(12,310)	(814)	(21,852)
Principal paid on revenue bond maturities and equipment contracts	(71)		(27)
Interest paid on revenue bonds and equipment contracts	(19)		(3)
Proceeds from the sale of capital assets	(98)	43	
Net Cash Provided (Used) for Capital and Related Financing Activities	(12,498)	(771)	(21,882)
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(15,958)	(2,682)	(6,733)
Proceeds from the sale of investment securities		38,549	
Interest and dividends on investments	39	1,623	
Net Cash Provided (Used) in Investing Activities	(15,919)	37,490	(6,733)
Net Increase (Decrease) in Cash and Cash Equivalents	2,883	(6,168)	9
Cash and Cash Equivalents at July 1	2,080	22,217	2,386
Cash and Cash Equivalents at June 30	<u>\$ 4,963</u>	<u>\$ 16,049</u>	<u>\$ 2,395</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ (46,524)	\$ 188,515	\$ (3,327)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	8,935	3,052	633
Miscellaneous nonoperating income (expense)		68	
Change in assets and liabilities:			
(Increase) decrease in assets:			
Receivables, net	59	(3,231)	(13)
Interfund receivables	185		
Inventories	185	19	(68)
Prepaid expenses	(12)		
Other assets		60	(10)
Increase (decrease) in liabilities:			
Accounts payable	(546)	136	167
Interfund payables	(387)	(6,261)	12
Claims liability			
Claims adjustment liability			
Compensated absences	44	46	
Deferred revenue	(46)		(64)
Other liabilities	(25)	(26,948)	(5)
Net Cash Provided (Used) by Operating Activities	<u>\$ (38,132)</u>	<u>\$ 155,456</u>	<u>\$ (2,675)</u>
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$ 38	\$ 5,879	\$ 144
Contributions of capital assets		9	1,735
Capital assets acquired through leases	50		
Accretion of investments held to fund grand prizes, which increased prize liability		9,794	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 88</u>	<u>\$ 15,682</u>	<u>\$ 1,879</u>

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

- Enterprise Funds				Governmental Activities - Internal Service Funds
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2008	
\$ 141,828	\$ 516,592	\$ 433,274	\$ 1,937,678	\$ 62,637
	726,169		726,416	109,778
(2,944)	(2,559)	(7)	(659,716)	(73,029)
(18,059)	(3,379)	(1)	(99,381)	(61,143)
(86,344)	(1,207,889)		(1,294,233)	(23,115)
956	28,825		30,347	689
(7,353)	(68,178)	(492,635)	(568,166)	(1,513)
28,084	(10,419)	(59,369)	72,945	14,304
341	101		133,971	44,588
(24,861)	(2,641)	(2,044)	(260,687)	(14,425)
(24,520)	(2,540)	(2,044)	(126,716)	30,163
(294)			(35,270)	(33,377)
			(98)	(3,226)
			(22)	(757)
			(55)	
(294)			(35,445)	(37,360)
(29,561)	(26,764)	(1,405)	(83,103)	(16,429)
18,507	9,140	11,335	38,549	3,073
(11,054)	(17,624)	9,930	40,644	719
			(3,910)	(12,637)
(7,784)	(30,583)	(51,483)	(93,126)	(5,530)
50,329	118,225	291,784	487,021	27,537
\$ 42,545	\$ 87,642	\$ 240,301	\$ 393,895	\$ 22,007
\$ 20,904	\$ (18,082)	\$ (62,635)	\$ 78,851	\$ 6,058
107			12,727	14,099
(5,689)	2,540		(3,081)	54
2,923	(9,038)	24	(9,276)	1,949
(102)			83	(2,083)
	(92)		136	(2,009)
			(104)	(227)
7,425			7,475	
434	4,082	410	4,683	(5,808)
(427)		345	(6,718)	691
6,030	2,727		8,757	3,639
(3,400)	317		(3,083)	(1,554)
121	(57)		154	(358)
(242)	7,184	2,487	9,319	(149)
			(26,978)	2
\$ 28,084	\$ (10,419)	\$ (59,369)	\$ 72,945	\$ 14,304
\$ (28,431)	\$ (142)	\$ (1)	\$ (22,513)	\$ 70
			1,744	
			50	277
			9,794	
\$ (28,431)	\$ (142)	\$ (1)	\$ (10,925)	\$ 347

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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 (and other post employment benefit) trust funds:

**Kentucky Employees Retirement System**  
**County Employees Retirement System**  
**Judicial Retirement Plan**  
**State Police Retirement System**  
**Kentucky Teachers' Retirement System**  
**Legislators' Retirement Plan**  
**Kentucky Public Employees' Deferred Compensation Authority**

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

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



**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ALL FIDUCIARY FUNDS**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Pension (and Other Post Employment Benefit) Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents (Note 5)	\$ 944,885	\$ 188,096
Investments, net of amortization (Note 5)		129,099
Pension trust fund investments (Note 5):		
Corporate and government bonds	7,139,769	
Common stocks	19,179,854	
Mortgages	2,210,071	
Mutual funds	1,611,040	
Real estate	441,239	
Invested security collateral	3,948,819	389,997
Receivables, net	296,471	16,901
Prepaid expenses	1,346	
Buildings	10,476	
Total Assets	<u>35,783,970</u>	<u>724,093</u>
<b>Liabilities</b>		
Accounts payable	19,485	188,205
Amounts held in custody for others		145,891
Obligations under securities lending	3,948,819	389,997
Total Liabilities	<u>3,968,304</u>	<u>724,093</u>
<b>Net Assets</b>		
Held in trust for:		
Employee pension and post employment benefits	31,815,666	
Total Net Assets	<u>\$ 31,815,666</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, 2008**  
**(Expressed in Thousands)**

	<b>Pension (and Other Post Employment Benefit) Trust Funds</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 1,351,774
Member	804,606
Total Contributions	<u>2,156,380</u>
Other Contributions:	
Recovery income	28,547
Medicare D receipts	25,227
Participant fees	7,190
Total Other Contributions	<u>60,964</u>
Investment income:	
Net increase (decrease) in fair value of investments	(2,778,908)
Interest	835,884
Dividends	169,888
Real estate operating income, net	28,661
Securities lending income, net	193,948
Total Investment Income	<u>(1,550,527)</u>
Less: Investment expense	36,589
Less: Securities lending expense	169,321
Net Investment Income	<u>(1,756,437)</u>
Total Additions	<u>460,907</u>
<b>Deductions</b>	
Benefit payments	2,781,222
Refunds	41,453
Administrative expenses	44,425
Self funding insurance costs	101,605
Healthcare premiums subsidies	167,748
Total Deductions	<u>3,136,453</u>
Change in Net Assets	(2,675,546)
<b>Net Assets Held In Trust</b>	
Net Assets at July 1, as Restated (Note 2)	34,491,212
Net Assets at June 30	<u>\$ 31,815,666</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

The Universities, Colleges, and Related Entities 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.....164

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**JUNE 30, 2008**  
(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)	\$ 53,181	\$ 16,163	\$ 2,181
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	347,370		
Accounts receivable, net	4,123	2,369	
Interest receivable		62,101	
Inventories			
Prepaid expenses		928	4,878
Other current assets	45,724	248,095	
Total Current Assets	450,398	329,656	7,059
Noncurrent assets:			
Restricted cash (Note 5)		78,967	
Long-term investments (Note 5)	578,882		9,099
Restricted long-term investments (Note 5)			
Long-term receivables, net	1,520,270	1,919,839	
Deferred charges	44,246	49,968	
Capital assets (Note 6):			
Land	1,061		
Improvements other than buildings			
Buildings	4,943		
Machinery and equipment	4,472	15,172	
Other capital assets			
Less: Accumulated depreciation and amortization	(5,674)	(13,130)	
Construction in progress			
Total Capital Assets	4,802	2,042	
Other assets			
Total Noncurrent Assets, Net	2,148,200	2,050,816	9,099
Total Assets	2,598,598	2,380,472	16,158
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	54,208	11,149	12,844
Current portion of long-term debt:			
Notes payable (Note 15)	27,469	63,600	
Bonds payable (Note 15)	92,150	250	69,537
Capital lease obligations (Note 10)			
Compensated absences (Note 16)		1,537	16
Claims liability			
Deferred revenues			
Payable from restricted assets		3,800	
Other current liabilities	45,408		
Total Current Liabilities	219,235	80,336	82,397
Noncurrent liabilities:			
Notes payable (Note 15)			
Bonds payable (Note 15)	2,086,870	2,230,500	757,309
Capital lease obligations (Note 10)			
Compensated absences (Note 16)			17
Other long-term liabilities	13,243	795	
Total Noncurrent Liabilities	2,100,113	2,231,295	757,326
Total Liabilities	2,319,348	2,311,631	839,723
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,802	2,042	
Restricted for:			
Debt service	210,723		
Capital projects			
Other purposes (Note 1)	16,333	391	
Unrestricted	47,392	66,408	(823,565)
Total Net Assets	\$ 279,250	\$ 68,841	\$ (823,565)

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, 2008
\$ 388,840	\$ 56,233	\$ 189,280	\$ 408,397	\$ 1,114,275
	1,703		44,775	46,478
6,882	34,106	55	317,912	706,325
224,824	108,906	32,030	154,870	527,122
4,620		2,855	7,264	76,840
28,356	1,345		7,469	37,170
3,998	888	2,013	5,651	18,356
1,885	5,526		18,301	319,531
659,405	208,707	226,233	964,639	2,846,097
189,698	94,223	32,164	78,111	473,163
178,266	806,755	56,545	258,096	1,887,643
896,820	5,023		163,822	1,065,665
45,075	48,882	9,122	525,335	4,068,523
			341	94,555
60,251	50,476	23,691	80,404	215,883
73,633	5,756	8,131	75,860	163,380
1,421,756	713,947	475,037	1,820,125	4,435,808
679,188	339,426	138,664	343,042	1,519,964
			99,231	99,231
(1,066,076)	(489,944)	(286,977)	(1,062,193)	(2,923,994)
176,674	118,356	100,474	170,251	565,755
1,345,426	738,017	459,020	1,526,720	4,076,027
16,050	3,087		25,924	45,061
2,671,335	1,695,987	556,851	2,578,349	11,710,637
3,330,740	1,904,694	783,084	3,542,988	14,556,734
182,905	64,593	8,420	64,458	398,577
5,112	5,335		3,575	105,091
13,265	13,072		39,521	227,795
24,002	1,856	1,886	10,000	37,744
506		10,465	17,655	30,179
			10,884	10,884
60,090	42,016	24,695	38,141	164,942
			19,348	23,148
26,578	2,101	13,354	17,060	104,501
312,458	128,973	58,820	220,642	1,102,861
397			22,754	23,151
170,410	171,033		472,102	5,888,224
463,421	3,329	13,421	129,768	609,939
2,839			1,024	3,880
84,630	66,345	19,207	74,257	258,477
721,697	240,707	32,628	699,905	6,783,671
1,034,155	369,680	91,448	920,547	7,886,532
822,409	555,305	443,713	1,007,038	2,835,309
5,140	18,462		20,583	254,908
56,088	42,018	40,233	62,433	200,772
728,803	394,771	62,110	1,116,192	2,318,600
684,145	524,458	145,580	416,195	1,060,613
\$ 2,296,585	\$ 1,535,014	\$ 691,636	\$ 2,622,441	\$ 6,670,202

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**JUNE 30, 2008**  
(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	\$ 304,846	\$ 143,060	\$ 53,461
Depreciation			
Total Expenses	<u>304,846</u>	<u>143,060</u>	<u>53,461</u>
<b>Program Revenues:</b>			
Charges for services	164,250	151,556	
Operating grants and contributions	158,426		6,792
Capital grants and contributions			
Total Program Revenues	<u>322,676</u>	<u>151,556</u>	<u>6,792</u>
<b>Net Program (Expense) Revenue</b>	<u>17,830</u>	<u>8,496</u>	<u>(46,669)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions			
Unrestricted investment earnings			539
Gain on sale of capital assets			
Miscellaneous general		(4,741)	612
Total General Revenues		<u>(4,741)</u>	<u>1,151</u>
Change in Net Assets	<u>17,830</u>	<u>3,755</u>	<u>(45,518)</u>
Net Assets at July 1, As Restated (Note 2)	261,420	65,086	(778,047)
Net Assets at June 30	<u>\$ 279,250</u>	<u>\$ 68,841</u>	<u>\$ (823,565)</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, 2008
\$ 1,912,879	\$ 815,558	\$ 518,704	\$ 1,692,188	\$ 5,440,696
			2,541	2,541
1,912,879	815,558	518,704	1,694,729	5,443,237
1,187,971	397,336	92,336	570,068	2,563,517
383,871	234,771	77,863	520,635	1,382,358
13,503			19,822	33,325
1,585,345	632,107	170,199	1,110,525	3,979,200
(327,534)	(183,451)	(348,505)	(584,204)	(1,464,037)
79,715	61,396	128,781	61,357	331,249
(49,381)	(29,634)	13,043	32,901	(32,532)
			98	98
316,133	193,539	276,883	665,107	1,447,533
346,467	225,301	418,707	759,463	1,746,348
18,933	41,850	70,202	175,259	282,311
2,277,652	1,493,164	621,434	2,447,182	6,387,891
\$ 2,296,585	\$ 1,535,014	\$ 691,636	\$ 2,622,441	\$ 6,670,202

★ 1809 – 2009 ★



**KENTUCKY**  
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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 104 and 105 for a complete list of component units' addresses.)

**Blended Component Units**

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

**Kentucky Lottery Corporation (KRS 154A.020)**

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

**Kentucky Retirement System (KRS 61.645)**

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

**Kentucky Teachers' Retirement System (KRS 161.220)**

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

**Judicial Form Retirement System (KRS 21.530)**

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

**Turnpike Authority of Kentucky (KRS 175.430)**

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

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

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#### **Kentucky Public Employees' Deferred Compensation Authority** (KRS 18A.230 to 18A.275)

The Kentucky Employees' Deferred Compensation Authority administers two deferred compensation plans as authorized by sections 457 and 401(k) of the United States Internal Revenue Code. The plans are defined contribution plans with 762 participating employers. Under provisions of the Plans, employees of the Commonwealth and agencies thereof, including persons in the public school systems, universities, or local governments, are eligible to contribute on a pre-tax basis through payroll deductions. In no event shall the 457, 401(k) or Deemed IRA trust Funds be used for, or diverted to, purposes other than the exclusive benefit of the participants and beneficiaries or in the payment of the expenses of the Plans and Trust.

#### **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.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

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#### **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 Kentucky 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 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.

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#### **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

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

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.

#### **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, 2008 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



# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

funds used. However, there may be instances in which restricted funds may only be spent in proportion to unrestricted funds spent. Assets shown as restricted for “other purposes” for the Primary Government and Component Units are as follows:

### Restricted Net Assets

(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government	Component Units-Major
	Business Type Activities	
Loans	\$	\$ 29,096
Education		123,390
Instruction		119,340
Scholarships and Fellowships		208,105
Research		300,605
Claims	10,488	
Other		421,872
Totals	<u>\$ 10,488</u>	<u>\$ 1,202,408</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.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

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

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

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

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

**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 major fund used to account for the accumulation of resources used for the repayment of general long-term obligations principle, 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 Public 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

**Unemployment Compensation Fund** - a major fund that accounts for assessed employer contributions collected 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



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## Notes to Financial Statements

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3. Rental and maintenance operations for buildings
4. Computer and related data processing services
5. Printing services
6. Fire and tornado insurance programs
7. State workers' compensation program
8. Transportation Cabinet self-insured workers' compensation trust program

### **Fiduciary Funds**

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of 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 Post Employment 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  
Kentucky 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 2008, the primary government provided \$326,964,400 to the University of Kentucky, \$221,843,800 to the Kentucky Community and Technical College System, \$186,288,900 to the University of Louisville, and \$171,343,913 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$198,343,000 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.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
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Short-term investments classified as cash equivalents at June 30, 2008 are \$2,065,650,210.

**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

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

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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. 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 2008, do not contain the Center's capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

### M. Fund Equity Reserves and Designations

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

### N. Deferred Revenue

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

### O. Long-Term Obligations

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

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

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

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

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

Long-term obligations generally exclude those amounts reported as expenditures for compensated absences, judgments, contingencies, and employer pension contributions in the governmental funds since these amounts would normally be liquidated with expendable available financial resources.

Long-term liabilities of all proprietary and pension trust funds are reported in their individual fund statements. Long-term liabilities of enterprise and internal service funds are also presented in the

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

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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 \$1,347,123,807 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 \$147,843,000.

**Business Type Activities** - Beginning net assets for the Commonwealth's business type activities have been restated for the reason noted below in the section for Enterprise Funds. The net effect is an increase of \$82,339,000

**Enterprise Funds** - The Insurance Administration Fund within the Enterprise Funds was restated for prior period errors. The effect on net assets is an increase of \$82,339,000.

#### Component Units – Authorities:

**Kentucky Center for the Arts Corporation** - Center for the Arts restated net assets to remove a previously reported component unit. The effect on net assets is a decrease of \$108,000.

**Kentucky Educational Television Authority** - The Kentucky Educational Television Authority restated net assets in order to correct prior period errors. The effect on net assets is a decrease of \$620,000.

**World Games 2010 Foundation, Inc.** - The World Games 2010 Foundation, Inc. is no longer reported as a discretely presented component unit. The effect on net assets is an increase of \$945,000.

Restatement of all Component Units-Authorities results in an overall increase in net assets of \$217,000.

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

**University of Louisville** - The University of Louisville restated net assets for an additional component unit not previously reported. The effect on net assets is an increase of \$5,783,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$5,783,000.

**Pension and (OPEB) Trust Funds** - Kentucky Teachers' Retirement Systems reassigned some liabilities that were previously reported in the pension fund to the insurance fund. Therefore, the beginning net assets for the pension fund has been decreased \$69,929,000 and the insurance fund has been increased by the same amount. The implementation of GASB 45 for the Judicial Retirement Fund and The Legislators' Retirement Fund resulted in statements being segregated to reflect the activities of the retirement benefits separately from the insurance benefits. Therefore the beginning net assets of the Judicial Retirement Fund's pension fund has been decreased \$43,810,000 and the beginning net assets of the Legislators' Retirement Fund's pension fund has been decreased \$24,890,000 and the insurance funds have been increased by the same amounts, respectively. The beginning net asset of the pensions fund has been decreased \$138,629,000 and the insurance fund has been increased, by the same amount.

**Note 3**

**STEWARDSHIP, COMPLIANCE, AND  
ACCOUNTABILITY**

- A. Federal Funds** – The Federal Fund has a fund balance deficit of \$30,539,000. 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 \$699,297,000. 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 \$120,344,000. 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 School Facilities Construction Commission has a net assets deficit of \$823,565,000. 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 \$6,464,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future. The Bluegrass State Skills Corporation has a net asset deficit of \$25,000 from the recognition of long term compensated absence liability.

Commonwealth of Kentucky that remain uncollected as of June 30, 2008. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The "Current Taxes Receivable" for Governmental Activities and Business-Type Activities are described below.

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

**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, 2008. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the



**COMMONWEALTH OF KENTUCKY**  
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**Disaggregation of Payables and Receivables**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>			<b>Total Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total Primary Government</b>
	<b>Major Funds</b>	<b>Non-major Funds</b>	<b>Internal Service Funds</b>		<b>Major Funds</b>	
<b>Current Payables</b>						
Personal services	\$ 185,495	\$ 424	\$ 5,183	\$ 191,102	\$ 24,573	\$ 215,675
Utilities, rental and other services	37,996	835	2,349	41,180	1,128	42,308
Commodities and supplies	17,943	170	2,793	20,906	2,085	22,991
Grants and subsidies	688,644	11,439	72	700,155	19,517	719,672
Capital outlay	98,719	2,049	(188)	100,580	309	100,889
Travel	2,809	1	8	2,818	25	2,843
Investment Payable	389,511			389,511		389,511
Interest Payable	76,929	1,579	59	78,567		78,567
Other	7,732	9,369	5	17,106	5,259	22,365
Total Current Payables	<u>\$ 1,505,778</u>	<u>\$ 25,866</u>	<u>\$ 10,281</u>	<u>\$ 1,541,925</u>	<u>\$ 52,896</u>	<u>\$ 1,594,821</u>
<b>Current Receivables</b>						
Charges for services	\$ 35,575	\$ 19,718	\$ 656	\$ 55,949	\$ 144,741	\$ 200,690
Taxes receivable	1,873,304	33,072		1,906,376	1	1,906,377
Investment receivable	20,864	8,745		29,609	2,550	32,159
Intergovernmental revenue	862,098	371		862,469	9,561	872,030
Other	104,885	23,440	3	128,328	106,623	234,951
Allowances for uncollectables	(965,768)	(6,615)		(972,383)	(5,382)	(977,765)
Total Current Receivables	<u>\$ 1,930,958</u>	<u>\$ 78,731</u>	<u>\$ 659</u>	<u>\$ 2,010,348</u>	<u>\$ 258,094</u>	<u>\$ 2,268,442</u>

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

	<b>Governmental Activities</b>		<b>Total Primary Government</b>
	<b>Major Funds</b>	<b>Non-Major Funds</b>	
<b>Current Taxes Receivable</b>			
Sales and gross receipts	\$ 863,046	\$ 4,240	\$ 867,286
Individual income	723,857		723,857
Corporate	83,781		83,781
Property	117,613		117,613
License and privilege	931	8,027	8,958
Coal severance	63,037		63,037
Inheritance and estate	10,351	540	10,891
Miscellaneous	10,688	20,265	30,953
Total Current Taxes Receivable	<u>\$ 1,873,304</u>	<u>\$ 33,072</u>	<u>\$ 1,906,376</u>

The State Property and Buildings Commission has issued revenue bonds and the Kentucky Asset Liability Commission has issued notes 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, 2008, are as follows (Expressed in Thousands):**

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 23,405	\$ 21,093	\$ 44,498
2010	14,190	19,980	34,170
2011	19,835	19,291	39,126
2012	20,580	18,523	39,103
2013	21,445	17,659	39,104
2014-2018	123,310	72,182	195,492
2019-2023	132,900	41,576	174,476
2024-2028	103,535	12,734	116,269
Total leases receivable	<u>\$ 459,200</u>	<u>\$ 223,038</u>	<u>\$ 682,238</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 and (OPEB) trust funds, was \$820,687,660 and the bank balance was \$820,713,689. 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 \$131,799,315 in deposits that are uninsured and uncollateralized, and \$218,712,293 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 \$7,251,753.07 in securities lending income. On June 30, 2008, the fair value of the securities transferred was \$1,131,926,978 and the fair value of the securities purchased by the Commonwealth was \$1,154,561,380. 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, 2008, 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 and (OPEB) trust funds) at June 30, 2008 are presented below. All investments are presented by investment type.

**Cash And Investments By Type**  
**Primary Government**

**I. Cash:**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 379,320,899	\$ 380,145,927
Cash with Fiscal Agents	181,522,169	181,522,170
Cash with Feds	237,382,898	237,382,898
Other:	22,461,694	21,662,694
<b>Total Cash</b>	<b>\$ 820,687,660</b>	<b>\$ 820,713,689</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>6-15 Years</b>
Cash Equivalents	\$ 58,693,316	\$ 58,693,316	\$	\$
U.S. Government & Agency Obligations	401,013,623		323,672,598	77,341,025
Corporate Obligations	76,545,980			76,545,980
Other	5,220,908			5,220,908
<b>Total</b>	<b>541,473,827</b>	<b>\$ 58,693,316</b>	<b>\$ 323,672,598</b>	<b>\$ 159,107,913</b>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>Effective</b>
Cash Equivalents	73,614,500	0.338
Fixed Income Mutual Funds	206,749,306	
U.S. Government & Agency Obligations	1,017,026,291	1.200
Mortgage-Backed Securities	484,536,267	1.506
Corporate Obligations	149,289,325	1.108
Asset Backed Securities	412,671,800	0.557
Municipal Obligations	222,331,584	0.920
Other	17,210,636	5.464
<b>Total Debt Securities</b>	<b>2,583,429,709</b>	
<b>Portfolio Effective Weighted Duration</b>		<b>1.033</b>

**Other Investments**

Fixed Income Mutual Funds	44,064,291
Common Stock	239,877,699
Securities Lending Invest	1,154,561,380
<b>Total Other Investments</b>	<b>1,438,503,370</b>
<b>Total Investments</b>	<b>\$ 4,563,406,906</b>



# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

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### 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, at the time of purchase. 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 at the time of purchase. 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 and (OPEB) trust funds, rated debt investments as of June 30, 2008 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>					NA	Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	BBB/Baa	Unrated		
Cash Equivalents	\$ 85,213,269				\$ 47,094,547		\$ 132,307,816
Fixed Income Mutual Funds					206,749,306	44,064,291	250,813,597
U.S. Government & Agency Obligations	1,418,039,914						1,418,039,914
Mortgage-Backed Securities	484,536,267						484,536,267
Corporate Obligations	116,406,620	60,518,654	48,910,031				225,835,305
Common Stock						239,877,699	239,877,699
Asset Backed Securities	352,109,361	10,904,052	41,030,631	8,627,756			412,671,800
Municipal Obligations	115,080,485	84,678,635	17,713,912	4,858,552			222,331,584
Securities Lending						1,154,561,380	1,154,561,380
Other	5,220,908				17,210,636		22,431,544
<b>Total Investments</b>	<b>\$ 2,576,606,824</b>	<b>\$ 156,101,341</b>	<b>\$ 107,654,574</b>	<b>\$ 13,486,308</b>	<b>\$ 271,054,489</b>	<b>\$ 1,438,503,370</b>	<b>\$ 4,563,406,906</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, 2008, the primary government had no investments which would constitute a concentration of credit risk.

At June 30, 2008, The Turnpike Authority of Kentucky (TAK) a blended component unit had investments of \$58,693,316 in Morgan Stanley 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 AND (OPEB) 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 and (OPEB) trust funds was \$49,474,425 and the bank balance was \$49,474,425.

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 and (OPEB) Trust Funds, only Kentucky Retirement Systems has investments subject to custodial credit risk. The Investments are listed as Foreign Currency in the amount of \$4,589,351 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, 2008**

**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 and (OPEB) Trust Funds.

The Pension and (OPEB) Trust Funds investments at June 30, 2008 are presented below. All investments are presented by investment type.

**Cash and Investments by Type**  
**Pension and (OPEB) Trust Funds**

**I. Cash**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 12,122,557	\$ 12,122,557
Money Market	20,218,778	20,218,778
Other	17,133,090	17,133,090
<b>Total Cash</b>	<b>\$ 49,474,425</b>	<b>\$ 49,474,425</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	\$ 67,987,693	\$ 51,543,800	\$ 16,443,893	\$
U.S. Government & Agency Obligations	1,474,143,051	54,967,677	1,419,175,374	
Mortgage-Backed Securities	705,956,407			705,956,407
Corporate Obligations	1,565,565,018	56,943,434	1,508,621,584	
Asset Backed Securities	155,645,158		155,645,158	
Municipal Obligations	329,621,169			329,621,169
Mortgage Loans	160,154,576			160,154,576
<b>Total</b>	<b>4,459,073,072</b>	<b>\$ 163,454,911</b>	<b>\$ 3,099,886,009</b>	<b>\$ 1,195,732,152</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	3,488,956,652	5.902	
Mortgage-Backed Securities	284,582,636	4.690	
Corporate Obligations	676,082,460	6.360	
Asset Backed Securities	219,570,012	0.650	
Asset Backed Securities	483,996,903		3.264
Municipal Obligations	3,189,898	8.200	
Mortgage Loans	280,513,429	1.660	
<b>Total Debt Securities</b>	<b>5,436,891,990</b>		
<b>Portfolio Weighted Effective Duration</b>		<b>5.424</b>	
<b>Portfolio Weighted Macaulay Duration</b>			<b>3.264</b>

**Other Investments**

Cash Equivalents	388,772,500
Common Stock	18,176,937,163
Limited Partnerships	1,002,915,953
Real Estate	441,239,349
Securities Lending	3,948,818,871
Other Investments	1,571,552,655
<b>Total Other Investments</b>	<b>25,530,236,491</b>
<b>Total Investments</b>	<b>\$ 35,426,201,553</b>

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

### 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 and (OPEB) 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 and (OPEB) Trust Funds, rated debt investments as of June 30, 2008 and the ratings are presented in the following table.

#### Investments and Credit Ratings Pension and (OPEB) Trust Funds

Quality Rating	Amount
AAA	\$ 3,286,592,519
AA+	247,653,078
AA	571,004,732
AA-	69,155,369
A+	64,663,074
A	927,309,537
A-	74,151,200
BBB+	107,130,804
BBB	476,822,261
BBB-	74,797,060
BB+	2,156,766
BB	14,818,805
B	8,021,722
B-	3,403,560
Not Rated	166,287,656
<b>Total Credit Risk Debt Securities</b>	<b>6,093,968,143</b>
Cash Equivalents	338,900,000
U.S. Government & Agencies	3,800,785,938
Corporate Obligations	56,943,434
Common Stock	18,176,937,163
Limited Partnerships	1,002,915,953
Real Estate	441,239,349
Securities Lending	3,948,818,871
Other	1,565,692,702
<b>Total Investments</b>	<b>\$ 35,426,201,553</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, 2008:

Asset Description	Amount
State Street Bank	\$79,137,118
JP Morgan	86,248,663
Pacific Life Insurance	86,325,582
ING Life & Annuity	79,120,354
Monumental Life	79,054,177

### 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 and (OPEB) Trust Fund do not have a formal policy that addresses investments in foreign currency. Additional disclosures regarding the Pension and (OPEB) Trust Funds exposure to foreign currency risk can be found in the notes to the audited financial statements of the individual pension and (OPEB) trust funds.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

The Pension and (OPEB) Trust Funds, investments in foreign currency as of June 30, 2008 are presented in the following table.

**Foreign Currency Risk**

**Pension and (OPEB) Trust Funds**

<b>Foreign Currency</b>	<b>Equity</b>	<b>None Designated</b>	<b>Total</b>
Australian dollar	\$ 143,838,055	\$	\$ 143,838,055
British pound sterling	456,531,599		456,531,599
Danish krone	13,522,738		13,522,738
Euro	791,778,543		791,778,543
Hong Kong dollar	56,292,588		56,292,588
Japanese yen	472,204,388		472,204,388
Malaysian ringgit	6,196,020		6,196,020
New Taiwan dollar	1,278,371		1,278,371
Norwegian krone	11,221,100		11,221,100
Singapore dollar	44,133,114		44,133,114
South African rand	3,550,320		3,550,320
South Korean won	11,556,803		11,556,803
Swedish krona	29,850,109		29,850,109
Swiss franc	173,845,688		173,845,688
International Equity Mutual Fund (Various Currencies)	3,375,984		3,375,984
American Funds Euro Pacific Growth Fund	62,750,256		62,750,256
Federated Int'l Small Co. Fund	19,302,094		19,302,094
Dodge & Cox International Stock Fund	11,499,822		11,499,822
UBS Global Asset Management	770,959,026		770,959,026
<b>Total Securities Subject To</b>			
<b>Foreign Currency Risk</b>	3,083,686,618		3,083,686,618
USD (Securities Held By Int'l Investment Managers)		1,060,213,873	1,060,213,873
<b>Total Int'l Investment Securities</b>	<b>\$ 3,083,686,618</b>	<b>\$ 1,060,213,873</b>	<b>\$ 4,143,900,491</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, 2008, 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, 2008.

**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 \$1,102,632,223 and bank balance was \$1,101,373,815.

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

### Custodial Risk

#### Discretely Presented Major Component Units

##### I. Deposits

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

Deposits are uninsured and

a) uncollateralized;	\$	11,310,718
b) collateralized with securities held by the pledging financial institution; or		19,807,253
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.		87,580,692

##### Total Deposits Subject To Custodial Credit Risk

**\$ 118,698,663**

##### II. Non-Current Cash And Investments:

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

(a) the counterparty or	\$	904,970,465
(b) the counterparty's trust department or agent but not in the Commonwealth's name.		1,186,325,565

##### Total Non-Current Cash And Investments Subject To Custodial Credit Risk

**\$ 2,091,296,030**

##### Investment Types:

	Type A (counterparty)	Type B (trust or agent)
Debt Securities		
Cash Equivalents	\$	\$
Fixed Income Mutual Funds	2,092,165	24,287,838
U.S. Government & Agency Obligations	72,603,614	160,507,267
Mortgage Backed Securities		115,982,074
Corporate Obligations	43,460,000	44,000
Municipal Obligations	4,785,000	53,744,923
<b>Total Debt Securities</b>	<b>122,940,779</b>	<b>354,566,102</b>
Other Investments		
Cash Equivalents	200,000	2,055,705
Fixed Income Mutual Funds	322,235,000	
Common Stock	142,477,000	620,989,960
Pooled Real Estate Funds		79,877,011
Mortgage Loans		881,378
Limited Partnerships	78,861,000	
Real Estate	13,260,000	
Funds Held In Trust By Others		46,822,000
Other Various	224,996,686	81,133,409
<b>Total Other Investments</b>	<b>782,029,686</b>	<b>831,759,463</b>
<b>Total Type A</b>	<b>904,970,465</b>	<b>Total Type B</b>
		<b>1,186,325,565</b>
<b>Total Non-Current Cash And Investments Subject To Custodial Credit Risk</b>		<b>\$ 2,091,296,030</b>

**COMMONWEALTH OF KENTUCKY**  
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**June 30, 2008**

**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, 2008.

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

**I. Cash**

	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ 964,944,356	\$ 963,685,948
Money Market	77,479,039	77,479,039
Government Mutual Funds	6,317,149	6,317,149
Other	53,891,679	53,891,679
<b>Total Cash</b>	<b>\$ 1,102,632,223</b>	<b>\$ 1,101,373,815</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	\$ 50,538,109	\$ 41,396,356	\$ 4,200,000	\$ 1,008,452	\$ 3,933,301
Fixed Income Mutual Funds	2,092,165	2,092,165			
U.S. Government & Agency Obligations	130,359,010	57,669,110	63,354,763	7,149,802	2,185,335
Corporate Obligations	1,882,491		613,292	1,116,382	152,817
Guaranteed Investment Contract/Annuities	8,305,634	3,857,030	947,702	325,902	3,175,000
<b>Total</b>	<b>193,177,409</b>	<b>\$ 105,014,661</b>	<b>\$ 69,115,757</b>	<b>\$ 9,600,538</b>	<b>\$ 9,446,453</b>

**Investments Managed Based Upon Duration**

<b>Debt Securities</b>	<b>Fair Value</b>	<b>Effective</b>	<b>Modified</b>
Cash Equivalents	298,853,288	0.002	
Fixed Income Mutual Funds	37,517,318	2.430	
Fixed Income Mutual Funds	155,886,123		3.411
U.S. Government & Agency Obligations	24,510,197	3.736	
U.S. Government & Agency Obligations	51,951,086		2.305
Mortgage Backed Securities	570,711,647	4.790	
Corporate Debt	525,831	1.110	
Corporate Debt	51,862,432		2.130
Asset Backed Securities	1,453,524	0.560	
State and Municipal Obligations	783,102	0.920	
Guaranteed Investment Contract/Annuities	37,725,000		
Other Investments	60,620	5.460	
Other Investments	2,858,907		4.000
<b>Total Debt Securities</b>	<b>1,234,699,075</b>		
<b>Portfolio Effective Weighted Duration</b>		<b>3.003</b>	
<b>Portfolio Modified Weighted Duration</b>			<b>2.946</b>

**Other Investments**

Fixed Income Mutual Funds	323,188,705
Common Stock	779,211,793
Pooled Real Estate Funds	79,877,011
Municipal Obligations	43,460,000
Mortgage Loans	881,378
Limited Partnerships	78,861,000
Real Estate	13,260,000
Funds Held In Trust By Others	46,822,000
Other	126,364,886
<b>Total Other Investments</b>	<b>1,491,926,773</b>
<b>Total Investments</b>	<b>\$ 2,919,803,257</b>

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

### 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, 2008 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	\$ 11,844,260		\$ 7,092,298		\$ 325,452,891	\$ 5,955,652	\$ 350,345,101
Fixed Income Mutual Funds		36,789,100			478,849,341		515,638,441
U.S. Government & Agency Obligations	132,447,999				68,396,613	17,036,273	217,880,885
Mortgage Backed Securities	570,711,647					881,378	571,593,025
Corporate Obligations	40,627,656	20,312,378	1,540,161	27,923,465	10,186,000		100,589,660
Common Stock					142,477,000	636,734,792	779,211,792
Asset Backed Securities	1,240,209	38,407	144,519	30,389			1,453,524
Municipal Obligations	405,340	298,257	62,392	17,113			783,102
Guaranteed Investment Contracts/Annuities				295,617	45,735,017		46,030,634
Limited Partnerships					78,861,000		78,861,000
Real Estate					13,260,000	79,877,011	93,137,011
Funds Held In Trust By Others					46,822,000		46,822,000
Other	-		2,092,165		113,829,620	1,535,297	117,457,082
<b>Total Investments</b>	<b>\$ 757,277,111</b>	<b>\$ 57,438,142</b>	<b>\$ 10,931,535</b>	<b>\$ 28,266,584</b>	<b>\$ 1,323,869,482</b>	<b>\$ 742,020,403</b>	<b>\$ 2,919,803,257</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 and Dreyfus. These investments are 66% and 34%, 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, 2008.

### Foreign Currency Risk

#### Discretely Presented Major Component Units

#### Foreign Currency

Pooled Fixed Income Funds  
Pooled Global Equity Funds  
Pooled Non-U.S. Equity Funds

#### Total Securities Subject To

#### Foreign Currency Risk

Investment Type		
Equity	Debt	Total
\$ 69,859,122	\$ 8,152,398	\$ 8,152,398
100,143,696		69,859,122
		100,143,696
<b>\$ 170,002,818</b>	<b>\$ 8,152,398</b>	<b>\$ 178,155,216</b>

**COMMONWEALTH OF KENTUCKY**  
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**June 30, 2008**

**Note 6**

**CAPITAL ASSETS**

*Capital asset activity for the year ended June 30, 2008*  
*(Expressed in Thousands):*

	<b>Primary Government</b>		
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Decreases</b>
<b>Primary Government:</b>			
<b>Governmental Activities</b>			<b>Ending Balance</b>
<i>Capital assets, not being depreciated:</i>			
Land	\$ 136,215	\$ 6,843	\$ (19)
Construction in progress	2,068,255	1,687,113	(1,735,416)
Infrastructure	16,520,655	722,991	(10,245)
Total capital assets not being depreciated	18,725,125	2,416,947	(1,745,680)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	15,281	118	(227)
Buildings	1,083,542	47,314	(2,768)
Machinery and Equipment	546,723	63,437	(47,268)
Easements and Other Intangibles	97,357	14,526	
Total capital assets, being depreciated/amortized	1,742,903	125,395	(50,263)
<i>Less accumulated depreciation/amortization:</i>			
Improvements other than buildings	(5,655)	(581)	200
Buildings	(404,789)	(25,504)	1,520
Machinery and Equipment	(346,657)	(41,715)	41,546
Easements and Other Intangibles	(6,789)	(1,450)	
Total accumulated depreciation	(763,890)	(69,250)	43,266
Total capital assets, being depreciated/amortized, net	979,013	56,145	(6,997)
Governmental activities capital assets, net	\$ 19,704,138	\$ 2,473,092	\$ (1,752,677)
<b>Business-type activities</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 21,071	\$ 1,507	\$
Construction in progress	54,298	33,132	(1,676)
Total capital assets, not being depreciated	75,369	34,639	(1,676)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	97,707	1,017	(477)
Buildings	217,746	1,688	(973)
Machinery and Equipment	60,197	1,580	(3,022)
Easements and Other Intangibles	2,322		
Total capital assets, being depreciated/amortized	377,972	4,285	(4,472)
<i>Less accumulated depreciation for:</i>			
Improvements other than buildings	(52,457)	(2,224)	83
Buildings	(88,703)	(6,641)	171
Machinery and Equipment	(44,204)	(3,745)	2,939
Easements and Other Intangibles	(642)	(117)	
Total accumulated depreciation	(186,006)	(12,727)	3,193
Total capital assets, being depreciated/amortized, net	191,966	(8,442)	(1,279)
Business-type activities capital assets, net	\$ 267,335	\$ 26,197	\$ (2,955)



**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

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

(Expressed in Thousands)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
General Government	\$ 22,157	\$
Legislative and Judicial	664	
Commerce	2,580	
Education and Humanities	4,660	
Human Resources	3,278	
Justice	14,746	
Natural Resources and Environmental Protection	3,699	
Public Protection and Regulation	166	
Transportation	17,300	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets		
State Parks		8,935
Lottery Corporation		3,052
Horse Park		633
Insurance Administration		107
Total depreciation expense by activities	<u>\$ 69,250</u>	<u>\$ 12,727</u>

**Discretely presented major component units**

Capital asset activity for the year ended June 30, 2008

(Expressed in Thousands):

	<b>Component Units</b>			
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 130,058	\$ 6,497	\$ (1,076)	\$ 135,479
Construction in progress	222,864	214,145	(41,505)	395,504
Totals, capital assets not being depreciated	<u>352,922</u>	<u>220,642</u>	<u>(42,581)</u>	<u>530,983</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	82,085	5,435		87,520
Buildings	2,474,122	150,800	(9,239)	2,615,683
Machinery and Equipment	1,108,145	109,520	(40,743)	1,176,922
Total capital assets, being depreciated/amortized	<u>3,664,352</u>	<u>265,755</u>	<u>(49,982)</u>	<u>3,880,125</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(48,497)	(1,762)		(50,259)
Buildings	(994,642)	(67,534)	5,242	(1,056,934)
Machinery and Equipment	(698,138)	(86,426)	29,956	(754,608)
Total accumulated depreciation	<u>(1,741,277)</u>	<u>(155,722)</u>	<u>35,198</u>	<u>(1,861,801)</u>
Total capital assets, being depreciated/amortized, net	<u>1,923,075</u>	<u>110,033</u>	<u>(14,784)</u>	<u>2,018,324</u>
Component units capital assets, net	<u>\$ 2,275,997</u>	<u>\$ 330,675</u>	<u>\$ (57,365)</u>	<u>\$ 2,549,307</u>

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

(Expressed in Thousands)

Kentucky Housing Corporation	\$ 597
Kentucky Higher Education Student Loan Corporation	1,868
University of Kentucky	93,731
University of Louisville	39,891
Kentucky Community and Technical College System	19,635
Total depreciation expense by functions/programs	<u>\$ 155,722</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

**Note 7**

**INTERFUND TRANSACTIONS**

**Interfund Transfers In and Out**

The table below shows the interfund operating transfers for the fiscal year 2008  
(Expressed in Thousands):

Transfers In	Transfers Out				
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	\$	\$	\$ 53	\$ 81,733	\$ 5,330
Federal Fund	157				3
Agency Revenue Fund	39,044		8,533		2,526
Capital Projects Fund	12,038	6,795	3,686	14,745	
Debt Service	274,175	12,632	21,487	889	96
Non-Major Governmental Funds	205,199	148,018	3,399	521,257	2,696
State Parks Fund	36,937		5		65,240
Kentucky Horse Park Fund	1,646				897
Kentucky Public Employees Health Plan					
Insurance Administration Fund			239		
Internal Service Funds	1,595			437	42,556
Total	<u>\$ 570,791</u>	<u>\$ 167,445</u>	<u>\$ 37,402</u>	<u>\$ 619,061</u>	<u>\$ 119,344</u>

Reasons for transfers:

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

**Interfund Receivables and Payables**

The table below shows the interfund receivables and payables for the fiscal year 2008  
(Expressed in Thousands):

Interfund Receivables	Interfund Payables			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$ 164	\$ 112,617	\$ 2,984
Transportation Fund	53		11,291	233
Federal Fund	27,203	84		6,621
Agency Revenue Fund	23,549	206	81,165	
Capital Projects Fund	9,382		74	114
Non-Major Governmental Funds	19,006		81	74
State Parks Fund	77	9	7	32
Kentucky Public Employees Health Plan	3,879			
Insurance Administration Fund	92			9
Internal Service Funds	3,863	1,976	14	337
Totals	<u>\$ 87,104</u>	<u>\$ 2,439</u>	<u>\$ 205,249</u>	<u>\$ 10,404</u>

Reasons for interfund payables and receivables:

1) to record sales by proprietary funds to other funds; 2) to record reimbursements of expenditures made in one fund for another fund; 3) to distribute program cost among funds; and 4) to record short-term loans from one fund to another.

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

Transfers Out									
Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Horse Park Fund	Kentucky Public Employees Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 47,859	\$	\$ 187,462	\$ 40	\$ 641	\$ 20,725	\$	\$ 5,369	\$ 211	\$ 349,423
									160
491,457				2,000	3,756		654	2,618	550,588
3,327	136		1		357		8,397		49,482
11,703	3,818		3				5		324,808
189,788		10,881			23	2,044			1,083,305
4									102,186
	28,800								31,343
								101	101
102									341
									44,588
<u>\$ 744,240</u>	<u>\$ 32,754</u>	<u>\$ 198,343</u>	<u>\$ 44</u>	<u>\$ 2,641</u>	<u>\$ 24,861</u>	<u>\$ 2,044</u>	<u>\$ 14,425</u>	<u>\$ 2,930</u>	<u>\$ 2,536,325</u>

Interfund Payables								
Capital Projects Fund	Debt Service	Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Total
\$ 356	\$ 2,974	\$ 1,282	\$ 363	\$	\$ 44	\$	\$ 149	\$ 120,933
		445						12,022
		2,101			8			36,017
41		6,141			19		633	111,754
		663					106	10,339
37,821		257,064			23	345		314,414
				12			1	138
					1			3,879
								102
94			47				11	6,342
<u>\$ 38,312</u>	<u>\$ 2,974</u>	<u>\$ 267,696</u>	<u>\$ 410</u>	<u>\$ 12</u>	<u>\$ 95</u>	<u>\$ 345</u>	<u>\$ 900</u>	<u>\$ 615,940</u>

**Note 8****PENSION PLANS AND OTHER POST EMPLOYMENT BENEFITS (OPEB)**

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.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon 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:

<b>Years of Service</b>	<b>Percent Paid by the Fund</b>
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:

<b>Years of Service</b>	<b>Percent Paid by the Fund</b>
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.

## **COMMONWEALTH OF KENTUCKY**

### **Notes to Financial Statements**

**June 30, 2008**

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

The 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.

★ 1809 – 2009 ★



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**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

	<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	9.00%	6.00%	7.60%	1.50%	28.00%	
Plan members	5.00%		5.00%		8.00%	
Portion of State Contribution for Health Insurance						
Annual required contribution (ARC) (Thousands)	\$428	\$285	\$2,375	\$460	\$13,823	\$43,470
Contributions made (Thousands)	\$428	\$285	\$2,375	\$460	\$7,443	\$7,513
Actuarial valuation date	June 30, 2008		June 30, 2008		June 30, 2008	
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)						
Actuarial Required						
Contribution (ARC)	\$ 428	\$ 285	\$ 2,375	\$ 460	\$ 13,823	\$ 43,470
Interest on NPO/NOPEBO	(45)	(24)	(76)	(14)	716	2,011
Adjustment to ARC	50	27	80	15	(463)	(1,300)
Annual pension cost	433	288	2,379	461	14,076	44,181
Contributions made	428	285	2,375	460	7,443	7,513
Increase (Decrease) in NPO/NOPEBO	5	3	4	1	6,633	36,668
NPO/NOPEBO beginning of year	(593)	(316)	(958)	(180)	9,235	25,949
NPO/NOPEBO as of 6/30/08	<u>\$ (588)</u>	<u>\$ (313)</u>	<u>\$ (954)</u>	<u>\$ (179)</u>	<u>\$ 15,868</u>	<u>\$ 62,617</u>
Percentage APC contributed	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>53.8%</u>	<u>17.3%</u>
<b>6/30/2007</b>						
Annual Pension Cost	\$ 722	<b>Included in</b>	\$ 2,830	<b>Included in</b>	\$ 9,024	\$ 15,233
Percentage APC Contributed	98.8%	<b>Pension</b>	98.5%	<b>Pension</b>	68.1%	45.0%
NPO/NOPEBO as of 6/30/07	<u>\$ (909)</u>	<b>Amounts</b>	<u>\$ (1,138)</u>	<b>Amounts</b>	<u>\$ 9,235</u>	<u>\$ 25,949</u>

\* Beginning NPO/NOPEBO for Kentucky Employees Retirement System and State Police Retirement System were restated to reflect a change in Actuarial determined contributions for Insurance.

\*\* Beginning NPO/NOPEBO for Kentucky Teachers' Retirement System was restated to reflect change in actuarial method.



**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

Kentucky Employees Retirement System				Kentucky Teachers' Retirement System	
Non-Hazardous		Hazardous		Pension	Insurance
Pension	Insurance	Pension	Insurance		
8.50%		24.25%		13.84% - 13.105%	
5.00%		8.00%		6.16% - 9.855%	
				0.75%	
\$264,743	\$558,746	\$14,147	\$51,215	\$563,789	\$397,196
\$104,655	\$63,378	\$15,257	\$22,071	\$438,789	\$166,277
June 30, 2008				June 30, 2008	
Entry age normal				Projected unit credit	
Level percent closed				Level percent open	
30 years				30 years	
Five-year smoothed market				Five-year smoothed market	Market value of assets
7.75%		7.75%		7.50%	4.50%
3.50%		3.50%		4.00%	
4.0 - 13.5%		4.0 - 14.5%		4.00% - 8.20%	
5% - 12%		5% - 12%			11.00%
\$ 264,743	\$ 558,746	\$ 14,147	\$ 51,215	\$ 563,789	\$ 301,793
15,496	11,430	17,201	1,884	11,206	8,093
(10,017)	(7,389)	(11,120)	(1,218)	(35,446)	(20,592)
270,222	562,787	20,228	51,881	539,549	289,294
104,655	63,378	15,257	22,071	438,789	166,277
165,567	499,409	4,971	29,810	100,760	123,017
199,957 *	147,492 *	221,948 *	24,319 *	149,410	12,499
\$ 365,524	\$ 646,901	\$ 226,919	\$ 54,129	\$ 250,170	\$ 135,516
39.5%	11.3%	107.8%	43.1%	77.8%	55.1%
\$ 176,774	\$ 219,269	\$ 12,220	\$ 19,639	\$ 421,565	\$ 123,571
49.9%	34.0%	108.3%	93.6%	88.5%	53.4%
\$ 199,957	\$ 147,492	\$ 221,948	\$ 24,319	\$ 149,410	\$ 107,902

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

**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><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
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
June 30, 2008	5,318,792,893	10,129,689,985	4,810,897,092	52.5	1,837,873,488	261.8
<b><u>Hazardous</u></b>						
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
June 30, 2008	502,132,214	618,010,827	115,878,613	81.2	148,710,060	77.9
<b><u>State Police Retirement System</u></b>						
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
June 30, 2008	350,891,451	587,129,257	236,237,806	59.8	53,269,080	443.5
<b><u>Judicial Retirement Plan</u></b>						
June 30, 2006	\$ 264,913,489	\$ 254,901,557	\$ (10,011,932)	103.9	\$ 26,976,964	(37.1)
June, 30, 2007*	229,247,130	235,358,577	6,111,447	97.4	31,941,180	19.1
June 30, 2008	226,865,320	255,108,465	28,243,145	88.9	31,224,444	90.5
<b><u>Legislators' Retirement Plan</u></b>						
June 30, 2006	\$ 67,029,901	\$ 59,829,316	\$ (7,200,585)	112.0	\$ 4,426,035	(162.7)
June, 30, 2007*	45,533,879	42,160,213	(3,373,666)	108.0	4,763,785	(70.8)
June 30, 2008	45,567,209	43,760,180	(1,807,029)	104.1	4,755,214	(38.0)
<b><u>Kentucky Teachers' Retirement System</u></b>						
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	21,255,000,000	5,970,045,000	71.9	2,975,289,000	200.7
June 30, 2008	15,321,325,000	22,460,304,000	7,138,979,000	68.2	3,190,332,000	223.8

**NOTE: Effective July 1, 2007 medical insurance liabilities and allocated assets have been excluded.**

**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><u>Kentucky Employees Retirement System</u></b>						
<b><u>Non-Hazardous</u></b>						
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
June 30, 2008	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7
<b><u>Hazardous</u></b>						
June 30, 2006	\$ 212,833,318	\$ 621,237,856	\$ 408,404,538	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
June 30, 2008	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
<b><u>State Police Retirement System</u></b>						
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
June 30, 2008	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9
<b><u>Judicial Retirement Plan</u></b>						
June, 30, 2007*	\$ 42,990,926	\$ 44,137,011	\$ 1,146,085	97.4	\$ 31,941,180	3.6
June 30, 2008	44,347,577	47,851,882	3,504,305	92.7	31,224,444	11.2
<b><u>Legislators' Retirement Plan</u></b>						
June, 30, 2007*	\$ 24,289,368	\$ 22,489,737	\$ (1,799,631)	108.0	\$ 4,763,785	(37.8)
June 30, 2008	25,117,103	23,668,943	(1,448,160)	106.1	4,755,214	(30.5)
<b><u>Kentucky Teachers' Retirement System</u></b>						
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
June 30, 2008	263,541,000	6,518,787,000	6,255,246,000	4.0	3,190,332,000	196.1

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

Membership of the retirement systems, at June 30, 2008, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Teachers' Retirement System	Total
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous					
Retirees and beneficiaries receiving benefits	35,307	2,404	37,579	5,422	1,135	292	151	40,739	123,029
Terminated plan members - vested						26	51	4,861	4,938
Terminated plan members - non-vested	33,202	2,927	57,755	2,376	301				96,561
Active plan members	48,085	4,393	85,221	10,173	993	262	125	75,539	224,791
Total Members	116,594	9,724	180,555	17,971	2,429	580	327	121,139	449,319
Number of participating employers	317		1,468		1	1	1	199	1,987

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>						
2006	\$ 129,126	47.0%	\$ 202,498	23.5%	\$ 331,624	43.8%
2007	176,774	49.9%	219,769	34.0%	396,543	39.8%
2008	264,743	39.5%	558,746	11.3%	823,489	20.4%
<b><u>Hazardous</u></b>						
2006	\$ 10,787	100.1%	\$ 28,518	59.7%	\$ 39,305	70.8%
2007	12,219	108.3%	31,305	62.7%	43,524	75.3%
2008	14,147	107.8%	51,215	43.1%	65,362	57.1%
<b><u>State Police Retirement System</u></b>						
2006	\$ 6,353	66.8%	\$ 12,555	54.8%	\$ 18,908	58.8%
2007	9,024	68.1%	15,233	45.0%	24,257	54.0%
2008	13,823	53.8%	43,470	17.3%	57,293	26.0%
<b><u>Judicial Retirement Plan</u></b>						
2006	\$ 1,912	97.0% *	\$		\$ 1,912	97.0%
2007	2,835	98.3% *			2,835	98.3%
2008	2,375	100.0%	460	100.0%	2,835	100.0%
<b><u>Legislators' Retirement Plan</u></b>						
2006	\$		\$		\$	
2007	714	104.9% *			714	104.9%
2008	428	100.0%	285	100.0%	713	100.0%
<b><u>Kentucky Teachers' Retirement System</u></b>						
2006	\$ 406,107	100.0%	\$		\$ 406,107	100.0%
2007	494,565	88.0%	231,473	53.4%	726,038	77.0%
2008	563,789	78.0%	397,196	41.9%	960,985	76.0%

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

**Note 9**

**EMPLOYEE BENEFIT PLAN**

**Kentucky Public Employees' Deferred Compensation Plan**

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 \$624,799,915 in the 457 Plan at June 30, 2008 \$416,521,732 was applicable to the Commonwealth, while the remaining \$208,278,183 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$942,537,675 at June 30, 2008 of which \$284,703,258 was applicable to the state while the remaining \$657,834,417 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, 2008, are summarized in Note 15, Changes in Long-Term Obligations.

# COMMONWEALTH OF KENTUCKY

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### *At June 30, 2008, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):*

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

Buildings  
Equipment  
Other  
Total

Less: Accumulated depreciation  
Total Net of Depreciation

Primary Government		
Governmental Activities	Business-Type Activities	Component Units-Major
\$ 11,867	\$ 468	\$ 126,197
30,657		69,215
		60,356
42,524	468	255,768
13,218	271	(53,566)
<u>\$ 29,306</u>	<u>\$ 197</u>	<u>\$ 202,202</u>

### *Future minimum rental commitments for capitalizable leases as of June 30, 2008, are as follows (Expressed in Thousands):*

	Primary Government		Component Units-Major	Total
	Governmental Activities	Business-Type Activities	Universities, Colleges, and Related Entities	
2009	\$ 10,888	\$ 111	\$ 48,051	\$ 59,050
2010	9,992	68	51,652	61,712
2011	7,870	39	54,303	62,212
2012	2,986	16	77,434	80,436
2013	1,475	6	45,794	47,275
2014-2018	6,157		181,380	187,537
2019-2023	2,617		143,422	146,039
2024-2028			109,022	109,022
Total minimum lease payments	41,985	240	711,058	753,283
Less: Amount representing interest (1.50-63.60%)	(11,017)	(28)	(203,143)	(214,188)
Present value of future minimum lease payments	<u>\$ 30,968</u>	<u>\$ 212</u>	<u>\$ 507,915</u>	<u>\$ 539,095</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 \$987,830 reported in the Program at June 30, 2008, 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 2008 and 2007 were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 311,098	\$ 185,000
Incurred claims	3,890,001	2,917,381
Changes in estimates		
Claims payments	(3,213,269)	(2,791,283)
Balance at Fiscal Year End	<u>\$ 987,830</u>	<u>\$ 311,098</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

## Notes to Financial Statements

June 30, 2008

The actuarially determined aggregate claims liability of \$118,833,138 reported in the Program at June 30, 2008, 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 2008 and 2007 were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 117,624,962	\$ 118,902,645
Claims and claims adjustments incurred:		
Current year	16,765,404	18,160,919
Increase (Decrease) in Prior year	2,050,500	(866,552)
Total Claims and Claims Adjustments Incurred:	18,815,904	17,294,367
Claims and claims adjustment payments:		
Current year	(4,078,063)	(4,897,667)
Increase (Decrease) in Prior year	(13,529,665)	(13,674,383)
Total Claims and Claims Adjustment Payments	(17,607,728)	(18,572,050)
Balance at Fiscal Year End	<u>\$ 118,833,138</u>	<u>\$ 117,624,962</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 2008 and 2007 were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 24,542,341	\$ 20,195,066
Claims and claims adjustments incurred	1,947,102	2,429,858
Changes in estimates	570,534	4,429,874
Claims and claims adjustment payments	(2,317,835)	(2,512,457)
Balance at Fiscal Year End	<u>\$ 24,742,142</u>	<u>\$ 24,542,341</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 \$888,779,000, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,760,338,000, discounted at 7.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$26,967,000, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$55,137,000, 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, 2008. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 1,896,411,000	\$ 1,797,861,681
Claims and claims adjustments incurred	1,277,000	1,325,542
Changes in estimates	(8,472,000)	170,865,862
Claims and claims adjustment payments	(73,741,000)	(73,642,085)
Balance at Fiscal Year End	<u>\$ 1,815,475,000</u>	<u>\$ 1,896,411,000</u>

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

### 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 \$9,093,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$15,143,000, discounted at 7.0 percent. The claims adjustment liability of \$601,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,001,000, 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 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 15,055,000	\$ 18,843,174
Claims and claims adjustments incurred	2,250,000	1,734,604
Changes in estimates	109,000	(4,322,418)
Claims and claims adjustment payments	(1,270,000)	(1,200,360)
Balance at Fiscal Year End	\$ 16,144,000	\$ 15,055,000

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 \$285,552,792 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 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 265,423,000	\$ 336,705,000
Claims and claims adjustments incurred	32,699,000	
Changes in estimates		(60,684,000)
Claims and claims adjustment payments	(12,569,208)	(10,598,000)
Balance at Fiscal Year End	\$ 285,552,792	\$ 265,423,000

### Bond Pool:

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



# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

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 2008. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2008	Fiscal Year 2007
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	\$ 21,452,273	\$ 21,452,273

### Mine Subsidence Insurance:

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

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Mine Subsidence Program had no liabilities reported. Changes in the Program's claims liability amount in Fiscal Years 2008 and 2007 were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 0	\$ 240,000
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		(240,000)
Balance at Fiscal Year End	\$ 0	\$ 0

### Kentucky Employees Health Plan:

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

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

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

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

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



# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

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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 \$79,838,645 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:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability	\$ 76,794,408	\$ 73,687,555
Claims and claims adjustments incurred	1,214,426,050	1,078,360,902
Changes in estimates		
Claims and claims adjustment payments	(1,211,381,813)	(1,075,254,049)
Balance at Fiscal Year End	\$ 79,838,645	\$ 76,794,408

### 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 2008 and 2007 were:

	Fiscal Year 2008	Fiscal Year 2007
Beginning of fiscal year liability \$	7,910,980	\$ 7,910,980
Claims and claims adjustments incurred	979,020	
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	\$ 8,890,000	\$ 7,910,980

### 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, 2008, 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 2007 was also zero.

### Note 13

### DEFEASANCE OF LONG-TERM DEBT

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, 2008 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated December 1, 2007, were issued for the Eminence Independent School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$360,214 maturing July 1, 2008 through July 1, 2020 and carrying interest rates from 3.40% to 3.90%.

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

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Revenue refunding bonds dated December 5, 2007, were issued for the Anderson County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$112,809 maturing December 1, 2008 through December 1, 2020 and carrying interest rates from 3.50% to 3.75%.

Revenue refunding bonds dated October 1, 2007, were issued for the Carroll County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$556,324 maturing April 1, 2008 through October 1, 2019 and carrying interest rates from 3.40% to 3.75%.

Revenue refunding bonds dated December 13, 2007, were issued for the LaRue County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$376,584 maturing February 1, 2008 through August 1, 2017 and carrying interest rates from 3.30% to 3.70%.

Revenue refunding bonds dated December 1, 2007, were issued for the Bellevue Independent School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$246,318 maturing February 1, 2008 through August 1, 2020 and carrying interest rates from 3.50% to 3.80%.

Revenue refunding bonds dated December 1, 2007, were issued for the Bardstown Independent School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$266,852 maturing April 1, 2008 through April 1, 2020 and carrying interest rates from 3.25% to 3.90%.

Revenue refunding bonds dated January 1, 2008, were issued for the Rockcastle County School District Finance Corporation to refund a 1997 issue and a 2000 issue. The Commission's portion of the refunding issue was \$1,362,915 maturing March 1, 2008 through September 1, 2020 and carrying an interest rate of 3.40%.

Revenue refunding bonds dated January 1, 2008, were issued for the Oldham County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$476,897 maturing August 1, 2008 through August 1, 2019 and carrying interest rates from 3.00% to 3.35%.

Revenue refunding bonds dated February 19, 2008, were issued for the Mayfield Independent School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$51,859 maturing February 1, 2009 through February 1, 2017 and carrying interest rates from 2.35% to 3.125%.

Revenue refunding bonds dated February 20, 2008, were issued for the Pendleton County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,178,158 maturing June 1, 2008 through June 1, 2019 and carrying interest rates from 2.00% to 3.25%.

Revenue refunding bonds dated February 1, 2008, were issued for the Lewis County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$122,107 maturing June 1, 2008 through December 1, 2019 and carrying interest rates of 2.75% to 3.25%.

Revenue refunding bonds dated February 1, 2008, were issued for the Franklin County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$35,458 maturing July 1, 2008 through July 1, 2020 and carrying interest rates from 2.875% to 3.20%.

Revenue refunding bonds dated March 1, 2008, were issued for the Rowan County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$454,053 maturing April 1, 2009 through April 1, 2018 and carrying interest rates from 2.40% to 3.60%.

Revenue refunding bonds dated March 1, 2008, were issued for the Lawrence County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,007,946 maturing August 1, 2008 through August 1, 2020 and carrying an interest rate of 3.35%.

Revenue refunding bonds dated March 1, 2008, were issued for the Barbourville Independent School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$52,122 maturing May 1, 2008 through November 1, 2017 and carrying interest rates from 2.65% to 3.00%.

Revenue refunding bonds dated March 1, 2008, were issued for the Berea Independent School District Finance Corporation to refund a 1998 issue and a 2000 issue. The Commission's portion of the refunding issue was \$601,566 maturing May 1, 2008 through November 1, 2020 and carrying interest rates from 2.30% to 3.70%.

Revenue refunding bonds dated March 1, 2008, were issued for the Boyd County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$519,191 maturing October 1, 2008 through October 1, 2017 and carrying interest rates from 2.30% to 3.50%.

Revenue refunding bonds dated February 1, 2008, were issued for the Fleming County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$747,201 maturing June 1, 2008 through December 1, 2019 and carrying interest rates from 3.00% to 3.30%.

Revenue refunding bonds dated February 1, 2008, were issued for the Fairview Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$732,355 maturing May 1, 2008 through November 1, 2019 and carrying interest rates from 2.00% to 3.50%.

## COMMONWEALTH OF KENTUCKY

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Revenue refunding bonds, Series 2008A, dated March 26, 2008, were issued for the Washington County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$155,860 maturing August 1, 2008 through August 1, 2018 and carrying interest rates from 2.50% to 3.50%.

Revenue refunding bonds, Series 2008B, dated March 26, 2008, were issued for the Washington County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$383,097 maturing August 1, 2008 through August 1, 2016 and carrying interest rates from 2.30% to 3.20%.

Revenue refunding bonds dated March 1, 2008, were issued for the Montgomery County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$265,129 maturing July 1, 2008 through July 1, 2017 and carrying interest rates from 3.00% to 3.50%.

Revenue refunding bonds dated March 1, 2008, were issued for the Erlanger-Elsmere Independent School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$196,979 maturing May 1, 2009 through May 1, 2018 and carrying interest rates from 2.50% to 3.50%.

Revenue refunding bonds dated March 1, 2008, were issued for the Greenup County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$376,452 maturing January 1, 2009 through January 1, 2018 and carrying interest rates from 2.40% to 3.50%.

Revenue refunding bonds dated March 1, 2008, were issued for the Carter County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$71,951 maturing January 1, 2009 through January 1, 2016 and carrying interest rates from 2.50% to 3.20%.

Revenue refunding bonds dated March 1, 2008, were issued for the McLean County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$140,915 maturing February 1, 2009 through February 1, 2018 and carrying interest rates from 2.25% to 3.40%.

Revenue refunding bonds dated March 1, 2008, were issued for the Carroll County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$328,534 maturing August 1, 2008 through August 1, 2017 and carrying interest rates from 2.50% to 3.20%.

Revenue refunding bonds dated March 25, 2008, were issued for the Logan County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$339,636 maturing October 1, 2008 through October 1, 2017 and carrying interest rates from 2.00% to 3.20%.

Revenue refunding bonds dated March 25, 2008, were issued for the Hopkins County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$1,113,498 maturing June 1, 2008 through June 1, 2017 and carrying interest rates from 2.50% to 3.25%.

Revenue refunding bonds dated April 1, 2008, were issued for the Menifee County School District Finance Corporation to refund a 1996 issue and a 1998 issue. The Commission's portion of the refunding issue was \$285,708 maturing February 1, 2009 through February 1, 2018 and carrying interest rates from 2.25% to 3.30%.

Revenue refunding bonds dated April 8, 2008, were issued for the Gallatin County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$361,450 maturing June 1, 2008 through December 1, 2017 and carrying interest rates from 2.45% to 3.30%.

Revenue refunding bonds dated April 9, 2008, were issued for the Boyle County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$287,398 maturing August 1, 2008 through August 1, 2017 and carrying interest rates from 2.50% to 3.25%.

Revenue refunding bonds dated April 1, 2008, were issued for the Hickman County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$181,211 maturing October 1, 2008 through October 1, 2017 and carrying interest rates from 2.10% to 3.20%.

Revenue refunding bonds dated April 1, 2008, were issued for the Edmonson County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$847,167 maturing August 1, 2008 through August 1, 2019 and carrying interest rates from 2.20% to 3.40%.

Revenue refunding bonds dated April 1, 2008, were issued for the Covington Independent School District Finance Corporation to refund a 1998B issue. The Commission's portion of the refunding issue was \$337,086 maturing May 1, 2009 through May 1, 2018 and carrying interest rates from 2.20% to 3.30%.

Revenue refunding bonds dated March 1, 2008, were issued for the Mercer County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$244,640 maturing June 1, 2008 through June 1, 2018 and carrying interest rates from 2.40% to 3.30%.

Revenue refunding bonds dated April 14, 2008, were issued for the Christian County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$608,190 maturing July 1, 2008 through July 1, 2017 and carrying interest rates from 2.20% to 3.30%.

## COMMONWEALTH OF KENTUCKY

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Revenue refunding bonds dated April 22, 2008, were issued for the Marshall County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$166,246 maturing March 1, 2009 through March 1, 2018 and carrying interest rates from 2.20% to 3.30%.

Revenue refunding bonds dated April 1, 2008, were issued for the Pikeville Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$445,429 maturing September 1, 2008 through September 1, 2019 and carrying interest rates from 2.55% to 3.40%.

Revenue refunding bonds dated May 1, 2008, were issued for the Scott County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$499,816 maturing April 1, 2009 through April 1, 2018 and carrying interest rates from 2.00% to 3.25%.

Revenue refunding bonds dated June 2, 2008, were issued for the Hart County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$938,858 maturing June 1, 2009 through June 1, 2019 and carrying interest rates from 2.75% to 3.45%.

Revenue refunding bonds dated May 1, 2008, were issued for the Walton-Verona Independent School District Finance Corporation to refund 1996, 1997, and 1999 issues. The Commission's portion of the refunding issue was \$512,722 maturing December 1, 2008 through December 1, 2018 and carrying an interest rate of 3.15%.

Revenue refunding bonds dated May 1, 2008, were issued for the Boone County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$928,286 maturing June 1, 2009 through June 1, 2017 and carrying interest rates from 2.30% to 3.30%.

Revenue refunding bonds dated May 1, 2008, were issued for the Lewis County School District Finance Corporation to refund a 1995 issue and a 1997 issue. The Commission's portion of the refunding issue was \$515,504 maturing December 1, 2008 through December 1, 2016 and carrying interest rates from 2.15% to 3.30%.

Revenue refunding bonds dated May 1, 2008, were issued for the Pike County School District Finance Corporation to refund a 1996 issue and a 1997 issue. The Commission's portion of the refunding issue was \$2,635,443 maturing December 1, 2008 through December 1, 2017 and carrying interest rates from 2.10% to 3.25%.

Revenue refunding bonds dated June 1, 2008, were issued for the Paintsville Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$79,991 maturing August 1, 2008 through August 1, 2016 and carrying interest rates from 2.60% to 3.40%.

Revenue refunding bonds dated June 1, 2008, were issued for the Harrison County School District Finance Corporation to refund 1996, 1998, and 1999 issues. The Commission's portion of the refunding issue was \$268,082 maturing June 1, 2009 through June 1, 2018 and carrying interest rates of 2.25% to 3.50%.

Eastern Kentucky University sold \$12,920,000 of General Receipts and Refunding Bonds, Series 2007A, on August 2, 2007, at a net interest cost of 4.41%. \$6,517,348 of the proceeds was used to advance the outstanding Eastern Kentucky University Housing System Revenue Bonds, with interest rates ranging from 4.6% to 5.4%. The proceeds along with an additional payment of \$2,452,652 from the University, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payments on the Housing System Revenue Bonds. The refunding will reduce the University's total debt service payments over the next 24 years by approximately \$650,000, representing an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$90,000.

Morehead State University issued General Receipts Bonds, 2008 Tax-Exempt Series A, in the amount of \$10,000,000 and General Receipt Bonds, 2008 Taxable Series B, in the amount of \$1,875,000, on June 10, 2008. The bonds have average interest rates of 3.576% and 4.12% respectively. The bonds consist of serial bonds bearing various fixed rates ranging from 3.0% to 4.0% with annual maturities from November 2008 through November 2022. The net proceeds of \$11,738,655 (after issuance cost of \$63,035, less net discount of \$73,310), plus the balance in the debt service reserve account and repair and maintenance reserve account totaling \$3,724,910 were used to advance refund the University's Housing and Dining System Revenue Bonds Series N, O, P, Q and R which had total outstanding principal in the amount of \$14,770,000 and interest rates ranging from 2.75% to 5.75%. The net proceeds were government securities and deposited in an irrevocable trust with an escrow agent. The refunding decreased the University's total debt service cash flow payments by approximately \$4.4 million over the approximate 15 year life of the General Receipts Bonds 2008 Series A and B. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$67,000.

The State Property and Buildings Commission issued Revenue Bonds, Project No. 88, dated November 1, 2007, in the amount of \$267,055,000. These bonds mature November 1, 2008 through November 1, 2027 and carry interest rates of 4.500% to 5.00%. \$100,000,000 of the bond proceeds was deposited in the Note Repayment Fund, for notes issued by the Kentucky Asset/Liability Commission, as interim financing for the projects being funded by this bond issue.



**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, 2008:*

Short-term Debt on July 1, 2007	Additions	Repayments	Short-term Debt on June 30, 2008
\$	\$ 350,000,000	\$ 350,000,000	\$
\$	\$ 350,000,000	\$ 350,000,000	\$

**Long-Term Obligations**

**General Obligation Bonds** are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2008.

**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

## COMMONWEALTH OF 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, 2008 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 \$472,135,000 in revenue bonds as follows:

\$267,055,000, Project 88 Revenue Bonds, dated November 15, 2007, and maturing November 1, 2008 through November 1, 2027. The bonds carry interest rates of 4.50% to 5.00%.

\$205,080,000, Project 89 Revenue Bonds, dated May 14, 2008, and maturing November 1, 2009 through November 1, 2027. The bonds carry interest rates of 3.00% 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 2008.

**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 \$65,255,000 in General Receipts Bonds to finance various new construction projects and renovation of existing facilities as follows:

**Eastern Kentucky University** issued \$12,920,000 Eastern Kentucky University General Receipt Bonds 2007 Series A, dated August 2, 2007. The bonds mature May 1, 2008 through May 1, 2027 and carry interest rates of 4.00% to 4.50%.

**Murray State University** issued \$14,550,000 Murray State University General Receipt Bonds 2007 Series A, dated July 31, 2007, to fund construction of a residential student housing facility. The bonds mature September 1, 2008 through September 1, 2027 and carry interest rates of 4.00% to 4.50%.

**Morehead State University** issued \$18,320,000 of Morehead State University General Receipt Bonds. \$6,445,000 2007 Series A, dated August 30, 2007. The bonds mature November 1, 2008 through November 1, 2027 and carry an interest rate of 4.00%. The term bonds due to mature November 1, 2022, are priced to yield 4.125%.

\$10,000,000 General Receipts Bonds 2008 Series A, dated June 10, 2008. The bonds consist of \$9,705,000 serial bonds maturing November 1, 2008 through November 1, 2020 and carry interest rates of 3.00% to 3.70%. The \$295,000 in term bonds due November 1, 2022, carry an interest rate of 3.80% and were priced to yield 3.85%.

\$1,875,000 General Receipts Bonds, 2008 taxable B, dated June 10, 2008. This issue consists of \$1,700,000 in serial bonds maturing May 1, 2009 through May 1, 2011 and carrying an interest rate of 4.00% and \$175,000 in term bonds maturing May 1, 2013 with an interest rate of 4.50%.

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### Notes to Financial Statements

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**Northern Kentucky University** issued \$19,465,000 Northern Kentucky University General Receipt Bonds, 2008 Series A, dated June 18, 2008. The bonds mature September 1, 2009 through September 1, 2028 and carry interest rates of 3.00% to 4.375%.

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

The Corporation issued \$159,160,000 in Housing Revenue Bonds which consisted of the following:

\$59,890,000 Housing Revenue Bonds, dated August 30, 2007. \$7,405,000 2007 Series K (NON-AMT) consisting of, \$240,000 Serial Bonds maturing July 1, 2013 through July 1, 2017, and carry interest rates of 4.00% to 4.25% and \$1,825,000 4.85% Term Bond maturing July 1, 2027 and \$5,340,000 5.00% Term Bond maturing July 1, 2034. \$25,485,000 2007 Series L (AMT) consisting of: \$1,480,000 Serial Bonds maturing January 1, 2008 through July 1, 2018 and carry interest rates of 3.70% to 4.75%, \$945,000 4.75% Term Bond maturing January 1 2018; \$6,080,000 5.15% Term Bond maturing July 1 2026; \$3,640,000 5.50% Term Bond maturing January 1 2031; and \$13,340,000 5.25% Term Bond maturing January 1 2038. \$27,000,000 2007 Series M (Taxable) consisting of: \$4,040,000 Serial Bonds maturing January 1, 2008 through January 1, 2017, and carry interest rates of 4.86% to 5.81%, \$2,955,000 5.81% Term Bond maturing July 1 2017; \$570,000 5.91% Term Bond maturing July 1 2018, and \$19,435,000 6.06% Term Bond maturing January 1 2036.

\$50,000,000 Housing Revenue Bonds, dated November 28, 2007. \$40,000,000 2007 Series N (AMT) consisting of: \$6,700,000 Serial Bonds maturing July 1, 2008 through July 1, 2022 and carry interest rates of 3.65% to 4.90%, \$10,260,000 5.00% Term bonds maturing July 1, 2027; \$9,005,000 5.00% Term Bonds maturing July 1, 2032 and \$14,035,000 5.125% Term bonds maturing January 1, 2038. \$10,000,000 2007 Series O (Taxable) (Variable Rate) Term Bonds due January 1, 2038.

\$49,270,000 Housing Revenue Bonds, dated March 6, 2008. \$39,270,000 2008 Series A (AMT) consisting of: \$6,240,000 Serial Bonds maturing July 1, 2009 through July 1, 2018 and carry interest rates of 2.35% to 4.35%, \$4,140,000 5.00% Term Bond due January 1, 2023, \$15,130,000 5.25% Term Bond due July 1, 2032, and \$13,760,000 Term Bond due January 1, 2038. \$10,000,000 2008 Series B Bonds (Taxable) (Variable Rate) Term Bonds due January 1, 2038. These bonds will initially bear interest at a Weekly

Rate from their date of issuance and delivery until maturity or until the bonds is converted to another interest mode.

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

The Corporation issued no bonds during the year ended June 30, 2008.

**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 \$550,000,000 in Student Loan Revenue Bonds, which carry variable interest rates that change based on specified indices, as follows:

These issues are dated August 30, 2007 and mature June 1, 2037; \$42,925,000 Senior Series 2007A-1 (Tax-Exempt Auction Rate Securities), \$37,075,000 Senior Series 2007A-2 (Tax-Exempt Auction Rate Securities), and \$20,000,000 Subordinate Series 2007B-1 (Tax-Exempt Auction Rate Securities).

\$50,000,000 Senior Series 2007A-3 (Taxable Auction Rate Securities) dated October 24, 2007 and maturing June 1, 2037.

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These issues are dated January 1, 2008 and mature June 1, 2037; \$40,000,000 Senior Series 2007A-4 (Taxable Auction Rate Securities) and \$60,000,000 Senior Series 2007A-5 (Taxable Auction Rate Securities).

These issues are dated June 17, 2008 and bear interest at rates to be determined weekly; \$179,525,000 Senior Series 2008A-1 (Tax-Exempt), maturing June 1, 2037, \$83,400,000 Senior Series 2008A-2 (Tax-Exempt), maturing June 1, 2038, \$37,075,000 Senior Series 2008A-3 (Taxable), maturing June 1, 2038.

**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, 2008, the Commission sold 97 school building revenue and revenue refunding bond issues having aggregate state participation of \$137,011,109 maturing through June 1 2028 at interest rates of 2.00% to 4.50%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2008, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008. 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, 2008.

**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, 2008.



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**June 30, 2008**

*The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2008, are as follows (Expressed in Thousands):*

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 2,571,560	2.00%-7.65%	2028
Turnpike Authority of KY	1,045,520	2.00%-6.60%	2027
Total	<u>\$ 3,617,080</u>		

*Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2008, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2009	\$ 305,415	\$ 165,930	\$ 471,345
2010	406,050	148,928	554,978
2011	230,630	137,883	368,513
2012	209,160	127,933	337,093
2013	211,820	117,561	329,381
2014-2018	1,079,705	424,358	1,504,063
2019-2023	828,590	174,185	1,002,775
2024-2028	345,710	35,340	381,050
Total	<u>\$ 3,617,080</u>	<u>\$ 1,332,118</u>	<u>\$ 4,949,198</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
School Facilities Construction Commission *	\$ 835,359	2.00-5.375%	2028
Kentucky Housing Corporation *	2,175,080	2.35-6.06%	2039
Kentucky Infrastructure Authority	142,030	2.25-6.0%	2024
Kentucky Higher Education Student Loan Corporation	2,230,750	1.636-2.951%	2038
Kentucky Local Correctional Facilities Construction Authority *	15,890	2.25-5.25%	2014
University of Kentucky	183,675	1.0-5.0%	2027
University of Louisville	184,105	1.50-5.40%	2035
Eastern Kentucky University	31,975	3.9-4.80%	2027
Western Kentucky University	159,055	2.00-4.75%	2030
Murray State University *	40,345	1.10-5.4%	2028
Morehead State University	23,850	2.0-5.75%	2027
Kentucky State University*	8,225	2.0-3.875%	2027
Northern Kentucky University	91,590	3.0-7.8%	2028
<b>Total Component Unit Revenue Bonds Payable</b>	<u><b>\$ 6,121,929</b></u>		

\* Amounts reflect original issue

*Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2008, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2009	\$ 228,635	\$ 224,225	\$ 452,860
2010	187,799	217,422	405,221
2011	175,965	210,147	386,112
2012	163,617	203,135	366,752
2013	155,731	196,537	352,268
2014-2018	753,012	882,601	1,635,613
2019-2023	745,977	720,211	1,466,188
2024-2028	886,272	556,411	1,442,683
2029-2033	1,112,695	365,525	1,478,220
2034-2038	1,712,076	116,761	1,828,837
2039-2043	150	4	154
Total	<u>\$ 6,121,929</u>	<u>\$ 3,692,979</u>	<u>\$ 9,814,908</u>

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2008

#### NOTES PAYABLE:

At June 30, 2008, 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 \$1,100,085,000 in General Receipt Project Notes as follows:

\$150,000,000 Project Notes 2007 Road Fund First Series A (1<sup>st</sup> tranche), dated September 25, 2007, carries commercial paper interest rates. These Notes were issued in anticipation of bonds to be issued by The Turnpike Authority of Kentucky, to use for additions and improvements to the Kentucky Economic Development Road System.

\$50,000,000 Project Notes 2007 Road Fund First Series A (2nd tranche), dated March 5, 2008, carries commercial paper rates.

\$350,000,000 in General Fund Tax and Revenue Anticipation Notes, dated July 3, 2007 and maturing June 26, 2008. The Notes will bear interest the annual rate of 4.50% , computed on the basis of a 360-day year and 30-day months accrued from the date of delivery. The Notes were priced to yield 3.71%.

\$277,910,000 in Project Notes, 2007 Federal Highway Trust Fund First Series, matures September 1, 2008 through September 1, 2019, carrying interest rates of 3.70% to 5.25%. The projects to be funded are improvements to (widening) of portions of I-64, I -65 and I-75.

\$77,905,000 was issued in University of Kentucky General Receipts Project Notes 2007 Series A to mature October 1, 2010 through October 1, 2027, and carries an interest rate of 5.00%. The notes are issued to pay a portion of the expansion and limited renovation of University Hospital Critical Care Center and Gill Heart Institute. The financing payments arise under a Financing/Lease Agreement, dated October 1, 2006, among the Asset Liability Commission, the University of Kentucky, and the Commonwealth of Kentucky finance and Administration Cabinet.

\$80,245,000 was issued in University of Kentucky General Receipts Project Notes 2007 Series B to mature October 1, 2010 through October 1, 2027, and carry interest rates of 3.375% to 5.00%. The notes are issued to pay a portion of the additional expansion to University Hospital. The financing payments arise under a Financing/Lease Agreement, dated October 1, 2006, among the Asset Liability Commission, the University of Kentucky, and the Commonwealth of Kentucky finance and Administration Cabinet.

Project Notes, 2005 General Fund Second Series (Fourth Tranche), \$100,000,000 dated March 5, 2008. The notes will initially bear interest at the Commercial Paper Rate.

The Commission is also issuing Project Notes 2005 Agency Fund Notes, Second Series A-5 (Kentucky River Authority) \$14,025,000. The notes will initially bear interest at the Commercial Paper Rate.

**The Component Units** of the Commonwealth reported notes payable of \$128,242,000 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 104 and 105.

**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.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2008

*Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2008, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2009	\$ 50,685	\$ 75,215	\$ 125,900
2010	65,635	72,236	137,871
2011	63,920	69,359	133,279
2012	58,825	66,656	125,481
2013	58,555	63,999	122,554
2014-2018	328,380	277,249	605,629
2019-2023	302,140	197,171	499,311
2024-2028	588,210	111,342	699,552
Total	<u>\$ 1,516,350</u>	<u>\$ 933,227</u>	<u>\$ 2,449,577</u>

*Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2008, are as follows (Expressed in Thousands)*

Year Ending June 30	Principal	Interest	Totals
2009	\$ 105,091	\$ 1,405	\$ 106,496
2010	2,106	993	3,099
2011	1,975	918	2,893
2012	3,393	877	4,270
2013	2,030	830	2,860
2014-2018	6,067	3,617	9,684
2019-2023	2,000	3,147	5,147
2024-2028	2,465	2,548	5,013
Thereafter	3,115	437	3,552
Total	<u>\$ 128,242</u>	<u>\$ 14,772</u>	<u>\$ 143,014</u>

*Changes in long-term liabilities for the fiscal year ended June 30, 2008, 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	\$ 237,911	\$ 1,436	\$ (9,045)	\$ 230,302	\$ 122,162	\$ 108,140
Capital leases	39,079	3,972	(12,083)	30,968	8,480	22,488
Claims liability	142,478	25,224	(23,139)	144,563	15,693	128,870
Notes payable	910,310	750,085	(144,045)	1,516,350	50,685	1,465,665
Bonds payable	3,442,634	472,135	(297,689)	3,617,080	305,415	3,311,665
Unamortized premiums	191,992	46,322	(23,182)	215,132	18,165	196,967
Unamortized discounts	(12,359)		4,321	(8,038)	(679)	(7,359)
Deferred amount on refunding	(21,584)		2,340	(19,244)	(1,625)	(17,619)
Judgments and contingent liabilities	34,448	102,306	(18,220)	118,534	105,928	12,606
Unfunded employer pension contributions	686,958	1,070,686		1,757,644		1,757,644
<b>Total Governmental Activities</b>	<u>5,651,867</u>	<u>2,472,166</u>	<u>(520,742)</u>	<u>7,603,291</u>	<u>624,224</u>	<u>6,979,067</u>
<b>Business-Type Activities</b>						
Compensated absences	9,020	1,009	(913)	9,116	4,556	4,560
Capital leases	197	113	(98)	212	94	118
Claims and claims adjustment liability	1,306,610	1,247,923	(1,242,249)	1,312,284	219,591	1,092,693
Prize liability	189,145	12,183	(29,337)	171,991	55,668	116,323
Judgments and contingent liabilities	28	47	(73)	2	2	
<b>Total Business-Type Activities</b>	<u>1,505,000</u>	<u>1,261,275</u>	<u>(1,272,670)</u>	<u>1,493,605</u>	<u>279,911</u>	<u>1,213,694</u>
<b>Total Primary Government</b>	<u>\$ 7,156,867</u>	<u>\$ 3,733,441</u>	<u>\$ (1,793,412)</u>	<u>\$ 9,096,896</u>	<u>\$ 904,135</u>	<u>\$ 8,192,761</u>
<b>Component Units (Major)</b>						
Compensated absences	\$ 14,967	\$ 11,916	\$ (11,503)	\$ 15,380	\$ 12,524	\$ 2,856
Capital leases	338,583	199,268	(29,936)	507,915	27,744	480,171
Notes payable	34,808	190,494	(123,389)	101,913	101,516	397
Bonds payable	5,304,313	816,767	(516,684)	5,604,396	188,274	5,416,122
<b>Total Component Units</b>	<u>\$ 5,692,671</u>	<u>\$ 1,218,445</u>	<u>\$ (681,512)</u>	<u>\$ 6,229,604</u>	<u>\$ 330,058</u>	<u>\$ 5,899,546</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, 2008 and 2007 amounted to \$97.1 million and \$97.8 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, 2008, the estimated liability for annual and compensatory leave was \$230,302,000 for the governmental activities, and \$9,116,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$15,380,000 at June 30, 2008.

**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, 2008. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$348,586,313 and \$9,945,656, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 2008, had contractual commitments of approximately \$1,326,622,833 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 42 percent State funds, 37 percent

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

Federal funds, and the remaining 21 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, 2008, and prior to December 31, 2008, and reported other subsequent events for the same period, as described below.

**The State Property and Buildings Commission** issued \$375,000,000 Project No. 90 Revenue and Revenue Refunding Bonds, dated October 21, 2008. These bonds consist of \$194,320,000 serial bonds maturing November 1, 2009 through November 1, 2020 and carry interest rates of 3.00% to 5.00%, \$68,680,000 5.375% Term Bonds due November 1, 2023, \$12,000,000 5.750% Term Bonds due November 1, 2023, and \$100,000,000 5.500% Term Bonds due November 1, 2028. The net proceeds will be used to refund interim Project Notes, refund prior Bonds, and various projects for State agencies and component units.

\$15,720,000 Project No. 91, Agency Revenue Bonds, dated October 21, 2008, was issued. The issue consists of \$5,165,000 serial bonds maturing April 1, 2010 through April 1, 2018 and carry interest rates of 3.400% to 5.125%; \$4,955,000 5.750% Term Bonds due April 1, 2024; and \$5,600,000 5.750% Term Bonds due April 1, 2029. The bonds will be used to refund interim Project Notes for a component unit project.

\$4,975,000 Project No. 92, Taxable Agency Revenue Bonds, dated October 22, 2008, was issued. The issue consists of \$1,595,000 7.25% Term Bonds due June 1, 2018; and \$3,380,000 8.25% Term Bonds due June 1, 2028. The bonds will be used to upgrade infrastructure at Bluegrass Station Division.

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

\$400,000,000 General Fund Tax and Revenue Anticipation Notes, 2008 Series A, to finance General Fund cash flow requirements of the Commonwealth for the fiscal year ending June 30, 2009. These notes are dated July 1, 2008, bear interest at 3.00% with a yield of 1.78%, and are due to mature June 25, 2009. Principal and interest are payable at maturity.

**The Turnpike Authority of Kentucky** issued \$195,665,000 Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A. The bonds mature July 1, 2013 through July 1, 2028 and carry interest rates of 3.25% to 5.00%. The purpose of this financing is to provide financing for additions and improvements to the Kentucky Economic Development Road System (Revitalization Projects).

**The Kentucky Housing Corporation** issued a total of \$120,000,000 bonds after June 30, 2008. 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:

2008 Series C (NON-AMT) dated July 17, 2008, consisting of \$1,230,000 Serial Bonds maturing January 1, 2013 through July 1, 2017 carry interest rates of 3.45% to 3.95%; \$3,505,000 4.90% Term Bond due July 1, 2028 and \$9,495,000 5.00% term Bond due July 1, 2033.

2008 Series D (AMT) dated July 17, 2008, consisting of \$4,775,000 Serial Bonds maturing January 1, 2009 through July 1, 2018 carry interest rates of 3.20% to 5.10%; \$3,005,000 4.625% Term Bond due July 1, 2018; \$6,520,000 5.35% Term Bond due July 1, 2023; \$4,995,000 5.50% Term Bond due January 1, 2028; and \$16,475,000 5.65% Term Bond due January 1, 2038.

2008 Series E (NON-AMT) dated October 9, 2008, consisting of \$12,370,000 Serial Bonds maturing January 1, 2010 through July 1, 2018 carry interest rates of 2.35% to 4.15%; \$7,815,000 4.875% Term Bond due July 1, 2023; \$9,685,000 5.125% Term Bond due July 1, 2028; \$12,635,000 5.375% Term Bond due July 1, 2033 and \$17,495,000 5.45% Term Bond due July 1, 2038.

2008 Series F (AMT) dated October 9, 2008 consisting of \$10,000,000 5.625% Term Bond due July 1, 2037.

**University of Louisville** issued \$86,145,000 General Receipts Bonds, 2008 Series A, dated July 24, 2008. The bonds consist of Serial Bonds maturing March 1, 2009 through March 1, 2028 and carry interest rates of 4.00% to 4.50% and yield 1.90% to 4.80%. The proceeds of the bond will be used for various projects at the University of Louisville’s Health Science Center Campus.

## **COMMONWEALTH OF KENTUCKY**

### **Notes to Financial Statements**

**June 30, 2008**

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**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, 2008, and maturing as to principal through 2028 is displayed in the spreadsheet on Page 103.

#### **Unemployment Insurance Fund**

The downturn in the economy has created an increase in demand for unemployment insurance payments. The current demand indicates that the amount of funds the Commonwealth has on deposit with the Federal government will be depleted before the end of the current fiscal year. The Commonwealth will be required to request interest free loans from the Federal government to cover payments until the funds are replenished, by employer contributions.

#### **Kentucky Health Care Improvement Authority**

Kentucky Access received an updated estimate subsequent to the end of the fiscal year and after issuance of its separately issued audit report. The impact of this revised estimate will reduce assessments receivable by \$1,914,658. The change will be made in Kentucky Access's records for fiscal year 2009



COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2008

SCHOOL FACILITIES CONSTRUCTION COMMISSION

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Barren County	09/30/08	\$ 10,210,000	\$ 587,899	3.000 - 4.875
Bell County	10/30/08	945,000	12,864	3.750 - 4.800
Berea Independent	08/27/08	1,775,000	373,943	3.250 - 4.400
Bowling Green Independent	07/09/08	9,970,000	1,121,096	3.500 - 4.125
Calloway County	10/21/08	3,510,000	1,800,970	2.600 - 4.875
Erlanger Elsmere Independ	09/24/08	3,950,000	937,506	2.200 - 4.375
Fleming County	07/10/08	2,330,000	1,270,000	4.050
Gallatin County	09/30/08	1,755,000	1,068,071	2.500 - 3.800
Hardin County	07/08/08	30,365,000	2,000,751	3.500 - 4.625
Hickman County	10/28/08	1,300,000	201,499	3.000 - 4.850
Jefferson County	09/25/08	9,905,000	9,905,000	2.500 - 4.100
Lewis County	10/14/08	2,690,000	552,381	3.500 - 4.750
Madison County	12/09/08	7,585,000	154,125	3.000 - 4.625
Monroe County	11/13/08	2,150,000	223,974	3.750 - 4.625
Owensboro Independent	09/11/08	22,680,000	777,887	3.250 - 4.500
Rowan County	12/10/08	9,885,000	281,279	4.000 - 4.600
		<u>\$ 121,005,000</u>	<u>\$ 21,269,245</u>	

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2008**

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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  
Richmond, Kentucky 40475-3101



# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2008

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

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

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

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

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

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

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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, 2008**  
(Expressed in Thousands)

	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 8,380,811	\$ 8,280,022	\$ 8,294,628	\$ 14,606
Licenses, fees, and permits	28,500	29,280	35,413	6,133
Intergovernmental	9,200	12,400	13,336	936
Charges for services	4,400	5,731	11,706	5,975
Fines and forfeits	56,100	54,780	52,657	(2,123)
Interest and other investment income	8,900	16,400	23,868	7,468
Lottery proceeds	170,500	187,500	187,462	(38)
Other revenues	126,791	50,225	45,266	(4,959)
Tobacco Settlement	94,000	117,470	115,137	(2,333)
Subtotal of Budgeted Revenues	8,879,202	8,753,808	8,779,473	25,665
<b>Other Budgeted Financial Resources:</b>				
Transfers in (interfund)	85,589	85,589	168,344	82,755
Total Budgeted Revenues	8,964,791	8,839,397	8,947,817	108,420
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor	9,816	9,622	9,533	89
Office of Homeland Security	350	349	349	
Kentucky Infrastructure Authority	25,744	25,681	25,681	
Department of Veterans Affairs	16,670	17,814	17,814	
Office of State Budget Director	4,433	4,559	4,176	383
State Planning Fund	250			
Unified Prosecutorial System: Commonwealth Attorneys	32,558	33,148	33,148	
County Attorneys	27,752	28,153	28,153	
Department of Agriculture	21,933	22,184	21,566	618
Office of the Attorney General	14,113	14,305	14,305	
Auditor of Public Accounts	5,828	5,845	5,845	
Registry of Election Finance	1,572	1,531	1,470	61
Military Affairs	11,934	16,926	14,281	2,645
Governor's Office of Agriculture Policy	4,541	4,541	4,541	
Governor's Office for Local Development	20,887	41,487	40,758	729
Local Government: Economic Assistance Fund	51,443	57,900	57,900	
Economic Development Fund	50,454	55,261	55,261	
Area Development Fund	810	785	785	
Secretary of State	2,298	2,329	2,329	
Secretary of Treasury	2,210	2,191	2,115	76
Board of Elections	4,862	5,092	5,092	
School Facilities Construction Commission	117,974	117,975	108,229	9,746
Executive Branch Ethics Commission	444	448	448	
Commission on Human Rights	1,859	1,891	1,891	
Commission on Women	266	261	261	
Council on Postsecondary Education	95,372	93,445	87,022	6,423
Budget Reserve Trust Fund	231,490	214,775		214,775
<b>Personnel:</b>				
General Operations	932	424	424	
State Salary Compensation Fund	27,843			
State Group Health Insurance	2,476	2,476	2,337	139

	Original	Final	Actual	Variance
<b>Universities:</b>				
Eastern Kentucky University	\$ 80,230	\$ 77,837	\$ 77,837	\$
Kentucky State University	28,349	27,526	27,526	
Morehead State University	48,698	47,252	47,252	
Murray State University	56,069	54,387	54,387	
Northern Kentucky University	55,330	53,677	53,677	
University of Kentucky	335,017	326,964	326,964	
University of Louisville	191,346	186,289	186,289	
Western Kentucky University	86,396	83,843	83,843	
Kentucky Community and Technical College System	228,705	221,844	221,844	
<b>Finance and Administration:</b>				
General Administration & Support	10,443	10,695	10,695	
Special Accounts - Capital Construction	11,103	11,103	11,103	
Debt Service	327,398	327,398	234,113	93,285
Office of the Controller	10,954	10,245	9,690	555
Department for Facilities Management	7,527	7,462	7,462	
Kentucky Higher Education Assistance Authority	175,051	175,050	171,343	3,707
Special Accounts - Tobacco Settlement		115,137	115,137	
Finance - County Costs	20,482	20,480	20,212	268
Department of Revenue: General Operations	73,234	73,943	73,943	
Office of Property Valuation Administrators	33,399	33,171	33,171	
Appropriations Not Otherwise Classified:				
Judgements	35	1,310	1,018	292
Board of Claims Awards	1,000	1,000	290	710
Guardian Ad Litem		8,800	8,798	2
Prior Year Claims	400	400	319	81
Unredeemed Checks Refunded	1,500	1,500	912	588
Involuntary Commitments	60	60	40	20
Blanket Employee Bonds	100	100	61	39
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	250	800	728	72
Attorney General Expense	225	225	171	54
Medical Malpractice Liability Insurance Reimbursements	185	185	85	100
<b>Total General Government</b>	<b>2,572,798</b>	<b>2,660,279</b>	<b>2,324,822</b>	<b>335,457</b>
<b>Legislative and Judicial:</b>				
General Assembly	21,733	20,796	17,495	3,301
Legislative Research Commission	35,554	35,554	32,956	2,598
Judicial Retirement System	3,255	3,255	3,235	20
Court of Justice - Court Facility Use	444	444	184	260
Court of Justice - Operation and Administration	193,575	193,575	189,609	3,966
Court of Justice - Local Facility Support	86,085	84,120	61,338	22,782
<b>Total Legislative and Judicial</b>	<b>340,646</b>	<b>337,744</b>	<b>304,817</b>	<b>32,927</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, 2008**  
(Expressed in Thousands)

	Original	Final	Actual	Variance
<b>Commerce:</b>				
<b>Economic Development:</b>				
Office of the Secretary	\$ 21,550	\$ 20,247	\$ 19,905	\$ 342
Financial Incentives	14,391	36,772	10,789	25,983
Existing Business Development	3,503	3,471	3,257	214
New Business Development	1,378	1,384	1,252	132
<b>Commerce Cabinet:</b> Office of the Secretary	3,114	3,064	3,064	
Kentucky State Fair Board	554	404	308	96
Kentucky Horse Park	5,034	5,045	5,045	
Department of Parks	31,145	37,309	36,936	373
Office of Energy Policy	2,341	7,124	7,124	
Department of Travel	7,177	5,078	4,978	100
Berea Artisans Center	156	191	191	
<b>Total Commerce</b>	<u>90,343</u>	<u>120,089</u>	<u>92,849</u>	<u>27,240</u>
<b>Education:</b>				
General Administration and Program Support	2,425	2,444	2,444	
Commission on the Deaf and Hard of Hearing	933	1,030	929	101
Kentucky Heritage Council	900	908	908	
Kentucky Arts Council	4,183	4,128	4,128	
Department of Education:				
Support Education Excellence In KY (SEEK)	2,930,596	2,930,324	2,888,099	42,225
Executive Policy and Management	680	680	680	
Bureau of Support Services	56,074	55,421	54,148	1,273
Learning Results Services	860,639	799,377	771,190	28,187
Kentucky Educational Television	16,816	16,608	16,608	
Kentucky Historical Society	8,046	7,915	7,915	
Kentucky Center for the Arts	1,264	1,264	1,264	
Education Professional Standards Board	10,329	10,351	10,350	1
Libraries and Archives -				
Direct Local Aid	7,306	7,256	7,256	
General Operations	7,383	7,352	7,069	283
Teachers' Retirement System	183,323	183,323	183,323	
Workforce Investment:				
Office of the Blind	1,343	1,328	1,328	
Technical Education	29,895	30,343	30,343	
Vocational Rehabilitation	13,134	12,795	12,795	
<b>Total Education and Humanities</b>	<u>4,135,269</u>	<u>4,072,847</u>	<u>4,000,777</u>	<u>72,070</u>
<b>Human Resources:</b>				
<b>Health and Family Services:</b>				
Administrative Services	36,526	28,640	28,640	
Department for Community Based Services	341,730	346,243	346,147	96
Governor's Office of Wellness and Physical Activity		534	534	
Office of the Inspector General		6,534	6,534	
Office of Health Policy	626	618	601	17
Department for Aging and Independent Living	32,954	32,966	32,963	3
Department for Public Health	72,479	71,191	71,034	157
Department for Mental Health and Mental Retardation	194,118	199,681	199,681	
Department for Human Support Services	12,538	64,413	64,412	1
Office of the Ombudsman	3,534	3,578	3,578	
Department for Medicaid Services	36,442	36,488	36,488	
Medicaid Services Benefits	1,041,097	1,153,097	1,153,097	
Commission for Children With Special Health Care Needs	5,917	5,864	5,864	
<b>Total Human Resources</b>	<u>1,777,961</u>	<u>1,949,847</u>	<u>1,949,573</u>	<u>274</u>

	Original	Final	Actual	Variance
<b>Justice:</b>				
Office of the Secretary	\$ 13,946	\$ 13,902	\$ 13,902	\$
Department of State Police	80,306	83,586	83,586	
Kentucky Vehicle Enforcement		47	47	
Department of Juvenile Justice	85,725	86,942	86,942	
Department for Public Advocacy	31,886	33,967	33,967	
Department of Corrections:				
Management	7,120	7,206	7,206	
Adult Institutions	239,190	262,090	262,087	3
Local Jail Allotment	16,442	15,955	15,744	211
Community Services and Local Facilities	130,140	156,283	156,283	
<b>Total Justice</b>	<b>604,755</b>	<b>659,978</b>	<b>659,764</b>	<b>214</b>
<b>Natural Resources and Environmental Protection:</b>				
General Administration & Support	8,541	8,584	8,584	
Kentucky River Authority	1,979	1,973	341	1,632
Kentucky Nature Preserves Commission	1,167	1,181	1,181	
Environmental Protection	26,118	26,256	26,256	
Petroleum Storage Tank	3,479	3,479	3,479	
Department for Natural Resources	14,896	18,316	18,064	252
Mine Safety and Licensing	9,523	10,336	10,336	
Surface Mining Reclamation and Enforcement	10,828	10,506	10,417	89
<b>Total Natural Resources and Environmental Protection</b>	<b>76,531</b>	<b>80,631</b>	<b>78,658</b>	<b>1,973</b>
<b>Public Protection and Regulation:</b>				
Board of Claims and Crime Victims Compensation	848	841	817	24
Board of Tax Appeals	465	440	440	
Kentucky Racing Commission	510			
Public Service Commission	14,161	11,506	9,876	1,630
Mine Safety Review Commission	202	184	184	
Department - of Alcoholic Beverage Control	1,059	1,601	1,601	
of Housing, Buildings, and Construction	2,524	2,637	2,504	133
of Insurance	13,500	13,095	13,095	
Labor - Workplace Standards	2,457	2,410	2,410	
<b>Total Public Protection and Regulation</b>	<b>35,726</b>	<b>32,714</b>	<b>30,927</b>	<b>1,787</b>
<b>Transportation:</b>				
Air Transportation	866	840	838	2
Public Transportation	8,559	8,559	5,478	3,081
<b>Total Transportation</b>	<b>9,425</b>	<b>9,399</b>	<b>6,316</b>	<b>3,083</b>
Total Expenditures	9,643,454	9,923,528	9,448,503	475,025
Excess of Revenues Over (Under) Expenditures	(678,663)	(1,084,131)	(500,686)	583,445
Fund Balance at July 1, as Restated		86,118	869,919	
Non-Budgeted Items			(1,506)	(1,506)
Fund Balance at June 30	<b>\$ (678,663)</b>	<b>\$ (998,013)</b>	<b>\$ 367,727</b>	<b>\$ 1,365,740</b>

**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, 2008**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 1,078,864	\$ 1,110,636	\$ 1,101,205	\$ (9,431)
Licenses, fees, and permits	136,732	143,599	126,782	(16,817)
Charges for services	11,695	10,195	10,078	(117)
Fines and forfeits	6	3	48	45
Interest and other investment income	7,500	15,800	19,717	3,917
Other revenues	4,867	2,568	5,302	2,734
Total Budgeted Revenues	1,239,664	1,282,801	1,263,132	(19,669)
<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)				
Transfers in (intrafund)				
Total Non-Budgeted Revenue				
Total Revenues	1,239,664	1,282,801	1,263,132	(19,669)
<b>Expenditures</b>				
<b>General Government:</b>				
Executive Office of the Governor				
Office of Homeland Security	350	350	350	
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				
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	209	41
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, 2008**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Board of: (Continued)	\$	\$	\$	\$
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
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:</b>				
General Operations				
Public Employee Deferred Compensation Authority				
<b>Universities:</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	1,253	1,253	
Office of Property Valuation Administrators		747	747	
Department for Facilities Management				
<b>Total General Government</b>	<b>3,000</b>	<b>3,000</b>	<b>2,959</b>	<b>41</b>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	145	107	38
				1,074	1,074	992	82
				55	68	68	
				164	164	130	34
				76	76	38	38
				2,427	2,427	2,348	79
				4,761	4,805	4,309	496
				63	63	49	14
				166	166	166	
				11	11	7	4
				86	86	70	16
				127	181	160	21
				83	83	60	23
				135	135	87	48
				829	829	746	83
				1,045	1,075	1,075	
				265	304	300	4
				22	22	18	4
				1,411	1,411	1,161	250
				92	108	108	
				238	238	156	82
				64	64	47	17
				63	78	65	13
				2,667	2,667	2,575	92
				604	604	569	35
306	306	256	50	1	173	172	1
19,099	19,099	13,771	5,328	6,528	8,949	7,953	996
				24	24	24	
				20,288	20,288	19,544	744
				6,172	6,172	6,172	
				201,238	201,238	159,372	41,866
				37,672	37,672	31,797	5,875
				113,652	113,652	74,042	39,610
				94,751	94,751	93,929	822
				133,218	133,218	113,666	19,552
				1,475,782	1,475,782	1,127,519	348,263
				658,973	658,973	69,328	589,645
				225,450	225,450	124,126	101,324
				446,472	446,472	170,713	275,759
				34,756	7,556	1,837	5,719
1,000	1,200	1,119	81	2,053	5,453	3,058	2,395
775	775	596	179	150	306	306	
1,726	1,726	1,341	385	36,219	36,825	34,799	2,026
				1,950	1,950	1,573	377
				24,253	24,253	22,194	2,059
				4,379	6,165	109	6,056
				4,319	5,371	5,283	88
				1,036	1,387	1,327	60
244,041	245,662	129,616	116,046	3,613,898	3,624,370	2,162,010	1,462,360

**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, 2008**  
(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>				
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				
Kentucky 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	715	715		715
				1,786	1,786		1,786
					370	181	189
2,705	2,736	2,255	481	39,520	43,850	23,567	20,283
2,706	2,737	2,255	482	42,021	46,721	23,748	22,973
				1,340	1,211	659	552
				1,811	1,810	1,632	178
155	155	155		210	210	210	
				747	747	651	96
				1,063	1,198	1,184	14
2,383	2,383	927	1,456	5,400	5,832	5,342	490
				9,200	12,345	10,833	1,512
				2,193	2,343	2,130	213
10,098	13,068	12,874	194	29,810	32,142	30,637	1,505
12,636	15,606	13,956	1,650	51,774	57,838	53,278	4,560
				590	552	478	74
				194	1,540	1,389	151
669	850	675	175	487	1,525	241	1,284
740	822	671	151	453	953	555	398
190	190	130	60	6,502	7,442	4,827	2,615
678,844	718,093	701,716	16,377	2,621	2,481	920	1,561
8,528	8,528	4,954	3,574	7,210	7,055	5,112	1,943
700	700	115	585	1,048	1,897	1,369	528
517	517	216	301	820	795	712	83
4,379	4,379	323	4,056	1,450	1,450	752	698
424	724	723	1	9	678	553	125
1,986	2,136	2,136		1,461	1,533	1,523	10
				10,361	10,361	7,553	2,808
9,477	9,477	8,806	671	1,955	1,956	813	1,143
122,371	122,372	90,130	32,242	3,000	5,044	5,044	
15,188	15,189	12,174	3,015	20,220	20,821	20,184	637
46,491	46,490	45,787	703	2,676	2,676	2,431	245
890,504	930,467	868,556	61,911	61,057	68,759	54,456	14,303

**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, 2008**  
(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				
Governor's Office of Wellness and Physical Activity				
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	13,881	13,881	13,881	
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>	63,881	63,881	63,881	
<b>Natural Resources and Environmental</b>				
<b>Protection:</b>				
General Administration & Support				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	300	300	261	39
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
<b>Total Natural Resources and</b>				
<b>Environmental Protection</b>	300	300	261	39
<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
\$ 29,021	\$ 29,021	\$ 27,217	\$ 1,804	\$ 9,350	\$ 8,558	\$ 8,254	\$ 304
50,175	50,175	37,570	12,605	66	66	50	16
523,230	550,302	509,165	41,137	136,301	139,665	137,455	2,210
	902	816	86		100	37	63
13,387	13,387	12,183	1,204	2,067	2,435	2,318	117
				622	1,514	1,487	27
21,017	21,017	20,672	345	531	13,200	10,283	2,917
169,878	189,976	188,952	1,024	71,599	88,499	86,414	2,085
43,516	45,916	38,572	7,344	207,660	238,460	203,091	35,369
2,183	2,653	2,636	17	50	50	45	5
46,746	58,346	54,954	3,392	16,211	16,211	10,352	5,859
3,212,281	3,403,436	3,361,621	41,815	388,805	414,317	409,761	4,556
4,379	4,379	4,260	119	6,773	6,596	6,551	45
3,385	3,929	3,633	296	126	662	637	25
4,119,198	4,373,439	4,262,251	111,188	840,161	930,333	876,735	53,598
9,143	11,643	10,360	1,283	3,840	5,817	4,623	1,194
13,445	8,657	6,798	1,859	13,544	17,978	15,437	2,541
5,162	6,337	4,511	1,826	1,044	1,213	1,170	43
1,663	1,713	1,635	78	4,456	4,491	4,491	
14,420	14,420	14,274	146	12,200	13,998	13,998	
1,886	1,942	1,284	658	46,745	46,745	45,899	846
	137	100	37	129	129	116	13
1,707	1,905	1,024	881	5,435	5,520	5,469	51
75	305	281	24	1,869	1,957	1,957	
47,501	47,059	40,267	6,792	89,262	97,848	93,160	4,688
1,613	1,612	1,494	118	7,133	6,924	6,004	920
				4,415	4,415	1,844	2,571
				264	256	212	44
55	605	588	17	403	403	364	39
19,238	21,049	17,906	3,143	35,160	42,724	40,140	2,584
9,129	9,129	6,695	2,434	5,887	6,315	5,385	930
581	727	706	21	1,636	2,687	2,050	637
18,872	18,871	15,820	3,051				
22,000	22,000	10,803	11,197	3,180	3,067	1,552	1,515
71,488	73,993	54,012	19,981	58,078	66,791	57,551	9,240
540	940	916	24	1,193	1,193	975	218
				1,997	1,947	1,488	459
				27,778	31,778	28,771	3,007
				100	88	88	
218	270	251	19	850	850	9	841
				4,132	4,132	4,132	
				3,343	3,343	3,076	267
				9,342	9,342	8,854	488
				16,159	16,501	14,112	2,389
	2,382	1,657	725	21,293	21,293	15,359	5,934
3,330	3,330	3,188	142				
4,088	6,922	6,012	910	86,187	90,467	76,864	13,603

**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, 2008**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Transportation:</b>				
Administration & Support	\$ 78,888	\$ 79,687	\$ 68,653	\$ 11,034
Revenue Sharing	302,810	322,631	229,067	93,564
Air Transportation	992,204	14,372	4,796	9,576
Highways	41,498	1,040,591	770,383	270,208
Public Transportation				
Vehicle Regulation	18,235	18,243	17,894	349
Debt Service	181,143	181,143	153,603	27,540
Transfers to Capital Projects	6,795	6,795	6,795	
2005 GARVEE Bond Series				
2005 Ed Bond Series				
<b>Total Transportation</b>	<u>1,621,573</u>	<u>1,663,462</u>	<u>1,251,191</u>	<u>412,271</u>
Total Expenditures	<u>1,688,754</u>	<u>1,730,643</u>	<u>1,318,292</u>	<u>412,351</u>
Excess of Revenues over (under) Expenditures	<u>(449,090)</u>	<u>(447,842)</u>	<u>(55,160)</u>	<u>392,682</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Issuance of Notes				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(449,090)	(447,842)	(55,160)	392,682
Fund Balances at July 1, as Restated		(361,871)	447,985	
Non-Budgeted Items			(332)	(332)
Fund Balances at June 30	<u>\$ (449,090)</u>	<u>\$ (809,713)</u>	<u>\$ 392,493</u>	<u>\$ 1,202,206</u>



Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$ 9,300	\$ 3,240	\$ 6,060	\$ 28	\$ 28	\$	\$ 28
					43,524	29,603	13,921
15	399	69	330	5,603	5,603	4,223	1,380
1,494,263	1,498,480	698,702	799,778	85,474	97,383	70,161	27,222
40,234	40,267	19,267	21,000	556	556	437	119
285	5,215	1,628	3,587	6,103	10,803	8,549	2,254
				321,095	337,667	126,562	211,105
				376,867	398,255	239,724	158,531
1,534,797	1,553,661	722,906	830,755	795,726	893,819	479,259	414,560
6,926,959	7,249,546	6,099,831	1,149,715	5,638,164	5,876,946	3,877,061	1,999,885
		(67,486)				1,792,358	
						489,505	
						489,505	
		(67,486)				2,281,863	
		185,656				1,066,593	
		(7,934)				(2,106,196)	
\$	\$	\$ 110,236	\$	\$	\$	\$ 1,242,260	\$

## 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, 2008**

**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, 2008, 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, 2008:				
Budgetary basis	\$ 367,727	\$ 392,493	\$ 110,236	\$ 1,242,260
Adjustments:				
Accrued revenues	340,312	115,255	514,080	77,603
Accrued expenditures	(358,241)	(68,650)	(500,663)	(31,160)
Accrued transfers (net)	(16,347)		(6,500)	6,463
Total Accruals (1)	<u>(34,276)</u>	<u>46,605</u>	<u>6,917</u>	<u>52,906</u>
Reclassifications and other adjustments:				
Inventory balances (1)	8,047	39,879	62	3,554
To reclassify financial and other resources into financial statement fund types (2)	(6,327)	1,934	(147,754)	(739,082)
To record financial resources available as non-budgeted funds (3)	<u>(47,000)</u>			<u>16,029</u>
Fund Balance				
Fund balance June 30, 2008:				
GAAP Basis	<u>\$ 288,171</u>	<u>\$ 480,911</u>	<u>\$ (30,539)</u>	<u>\$ 575,667</u>

(1) Basis differences

(2) Perspective differences

(3) Entity differences

**COMMONWEALTH OF KENTUCKY**  
**Notes To Required Supplementary Information**  
**June 30, 2008**

**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>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Good	58.9%	51.9%	50.4%	45.3%	42.0%
Fair	26.1%	32.9%	35.7%	39.5%	38.2%
Poor	15.0%	15.2%	13.9%	15.2%	19.8%

**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, 2008**

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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>
2007	6.1%
2006	6.1%*
2005	6.2%
2004	5.7%
2003	5.3%

\* Calendar year 2006 percentage of Structurally Deficient Bridges has been changed. Seven and two tenth percent (7.2%) was reported in the “Fiscal Year Ended June 30, 2007 Comprehensive Annual Financial Report.” However, the correct percentage was six and one tenth percent (6.1%). This change was made as bridges maintained by local municipalities were included in error.

**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 2009:</u>			
Estimated	\$ 929.0	\$ 150.0	\$1,079
<u>Fiscal Year 2008:</u>			
Estimated	\$ 707.8	\$ 181.5	\$ 889.3
Actual	\$ 840.1	\$ 155.0	\$ 995.1
<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

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

**State Workers' Compensation Program**

	<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>	<b>2008</b>
Earned Premiums	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812	\$ 23,395	\$ 24,293
Administrative Expense	513	526	533	545	777	480	385	1,149	1,127	1,070
Incurred Claims as Originally Estimated	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765
Claims Paid (Cumulative) as of:										
End of Fiscal Year	2,702	3,128	3,790	3,846	3,733	3,656	4,520	4,131	4,898	4,078
One Year Later	5,833	6,332	7,216	7,320	7,449	7,225	7,233	7,862	8,716	
Two Years Later	7,604	7,811	8,987	9,260	9,330	8,596	9,347	9,632		
Three Years Later	8,726	8,678	10,252	10,414	10,627	10,008	10,424			
Four Years Later	9,305	9,441	11,254	11,236	11,432	10,921				
Five Years Later	9,818	9,976	11,945	11,990	12,182					
Six Years Later	10,211	10,320	12,886	12,717						
Seven Years Later	10,622	10,661	13,711							
Eight Years Later	11,079	11,020								
Nine Years Later	11,450									
Re-estimation of Incurred Claims:										
End of Fiscal Year	13,298	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765
One Year Later	13,623	16,584	19,315	20,172	20,514	19,209	18,824	17,769	19,152	
Two Years Later	15,543	16,033	19,186	18,805	19,888	18,694	17,659	17,758		
Three Years Later	15,617	16,189	19,067	19,198	19,894	18,682	17,753			
Four Years Later	15,497	15,449	19,382	19,546	19,442	18,446				
Five Years Later	15,039	15,626	19,532	19,233	19,685					
Six Years Later	15,524	15,720	20,002	19,450						
Seven Years Later	15,786	15,871	20,315							
Eight Years Later	15,575	15,995								
Nine Years Later	15,677									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	2,380	671	1,218	(50)	(1,657)	(1,874)	(3,146)	(1,735)	991	

SOURCE: Compilation Report

**Kentucky Public Employees Health Plan**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
Earned Premiums	\$ 578,263	\$ 1,091,702	\$ 1,191,248
Administrative Expense	28,998	57,782	68,883
Incurred Claims as Originally Estimated	467,315	1,042,931	1,164,712
Claims Paid (Cumulative) as of:			
End of Fiscal Year	398,456	970,764	1,089,989
One Year Later	473,766	1,035,700	
Two Years Later	473,046		
Re-estimation of Incurred Claims:			
End of Fiscal Year	473,046	1,035,976	1,164,712
One Year Later			
Two Years Later			
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	5,732	(6,956)	

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**

**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, 2008**  
(Expressed in Thousands)

	Debt Service		Special Revenue Funds		Total
	Turnpike Authority of Kentucky	Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	Non-Major Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 131,444	\$ 94,946	\$ 2,418	\$ 50,657	\$ 279,465
Investments, net of amortization	218,712	122,653	24,163	130,468	495,996
Invested security collateral		170,129		75,030	245,159
Receivables, net	5,257	67,090	634	5,750	78,731
Notes receivable		728			728
Interfund receivables	128,820	1,553	128,104	18,227	276,704
Interfund loan receivable				37,710	37,710
Inventories		14			14
Other assets	1,104		2,428		3,532
Total Assets	<u>\$ 485,337</u>	<u>\$ 457,113</u>	<u>\$ 157,747</u>	<u>\$ 317,842</u>	<u>\$ 1,418,039</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 2,463	\$ 15,330	\$ 6,907	\$ 1,166	\$ 25,866
Interfund payables	128,104	5,366	128,820	5,406	267,696
Obligations under securities lending		170,129		75,030	245,159
Deferred revenue		40,105		371	40,476
Total Liabilities	<u>130,567</u>	<u>230,930</u>	<u>135,727</u>	<u>81,973</u>	<u>579,197</u>
<b>Fund Balances:</b>					
Reserved for:					
Inventories		14			14
Long-term receivables		728			728
Unreserved, reported in:					
Special revenue funds		225,441	22,020	235,869	483,330
Debt service fund	354,770				354,770
Total Fund Balances	<u>354,770</u>	<u>226,183</u>	<u>22,020</u>	<u>235,869</u>	<u>838,842</u>
Total Liabilities and Fund Balances	<u>\$ 485,337</u>	<u>\$ 457,113</u>	<u>\$ 157,747</u>	<u>\$ 317,842</u>	<u>\$ 1,418,039</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	Debt Service	Special Revenue Funds			Total
	Turnpike Authority of Kentucky	Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	Non-Major Governmental Funds
<b>Revenues</b>					
Taxes	\$	\$ 123,375	\$	\$ 81	\$ 123,456
Licenses, fees, and permits		856		359	1,215
Intergovernmental		1,124		1,608	2,732
Charges for services		57,276		101,184	158,460
Fines and forfeits		29,901		6,310	36,211
Interest and other investment income	17,509	20,849	2,691	21,329	62,378
Increase (decrease) in fair value of investments		833		(76)	757
Securities lending income		7,026		3,099	10,125
Other revenues	2,216	30,430	5,588	19,953	58,187
Total Revenues	19,725	271,670	8,279	153,847	453,521
<b>Expenditures</b>					
Current:					
General government		155,303	269,489	87,192	511,984
Legislative and judicial		2		1	3
Commerce		317		149	466
Education and humanities		43,222		16,137	59,359
Human resources		3,021		23,533	26,554
Justice				2,100	2,100
Natural resources and environmental protection		1,967		12,544	14,511
Public protection and regulation		9		1,481	1,490
Transportation		1		51,864	51,865
Debt service:					
Principal retirement	134,070				134,070
Interest and fiscal charges	58,169				58,169
Other expenditures	3,530				3,530
Securities lending expense		5,958		2,627	8,585
Total Expenditures	195,769	209,800	269,489	197,628	872,686
Excess (Deficiency) of Revenues over (under) Expenditures	(176,044)	61,870	(261,210)	(43,781)	(419,165)
<b>Other Financing Sources (Uses)</b>					
Transfers in	152,574	391,820	347,523	191,388	1,083,305
Transfers out		(448,391)	(152,574)	(143,275)	(744,240)
Capitalized leases				6	6
Total Other Financing Sources (Uses)	152,574	(56,571)	194,949	48,119	339,071
Net Change in Fund Balances	(23,470)	5,299	(66,261)	4,338	(80,094)
Fund Balances at July 1	378,240	220,894	88,281	231,531	918,946
Increase (Decrease) in Inventory		(10)			(10)
Fund Balances at June 30	\$ 354,770	\$ 226,183	\$ 22,020	\$ 235,869	\$ 838,842

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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, 2008**  
(Expressed In Thousands)

Revenues by Source	June 30, 2008
Taxes:	
Sales and gross receipts	\$ 3,466,097
Income:	
Individual	3,513,529
Corporations	406,663
Property	569,878
Coal severance	303,154
Licenses and privileges	3,302
Inheritance and estate	50,243
Miscellaneous	2,871
Total Taxes	<u>8,315,737</u>
Licenses, fees, and permits	35,266
Intergovernmental	80,041
Charges for services	17,278
Fines and forfeits	52,654
Interest and other investment income	20,882
Securities lending income	6,084
Increase (decrease) in fair value of investments	(738)
Other revenues	156,912
Total Revenues by Source	<u>\$ 8,684,116</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed In Thousands)

	June 30, 2008
<b>General Government:</b>	
Personal services	\$ 256,171
Utilities, rentals, and other services	41,872
Commodities and supplies	24,464
Grants and subsidies	1,668,073
Capital outlay	900
Travel	2,767
Judgments and contingent liabilities	(4,235)
Other	210
Total General Government	1,990,222
<b>Legislative and Judicial:</b>	
Personal services	213,355
Utilities, rentals, and other services	72,918
Commodities and supplies	15,270
Grants and subsidies	4,123
Capital outlay	1,951
Travel	5,122
Total Legislative and Judicial	312,739
<b>Commerce:</b>	
Personal services	8,342
Utilities, rentals, and other services	1,713
Commodities and supplies	1,051
Grants and subsidies	25,336
Capital Outlay	24
Travel	306
Total Commerce	36,772
<b>Education and Humanities:</b>	
Personal services	91,997
Utilities, rentals, and other services	26,321
Commodities and supplies	9,398
Grants and subsidies	3,714,749
Capital outlay	374
Travel	3,613
Judgments and contingent liabilities	(1)
Total Education and Humanities	3,846,451
<b>Human Resources:</b>	
Personal services	230,950
Utilities, rentals, and other services	34,787
Commodities and supplies	8,267
Grants and subsidies	1,689,980
Capital Outlay	606
Claims	(2)
Travel	6,919
Judgments and contingent liabilities	95,150
Total Human Resources	2,066,657
<b>Justice:</b>	
Personal services	351,778
Utilities, rentals, and other services	41,736
Commodities and supplies	24,353
Grants and subsidies	208,518
Capital outlay	5,015
Claims	11
Travel	3,326
Judgments and contingent liabilities	98
Total Justice	634,835

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed In Thousands)

	<b>June 30, 2008</b>
<b>Natural Resources and Environmental Protection:</b>	
Personal services	\$ 65,255
Utilities, rentals, and other services	5,727
Commodities and supplies	2,563
Grants and subsidies	1,766
Capital outlay	458
Travel	486
Judgments and contingent liabilities	(4)
Total Natural Resources and Environmental Protection	<u>76,251</u>
<b>Public Protection and Regulation:</b>	
Personal services	15,198
Utilities, rentals, and other services	1,310
Commodities and supplies	323
Grants and subsidies	201
Capital outlay	61
Travel	245
Judgments and contingent liabilities	
Total Public Protection and Regulation	<u>17,338</u>
<b>Transportation:</b>	
Personal services	1,143
Utilities, rentals, and other services	15
Commodities and supplies	6
Grants	4,960
Total Transportation	<u>6,124</u>
<b>Securities Lending Expense</b>	<u>5,159</u>
Total Expenditures	<u><u>\$ 8,992,548</u></u>

**SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE**  
**TRANSPORTATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed In Thousands)

	<b>June 30, 2008</b>
Revenues:	
Taxes	\$ 1,096,348
Licenses, fees and permits	126,930
Charges for services	10,078
Fines and forfeits	48
Interest and other investment income	19,443
Increase (decrease) in fair value of investments	2,759
Securities lending income	6,075
Other revenues	5,302
Total Revenues	<u>1,266,983</u>
Expenditures:	
Transportation:	
General administration and support	53,260
Motor vehicle regulation	17,894
Justice - state police	50,211
Highways	784,746
Aviation	3,286
Securities lending expense	5,151
Other	252,185
Total Expenditures	<u>\$ 1,166,733</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, 2008**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,693	\$ 7,652	\$ 158
Receivables, net	18	233	350
Interfunds receivable	1,433	3,720	678
Inventories	19	361	4,707
Prepaid expenses		1,120	
Total Current Assets	4,163	13,086	5,893
Noncurrent assets:			
Investments, net	3,664	16,116	188
Land			723
Improvements other than buildings			
Buildings		3,697	6,510
Machinery and equipment	77,751	44,505	4,129
Less: Accumulated depreciation	(41,147)	(34,346)	(4,706)
Construction in progress			186
Total Capital Assets	36,604	13,856	6,842
Total Noncurrent Assets, Net	40,268	29,972	7,030
Total Assets	44,431	43,058	12,923
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	1,649	5,286	1,503
Interfund payables		641	134
Claims liability			
Claims adjustment liability			
Capital lease obligations	2,924	143	17
Compensated absences	51	1,701	306
Deferred revenue		97	
Total Current Liabilities	4,624	7,868	1,960
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations	6,516	174	35
Compensated absences	91	1,756	324
Total Noncurrent Liabilities	6,607	1,930	359
Total Liabilities	11,231	9,798	2,319
<b>Net Assets</b>			
Invested in capital assets, net of related debt	27,164	13,538	6,789
Unrestricted	6,036	19,722	3,815
Total Net Assets	\$ 33,200	\$ 33,260	\$ 10,604

Central Printing	Property Management	Risk Management	Totals June 30, 2008
\$ 281	\$ 2,447	\$ 8,776	\$ 22,007
1	6	51	659
43	460	8	6,342
98			5,185
		3,586	4,706
423	2,913	12,421	38,899
339	16,011	12,485	48,803
	15,020		15,743
	3,144		3,144
	251,372		261,579
1,326	1,726		129,437
(543)	(136,955)		(217,697)
	79,376		79,562
783	213,683		271,768
1,122	229,694	12,485	320,571
1,545	232,607	24,906	359,470
94	1324	425	10,281
	12	113	900
		15,025	15,025
		668	668
163	361		3,608
46	604	46	2,754
	137		234
303	2,438	16,277	33,470
		122,942	122,942
		5,928	5,928
400	4,302		11,427
70	451	103	2,795
470	4,753	128,973	143,092
773	7,191	145,250	176,562
221	209,020		256,732
551	16,396	(120,344)	(73,824)
\$ 772	\$ 225,416	\$ (120,344)	\$ 182,908

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 30,063	\$ 60,285	\$ 13,053
Other revenues	616	(9)	
Total Operating Revenues	30,679	60,276	13,053
<b>Operating Expenses:</b>			
Personal services	1,650	34,781	4,895
Utilities, rentals, and other services	3,114	15,419	813
Commodities and supplies	11,921	10,751	1,853
Grants and subsidies			382
Depreciation and amortization	956	6,855	195
Travel		61	15
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Total Operating Expenses	17,641	67,867	8,153
Operating Income (Loss)	13,038	(7,591)	4,900
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of fixed assets	1,666	393	(6)
Interest and other investment income	247		
Increase (decrease) in fair value of investments	(4)	36	
Interest expense	(478)	(19)	(2)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	1,431	410	(8)
Income (Loss) before Transfers	14,469	(7,181)	4,892
Transfers in		11,266	
Transfers out	(3,785)	(5,966)	
Change in Net Assets	10,684	(1,881)	4,892
Net Assets at July 1	22,516	35,141	5,712
Net Assets at June 30	\$ 33,200	\$ 33,260	\$ 10,604

Central Printing	Property Management	Risk Management	Totals June 30, 2008
\$ 2,274	\$ 30,726	\$ 36,248	\$ 172,649
	30		637
2,274	30,756	36,248	173,286
1,113	15,160	3,063	60,662
389	13,232	3,789	36,756
56	4,352	20	28,953
			382
282	5,811		14,099
	4		94
		14	1,053
		1,053	1,053
		26,783	26,783
		(1,554)	(1,554)
1,840	38,559	33,168	167,228
434	(7,803)	3,080	6,058
(72)	(520)		1,461
	38	353	638
	38		70
(35)	(222)		(756)
		53	53
(107)	(666)	406	1,466
327	(8,469)	3,486	7,524
	33,320	2	44,588
	(2,839)	(1,835)	(14,425)
327	22,012	1,653	37,687
445	203,404	(121,997)	145,221
\$ 772	\$ 225,416	\$ (120,344)	\$ 182,908

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$	\$ 59,273	\$ 3,364
Cash received from customers - state	29,081	38	9,447
Cash payments to suppliers for goods and services	(16,349)	(29,736)	(4,378)
Cash payments for employee salaries and benefits	(1,661)	(35,120)	(4,987)
Cash payments for claims expense			
Cash payments from other sources	616	(9)	
Cash payments to other sources			(382)
Net Cash Provided (Used) by Operating Activities	11,687	(5,554)	3,064
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers from other funds		11,266	
Transfers to other funds	(3,785)	(5,966)	
Net Cash Provided (Used) by Noncapital Financing Activities	(3,785)	5,300	
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and construction of capital assets	(2,545)	(8,082)	(3,138)
Principal paid on revenue bond maturities and equipment contracts	(2,572)	(146)	(12)
Interest paid on revenue bonds and equipment contracts	(479)	(19)	(2)
Net Cash Provided (Used) for Capital and Related Financing Activities	(5,596)	(8,247)	(3,152)
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(2,093)		(28)
Proceeds from the sale of investment securities		3,073	
Interest and dividends on investments	243	36	
Net Cash Provided (Used) in Investing Activities	(1,850)	3,109	(28)
Net Increase (Decrease) in Cash and Cash Equivalents	456	(5,392)	(116)
Cash and Cash Equivalents at July 1	2,237	13,044	274
Cash and Cash Equivalents at June 30	\$ 2,693	\$ 7,652	\$ 158
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ 13,038	\$ (7,591)	\$ 4,900
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	956	6,855	195
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	77	38	(10)
Interfund receivables	(1,059)	(924)	(231)
Inventories	1	(61)	(1,940)
Prepaid expenses	28	(410)	
Increase (decrease) in liabilities:			
Accounts payable	(1,274)	(3,720)	159
Interfund payables	(69)	625	69
Claims liability			
Claims adjustment liability			
Compensated absences	(11)	(279)	(78)
Deferred revenue		(87)	
Other liabilities			
Net Cash Provided by Operating Activities	\$ 11,687	\$ (5,554)	\$ 3,064
<b>Noncash Investing, Capital, and Financing Activities</b>			
Change in fair value of investments	\$ (4)	\$ 36	\$ 55
Capital assets acquired through leases			
Total Noncash Investing, Capital, and Financing Activities	\$ (4)	\$ 36	\$ 55

Central Printing	Property Management	Risk Management	Totals June 30, 2008
\$	\$	\$	\$
2,239	30,886	38,087	62,637
(478)	(18,530)	(3,558)	109,778
(1,109)	(15,165)	(3,101)	(73,029)
		(23,115)	(61,143)
	30	52	(23,115)
		(1,131)	689
652	(2,779)	7,234	(1,513)
			14,304
	33,320	2	44,588
	(2,839)	(1,835)	(14,425)
	30,481	(1,833)	30,163
(342)	(19,270)		(33,377)
(150)	(346)		(3,226)
(35)	(222)		(757)
(527)	(19,838)		(37,360)
(153)	(8,072)	(6,083)	(16,429)
	76	364	3,073
(153)	(7,996)	(5,719)	719
(28)	(132)	(318)	(12,637)
309	2,579	9,094	(5,530)
\$ 281	\$ 2,447	\$ 8,776	\$ 27,537
			\$ 22,007
\$ 434	\$ (7,803)	\$ 3,080	\$ 6,058
282	5,811		14,099
		54	54
(1)	(6)	1,851	1,949
(34)	162	3	(2,083)
(9)		155	(2,009)
			(227)
(25)	(899)	(49)	(5,808)
	(47)	113	691
		3,639	3,639
		(1,554)	(1,554)
5	(1)	6	(358)
	4	(66)	(149)
		2	2
\$ 652	\$ (2,779)	\$ 7,234	\$ 14,304
\$	\$	\$	\$
222	38		70
\$ 222	\$ 38		\$ 277
			\$ 347

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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, 2008**  
(Expressed In Thousands)

	<b>June 30, 2008</b>
<b>Governmental Funds Capital Assets</b>	
Land	\$ 127,296
Improvements other than buildings	12,030
Buildings	866,509
Machinery and equipment	433,453
Other intangibles	1,872
Easements	110,011
Construction in progress	1,940,390
Infrastructure	17,233,401
Total Governmental Funds Capital Assets	<b>\$ 20,724,962</b>
 <b>Investments in Governmental Funds Capital Assets by Source</b>	
General Fund	\$ 110,740
Special Revenue Funds	2,314,257
Donations	117,156
Other	32,572
Capital Projects Fund:	
State appropriations	53,055
Revenue bonds	453,607
Federal grants	134,518
Other	40,134
Infrastructure (A)	17,233,401
Capital assets acquired prior to July 1, 1984 (A)	153,187
Capital assets acquired after July 1, 1984 (A)	82,335
Total Governmental Funds Capital Assets	<b>\$ 20,724,962</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, 2008**  
(Expressed in Thousands)

<b>FUNCTION</b>	<b>Land</b>	<b>Improvements Other Than Buildings</b>	<b>Buildings</b>
General Government	\$ 16,312	\$ 3,471	\$ 169,718
Legislative & Judicial	55		
Commerce	60,800	2,282	26,347
Education & Humanities	1,285	664	40,854
Human Resources	1,766	696	74,566
Justice	3,992	4,917	369,937
Natural Resources and Environmental Protection	26,345		1,121
Public Protection and Regulation			
Transportation	16,741		183,966
Total Governmental Funds Capital Assets	<u>\$ 127,296</u>	<u>\$ 12,030</u>	<u>\$ 866,509</u>

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

<u>Machinery and Equipment</u>	<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2008</u>
\$ 35,636	\$ 1,872	\$ 48,778	\$ 57,374	\$	\$ 333,161
10,549					10,604
22,482			675		112,586
40,638		11,316	1,331		96,088
21,167			5,592		103,787
80,514			121,803		581,163
35,949		9,688	94		73,197
3,985					3,985
182,533		40,229	1,753,521	17,233,401	19,410,391
<u>\$ 433,453</u>	<u>\$ 1,872</u>	<u>\$ 110,011</u>	<u>\$ 1,940,390</u>	<u>\$ 17,233,401</u>	<u>\$ 20,724,962</u>

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Balance, as Restated June 30, 2007</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2008</b>
General Government	\$ 300,322	\$ 39,264	\$ 6,425	\$ 333,161
Legislative & Judicial	10,598	94	88	10,604
Commerce	109,116	4,329	859	112,586
Education & Humanities	95,358	3,618	2,888	96,088
Human Resources	102,930	2,806	1,949	103,787
Justice	578,321	44,252	41,410	581,163
Natural Resources and Environmental Protection	69,029	7,114	2,946	73,197
Public Protection and Regulation	4,021	526	562	3,985
Transportation	18,722,849	2,403,447	1,715,905	19,410,391
Total Governmental Funds Capital Assets	<u>\$ 19,992,544</u>	<u>\$ 2,505,450</u>	<u>\$ 1,773,032</u>	<u>\$ 20,724,962</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.

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

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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 (KERS)** accounts for pension and (other post employment benefits) administered by the 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 (CERS)** accounts for pension and (other post employment benefits) administered by the System, which 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 (SPRS)** accounts for pension and (other post employment benefits) administered by the System, which covers substantially all regular full-time officers of the Kentucky State Police.

**Kentucky Teachers' Retirement System (KTRS)** accounts for pension and (other post employment benefits) administered by the 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 Plan** accounts for pension and (other post employment benefits) administered by the Plan, which covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

**Legislators' Retirement Plan** accounts for pension and (other post employment benefits) administered by the Plan, which covers all members of the General Assembly.

**Kentucky Public Employees Deferred Compensation Authority** accounts for the monies withheld from participating employees payroll to be placed in an Internal Revenue Code Section 401 or 457 deferred compensation plan. The amounts are deposited with third party administrators which oversee the investment activities of such monies.

**COMMONWEALTH OF KENTUCKY**  
**COMBINED STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Pension Funds</b>	<b>Insurance Funds</b>	<b>Totals June 30, 2008</b>
<b>Assets</b>			
Cash and Short-Term Investments:			
Cash	\$ 11,287	\$ 835	\$ 12,122
Short-term investments	437,865	494,898	932,763
Total Cash and Short-Term Investments	449,152	495,733	944,885
Receivables:			
Investments - accounts receivable	116,473	8,989	125,462
Interest receivable	1,213	295	1,508
Accounts receivable	125,925	43,576	169,501
Total Receivables	243,611	52,860	296,471
Investments at Fair Value:			
Corporate and government bonds	6,715,854	423,915	7,139,769
Common stocks	17,173,336	2,006,518	19,179,854
Mortgages	2,210,071		2,210,071
Mutual funds	1,610,905	135	1,611,040
Real estate	441,239		441,239
Total Investments at Fair Value	28,151,405	2,430,568	30,581,973
Invested security collateral	3,174,982	773,837	3,948,819
Capital assets, net	10,476		10,476
Prepaid expenses	1,225	121	1,346
Total Assets	32,030,851	3,753,119	35,783,970
<b>Liabilities</b>			
Accounts payable	13,528	5,957	19,485
Obligations under securities lending	3,174,982	773,837	3,948,819
Total Liabilities	3,188,510	779,794	3,968,304
<b>Net assets held in trust for pension and other post employment benefits</b>	<b>\$ 28,842,341</b>	<b>\$ 2,973,325</b>	<b>\$ 31,815,666</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Pension Funds</b>	<b>Insurance Funds</b>	<b>Totals June 30, 2008</b>
<b>Additions</b>			
Contributions:			
Employer	\$ 824,269	\$ 527,505	\$ 1,351,774
Member	748,518	56,088	804,606
Total Contributions	<u>1,572,787</u>	<u>583,593</u>	<u>2,156,380</u>
Other Contributions:			
Recovery Income		28,547	28,547
Medicare D Receipts		25,227	25,227
Participant fees	7,190		7,190
Total Other Contributions	<u>7,190</u>	<u>53,774</u>	<u>60,964</u>
Investment Income:			
Net increase (decrease) in fair value of investments	(2,491,335)	(287,573)	(2,778,908)
Interest	762,188	73,696	835,884
Dividends	169,012	876	169,888
Real estate operating income, net	28,661		28,661
Securities lending income, net	161,594	32,354	193,948
Total Investment Income	<u>(1,369,880)</u>	<u>(180,647)</u>	<u>(1,550,527)</u>
Less: Investment expense	33,504	3,085	36,589
Less: Securities lending expense	140,837	28,484	169,321
Net Investment Income	<u>(1,544,221)</u>	<u>(212,216)</u>	<u>(1,756,437)</u>
Total Additions	<u>35,756</u>	<u>425,151</u>	<u>460,907</u>
<b>Deductions</b>			
Benefit payments	2,595,694	185,528	2,781,222
Refunds	41,443	10	41,453
Administrative expenses	36,872	7,553	44,425
Self funding insurance cost		101,605	101,605
Healthcare premiums subsidies		167,748	167,748
Total Deductions	<u>2,674,009</u>	<u>462,444</u>	<u>3,136,453</u>
<b>Change in Net Assets</b>	<u>(2,638,253)</u>	<u>(37,293)</u>	<u>(2,675,546)</u>
<b>Net Assets Held in Trust</b>			
Net Assets at July 1, as restated	31,480,594	3,010,618	34,491,212
Net Assets at June 30	<u>\$ 28,842,341</u>	<u>\$ 2,973,325</u>	<u>\$ 31,815,666</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>		<b>County Employees Retirement System</b>	
	<b>Non-Hazardous</b>	<b>Hazardous</b>	<b>Non-Hazardous</b>	<b>Hazardous</b>
<b>Assets</b>				
Cash and Short-Term Investments:				
Cash	\$ 203	\$ 118	\$ 323	\$ 238
Short-term investments	68,261	15,682	67,450	46,799
Total Cash and Short-Term Investments	68,464	15,800	67,773	47,037
Receivables:				
Investments - accounts receivable	21,058	2,054	22,799	6,857
Interest receivable				
Accounts receivable	21,955	1,642	32,028	11,386
Total Receivables	43,013	3,696	54,827	18,243
Investments at Fair Value:				
Corporate and government bonds	1,236,656	135,247	1,393,037	425,700
Common stocks	3,208,116	281,760	3,319,682	984,533
Mortgages	499,605	46,158	593,436	167,578
Mutual funds				
Real estate	2,346	1,943	2,360	2,415
Total Investments at Fair Value	4,946,723	465,108	5,308,515	1,580,226
Invested security collateral	1,146,607	109,935	1,229,252	372,005
Capital assets, net	2,518	215	4,305	375
Prepaid expenses	364	31	624	54
Total Assets	6,207,689	594,785	6,665,296	2,017,940
<b>Liabilities</b>				
Accounts payable	4,213	412	4,309	953
Obligations under securities lending	1,146,607	109,935	1,229,252	372,005
Total Liabilities	1,150,820	110,347	1,233,561	372,958
<b>Net assets held in trust for employee retirement benefits</b>	<b>\$ 5,056,869</b>	<b>\$ 484,438</b>	<b>\$ 5,431,735</b>	<b>\$ 1,644,982</b>



State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2008
\$ 87	\$ 8,083	\$ 1	\$ 49	\$ 2,185	\$ 11,287
1,601	201,790	2,046	1,216	33,020	437,865
1,688	209,873	2,047	1,265	35,205	449,152
1,481	62,224				116,473
		1,018	195		1,213
1,149	31,346	396	8	26,015	125,925
2,630	93,570	1,414	203	26,015	243,611
93,619	3,341,890	76,572	13,133		6,715,854
201,825	9,029,381	122,038	26,001		17,173,336
37,183	866,111				2,210,071
	104,788			1,506,117	1,610,905
481	431,694				441,239
333,108	13,773,864	198,610	39,134	1,506,117	28,151,405
76,544	240,639				3,174,982
45	3,018				10,476
6	146				1,225
414,021	14,321,110	202,071	40,602	1,567,337	32,030,851
118	3,280			243	13,528
76,544	240,639				3,174,982
76,662	243,919			243	3,188,510
\$ 337,359	\$ 14,077,191	\$ 202,071	\$ 40,602	\$ 1,567,094	\$ 28,842,341

**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, 2008**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Additions</b>				
Contributions:				
Employer	\$ 104,655	\$ 15,257	\$ 150,925	\$ 72,155
Member	116,487	13,091	125,014	44,260
Total Contributions	221,142	28,348	275,939	116,415
Other Contributions:				
Participant fees				
Total Other Contributions				
Investment Income:				
Net increase (decrease) in fair value of investments	(386,227)	(36,279)	(401,080)	(150,666)
Interest	165,355	15,631	173,562	53,352
Dividends				
Real estate operating income, net				
Securities lending income, net	54,870	5,263	58,594	17,805
Total Investment Income	(166,002)	(15,385)	(168,924)	(79,509)
Less: Investment expense	8,330	760	8,444	2,555
Less: Securities lending expense	47,246	4,529	50,652	15,329
Net Investment Income	(221,578)	(20,674)	(228,020)	(97,393)
Total Additions	(436)	7,674	47,919	19,022
<b>Deductions</b>				
Benefit payments	699,052	31,606	403,958	125,191
Refunds	9,076	1,742	11,924	2,641
Administrative expenses	7,724	664	13,237	1,143
Total Deductions	715,852	34,012	429,119	128,975
<b>Change in Net Assets</b>	(716,288)	(26,338)	(381,200)	(109,953)
<b>Net Assets Held in Trust</b>				
Net Assets at July 1, as Restated	5,773,157	510,776	5,812,935	1,754,935
Net Assets at June 30	\$ 5,056,869	\$ 484,438	\$ 5,431,735	\$ 1,644,982

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2008
\$ 7,443	\$ 466,247	\$ 3,245	\$ 587	\$ 3,755	\$ 824,269
5,407	291,424	2,880	198	149,757	748,518
12,850	757,671	6,125	785	153,512	1,572,787
				7,190	7,190
				7,190	7,190
(23,118)	(1,335,940)	(26,599)	(5,476)	(125,950)	(2,491,335)
10,902	240,698	4,031	658	97,999	762,188
	165,543	2,819	650		169,012
	28,661				28,661
3,663	21,399				161,594
(8,553)	(879,639)	(19,749)	(4,168)	(27,951)	(1,369,880)
576	9,500	215		3,124	33,504
3,154	19,927				140,837
(12,283)	(909,066)	(19,964)	(4,168)	(31,075)	(1,544,221)
567	(151,395)	(13,839)	(3,383)	129,627	35,756
39,367	1,170,999	17,566	2,572	105,383	2,595,694
85	15,965		10		41,443
137	7,552	139	94	6,182	36,872
39,589	1,194,516	17,705	2,676	111,565	2,674,009
(39,022)	(1,345,911)	(31,544)	(6,059)	18,062	(2,638,253)
376,381	15,423,102	233,615	46,661	1,549,032	31,480,594
\$ 337,359	\$ 14,077,191	\$ 202,071	\$ 40,602	\$ 1,567,094	\$ 28,842,341

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>		<b>County Employees Retirement System</b>	
	<b>Non-Hazardous</b>	<b>Hazardous</b>	<b>Non-Hazardous</b>	<b>Hazardous</b>
<b>Assets</b>				
Cash and Short-Term Investments:				
Cash	\$ 88	\$ 24	\$ 70	\$ 7
Short-term investments	41,445	30,925	147,657	77,803
Total Cash and Short-Term Investments	<u>41,533</u>	<u>30,949</u>	<u>147,727</u>	<u>77,810</u>
Receivables:				
Investments - accounts receivable	1,948	818	3,307	1,779
Interest receivable				
Accounts receivable	7,021	1,000	22,124	6,716
Total Receivables	<u>8,969</u>	<u>1,818</u>	<u>25,431</u>	<u>8,495</u>
Investments at Fair Value:				
Corporate and government bonds	76,539	26,480	140,228	72,754
Common stocks	449,054	210,122	794,147	417,555
Mutual funds	15	15	61	37
Total Investments at Fair Value	<u>525,608</u>	<u>236,617</u>	<u>934,436</u>	<u>490,346</u>
Invested security collateral	168,431	79,439	321,321	168,708
Prepaid expenses				
Total Assets	<u>744,541</u>	<u>348,823</u>	<u>1,428,915</u>	<u>745,359</u>
<b>Liabilities</b>				
Accounts payable	1,631	84	1,649	237
Obligations under securities lending	168,431	79,439	321,321	168,708
Total Liabilities	<u>170,062</u>	<u>79,523</u>	<u>322,970</u>	<u>168,945</u>
<b>Net assets held in trust for other post employment benefits</b>	<u>\$ 574,479</u>	<u>\$ 269,300</u>	<u>\$ 1,105,945</u>	<u>\$ 576,414</u>

<b>State Police Retirement System</b>	<b>Kentucky Teachers' Retirement System</b>	<b>Judicial Retirement Plan</b>	<b>Legislators' Retirement Plan</b>	<b>Totals June 30, 2008</b>
\$ 32	\$ 588	\$	\$ 26	\$ 835
9,015	186,983	400	670	494,898
9,047	187,571	400	696	495,733
400	737			8,989
402	6,235	191	104	295
802	6,972	74	4	43,576
		265	108	52,860
14,534	71,173	14,968	7,239	423,915
97,452		23,856	14,332	2,006,518
7				135
111,993	71,173	38,824	21,571	2,430,568
35,938				773,837
	121			121
157,780	265,837	39,489	22,375	3,753,119
60	2,296			5,957
35,938				773,837
35,998	2,296			779,794
\$ 121,782	\$ 263,541	\$ 39,489	\$ 22,375	\$ 2,973,325

**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, 2008**  
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
<b>Additions</b>				
Contributions:				
Employer	\$ 56,745	\$ 21,997	\$ 196,110	\$ 90,113
Member				
Total Contributions	56,745	21,997	196,110	90,113
Other Contributions:				
Recovery Income	12,940	247	15,104	222
Medicare D Receipts	6,634	74	6,003	420
Total Other Contributions	19,574	321	21,107	642
Investment Income:				
Net increase (decrease) in fair value of investments	(52,716)	(32,147)	(121,282)	(61,936)
Interest	13,596	6,322	25,028	13,188
Dividends				
Securities lending income, net	7,054	3,329	13,390	7,075
Total Investment Income	(32,066)	(22,496)	(82,864)	(41,673)
Less: Investment expense	700	320	1,232	646
Less: Securities lending expense	6,199	2,924	11,828	6,210
Net Investment Income	(38,965)	(25,740)	(95,924)	(48,529)
Total Additions	37,354	(3,422)	121,293	42,226
<b>Deductions</b>				
Benefit payments				
Refunds				
Administrative expenses	3,487	95	3,425	364
Self funding insurance cost	49,786	471	47,177	2,960
Healthcare Premiums Subsidies	73,160	7,598	48,789	32,644
Total Deductions	126,433	8,164	99,391	35,968
<b>Change in Net Assets</b>	(89,079)	(11,586)	21,902	6,258
<b>Net Assets Held in Trust</b>				
Net Assets at July 1, as Restated	663,558	280,886	1,084,043	570,156
Net Assets at June 30	\$ 574,479	\$ 269,300	\$ 1,105,945	\$ 576,414

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Totals June 30, 2008
\$ 7,329	\$ 154,340	\$ 526	\$ 345	\$ 527,505
	55,402	558	128	56,088
7,329	209,742	1,084	473	583,593
9	25			28,547
184	11,912			25,227
193	11,937			53,774
(14,304)	2,822	(5,044)	(2,966)	(287,573)
2,828	11,628	755	351	73,696
		529	347	876
1,506				32,354
(9,970)	14,450	(3,760)	(2,268)	(180,647)
147		40		3,085
1,323				28,484
(11,440)	14,450	(3,800)	(2,268)	(212,216)
(3,918)	236,129	(2,716)	(1,795)	425,151
	183,279	1,579	670	185,528
	10			10
106		26	50	7,553
1,211				101,605
5,557				167,748
6,874	183,289	1,605	720	462,444
(10,792)	52,840	(4,321)	(2,515)	(37,293)
132,574	210,701	43,810	24,890	3,010,618
\$ 121,782	\$ 263,541	\$ 39,489	\$ 22,375	\$ 2,973,325

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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 Program** - accounts for flexible benefits spending accounts.

**County Fees Trust 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, 2008**  
(Expressed in Thousands)

	<b>Commonwealth Choice Program</b>	<b>County Fees Trust Fund</b>	<b>Special Deposit Trust Fund</b>	<b>Totals June 30, 2008</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 3,530	\$ 201	\$ 184,365	\$ 188,096
Investments, net of amortization			129,099	129,099
Invested security collateral			389,997	389,997
Receivables, net		7,687	9,214	16,901
Total Assets	<u>\$ 3,530</u>	<u>\$ 7,888</u>	<u>\$ 712,675</u>	<u>\$ 724,093</u>
<b>Liabilities</b>				
Accounts payable	\$	\$	\$ 188,205	\$ 188,205
Amounts held in custody for others	3,530	7,888	134,473	145,891
Obligations under securities lending			389,997	389,997
Total Liabilities	<u>\$ 3,530</u>	<u>\$ 7,888</u>	<u>\$ 712,675</u>	<u>\$ 724,093</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	Balances June 30, 2007	Additions	Deductions	Balances June 30, 2008
<b><u>COMMONWEALTH CHOICE PROGRAM</u></b>				
Assets				
Cash & cash equivalents	\$ 4,087	\$ 5,257	\$ 5,814	\$ 3,530
Total assets	<u>\$ 4,087</u>	<u>\$ 5,257</u>	<u>\$ 5,814</u>	<u>\$ 3,530</u>
Liabilities				
Amounts held in custody for others	\$ 4,087	\$ 5,257	\$ 5,814	\$ 3,530
Total liabilities	<u>\$ 4,087</u>	<u>\$ 5,257</u>	<u>\$ 5,814</u>	<u>\$ 3,530</u>
<b><u>COUNTY FEES TRUST FUND</u></b>				
Assets				
Cash & cash equivalents	\$ 201	\$	\$	\$ 201
Accounts Receivable	11,231	114,667	118,211	7,687
Total assets	<u>\$ 11,432</u>	<u>\$ 114,667</u>	<u>\$ 118,211</u>	<u>\$ 7,888</u>
Liabilities				
Amounts held in custody for others	\$ 11,432	\$ 114,667	\$ 118,211	\$ 7,888
Total liabilities	<u>\$ 11,432</u>	<u>\$ 114,667</u>	<u>\$ 118,211</u>	<u>\$ 7,888</u>
<b><u>SPECIAL DEPOSIT TRUST FUND</u></b>				
Assets				
Cash & cash equivalents	\$ 176,456	\$ 657,693	\$ 649,784	\$ 184,365
Investments	107,144	100,965	79,010	129,099
Invested security collateral	352,631	37,366		389,997
Accounts receivable	73,659		64,445	9,214
Total assets	<u>\$ 709,890</u>	<u>\$ 796,024</u>	<u>\$ 793,239</u>	<u>\$ 712,675</u>
Liabilities				
Accounts payable	\$ 252,330	\$	\$ 64,125	\$ 188,205
Amounts held in custody for others	104,929	29,544		134,473
Obligations under securities lending	352,631	37,366		389,997
Total liabilities	<u>\$ 709,890</u>	<u>\$ 66,910</u>	<u>\$ 64,125</u>	<u>\$ 712,675</u>
<b><u>ALL AGENCY FUNDS</u></b>				
Assets				
Cash & cash equivalents	\$ 180,744	\$ 662,950	\$ 655,598	\$ 188,096
Investments	107,144	100,965	79,010	129,099
Invested security collateral	352,631	37,366		389,997
Accounts receivable	84,890	114,667	182,656	16,901
Total assets	<u>\$ 725,409</u>	<u>\$ 915,948</u>	<u>\$ 917,264</u>	<u>\$ 724,093</u>
Liabilities				
Accounts payable	\$ 252,330	\$	\$ 64,125	\$ 188,205
Amounts held in custody for others	120,448	149,468	124,025	145,891
Obligations under securities lending	352,631	37,366		389,997
Total liabilities	<u>\$ 725,409</u>	<u>\$ 186,834</u>	<u>\$ 188,150</u>	<u>\$ 724,093</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, 2008**  
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2008
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 135,732	\$ 272,665	\$ 408,397
Restricted cash	10,105	34,670	44,775
Investments, net of amortization	310,426	7,486	317,912
Accounts receivable, net	69,657	85,213	154,870
Interest receivable	2,615	4,649	7,264
Inventories	913	6,556	7,469
Prepaid expenses	695	4,956	5,651
Other current assets	10,612	7,689	18,301
Total Current Assets	540,755	423,884	964,639
Noncurrent assets:			
Restricted cash	4,112	73,999	78,111
Long-term investments	59,344	198,752	258,096
Restricted long-term investments	18,613	145,209	163,822
Long-term receivables, net	490,229	35,106	525,335
Deferred charges	341		341
Land	26,452	53,952	80,404
Improvements other than buildings	570	75,290	75,860
Buildings	431,858	1,388,267	1,820,125
Machinery and equipment	69,624	273,418	343,042
Other capital assets	23,220	76,011	99,231
Less: Accumulated depreciation and amortization	(226,946)	(835,247)	(1,062,193)
Construction in progress	11,993	158,258	170,251
Total Capital Assets	336,771	1,189,949	1,526,720
Other assets	20,220	5,704	25,924
Total Noncurrent Assets	929,630	1,648,719	2,578,349
Total Assets	1,470,385	2,072,603	3,542,988
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	15,353	49,105	64,458
Current portion of long-term debt:			
Notes payable		3,575	3,575
Bonds payable	18,076	21,445	39,521
Capital lease obligations	3,375	6,625	10,000
Compensated absences	1,905	15,750	17,655
Claims liability	8,890	1,994	10,884
Deferred revenues	7,829	30,312	38,141
Payable from restricted assets		19,348	19,348
Other current liabilities	53	17,007	17,060
Total Current Liabilities	55,481	165,161	220,642
Noncurrent liabilities:			
Notes payable		22,754	22,754
Bonds payable	140,354	331,748	472,102
Capital lease obligations	77,857	51,911	129,768
Compensated absences	743	281	1,024
Other long-term liabilities	3,733	70,524	74,257
Total Noncurrent Liabilities	222,687	477,218	699,905
Total Liabilities	278,168	642,379	920,547
<b>Net Assets</b>			
Invested in capital assets, net of related debt	258,947	748,091	1,007,038
Restricted for:			
Debt service		20,583	20,583
Capital projects	10,089	52,344	62,433
Other purposes	776,461	339,731	1,116,192
Unrestricted	146,720	269,475	416,195
Total Net Assets	\$ 1,192,217	\$ 1,430,224	\$ 2,622,441

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2008
<b>Expenses:</b>			
Operating and other expenses	\$ 518,288	\$ 1,173,900	\$ 1,692,188
Depreciation	2,541		2,541
Total expenses	520,829	1,173,900	1,694,729
<b>Program Revenues:</b>			
Charges for services	122,464	447,604	570,068
Operating grants and contributions	271,499	249,136	520,635
Capital grants and contributions	493	19,329	19,822
Total Program Revenues	394,456	716,069	1,110,525
<b>Net Program (Expense) Revenue</b>	(126,373)	(457,831)	(584,204)
<b>General Revenues:</b>			
Unrestricted grants and contributions	366	60,991	61,357
Unrestricted investment earnings	14,352	18,549	32,901
Gain on sale of capital assets	12	86	98
Miscellaneous general	182,489	482,618	665,107
Total General Revenues	197,219	562,244	759,463
Change in Net Assets	70,846	104,413	175,259
Net Assets at July 1, as Restated	1,121,371	1,325,811	2,447,182
Net Assets at June 30	\$ 1,192,217	\$ 1,430,224	\$ 2,622,441

★ 1809 – 2009 ★



**KENTUCKY**  
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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.

**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, 2008**

(Expressed in Thousands)

	Kentucky River Authority	Kentucky Higher Education Assistance Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 879	\$ 21,326	\$	\$ 7,843	\$ 1,845
Restricted cash	9,801				
Investments, net of amortization		185			783
Accounts receivable, net	669	5,359	2	2,989	379
Interest receivable	223				4
Inventories					13
Prepaid expenses	481				207
Other current assets		533	3,764	622	
Total Current Assets	12,053	27,403	3,766	11,454	3,231
Noncurrent assets:					
Restricted cash		1,832		1,685	
Long-term investments		9,662			15,762
Restricted long-term investments				4,673	
Long-term receivables, net		13,754			
Deferred charges		130			
Land	532			24,520	129
Improvements other than buildings				570	
Buildings	408	11,986		366,808	31,571
Machinery and equipment	430			5,484	18,405
Other capital assets	15,000	5,685			
Less: Accumulated depreciation and amortization	(2,878)	(7,431)		(131,217)	(38,318)
Construction in progress	10,603			1,270	
Total Capital Assets	24,095	10,240		267,435	11,787
Other assets		13,791		851	4,334
Total Noncurrent Assets	24,095	49,409		274,644	31,883
Total Assets	36,148	76,812	3,766	286,098	35,114
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	1,305	1,364	3,732	3,349	987
Current portion of long-term debt:					
Bonds payable					
Capital lease obligations		420		2,955	
Compensated absences	28	459	32		148
Claims liability					
Deferred revenues				3,950	325
Other current liabilities		53			
Total Current Liabilities	1,333	2,296	3,764	10,254	1,460
Noncurrent liabilities:					
Bonds payable					
Capital lease obligations	14,025	6,170		57,662	
Compensated absences	56		27		
Other long-term liabilities					
Total Noncurrent Liabilities	14,081	6,170	27	57,662	
Total Liabilities	15,414	8,466	3,791	67,916	1,460
<b>Net Assets</b>					
Invested in capital assets, net of related debt	10,070	3,827		213,596	9,363
Restricted for:					
Capital projects	9,801				
Other purposes		34,267		1,685	5,978
Unrestricted	863	30,252	(25)	2,901	18,313
Total Net Assets	\$ 20,734	\$ 68,346	\$ (25)	\$ 218,182	\$ 33,654



Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 2,428	\$ 45,712	\$ 43	\$ 7,269	\$ 3,294	\$ 2,256
7,144			304		
1,735	25	1	261,788		
52	134		38,092	17,893	
557		343	2,023		
349	5,092				
12,265	50,963	387	309,476	21,187	2,256
595					
	584	352	26,966	3,559	2,459
4,509			6,096		
296	25,160		449,032		
6					
76		1,167		28	
13,671		6,570		422	
43,061		1,000	104		
2,535					
(45,378)		(730)	(85)	(15)	
120					
14,085		8,007	19	435	
			1,244		
19,491	25,744	8,359	483,357	3,994	2,459
31,756	76,707	8,746	792,833	25,181	4,715
791	8	69	2,088	9	
			16,036		
1,167		62		9	
1,378					
3,336	8	131	18,124	18	
			126,173		
616		36		8	
3,733					
4,349		36	126,173	8	
7,685	8	167	144,297	26	
14,084		8,007			
269			19		
5,952	11,186		648,517		
3,766	65,513	572		25,155	4,715
\$ 24,071	\$ 76,699	\$ 8,579	\$ 648,536	\$ 25,155	\$ 4,715

Continued

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2008**  
(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2008
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 5,099	\$ 35,476	\$ 2,262	\$ 135,732
Restricted cash				10,105
Investments, net of amortization		38,903	1,623	310,426
Accounts receivable, net	395	1,690	428	69,657
Interest receivable	54	125		2,615
Inventories				913
Prepaid expenses			7	695
Other current assets	252			10,612
Total Current Assets	5,800	76,194	4,320	540,755
Noncurrent assets:				
Restricted cash				4,112
Long-term investments				59,344
Restricted long-term investments	2,335		1,000	18,613
Long-term receivables, net	1,540		447	490,229
Deferred charges	205			341
Land				26,452
Improvements other than buildings				570
Buildings			422	431,858
Machinery and equipment			1,140	69,624
Other capital assets				23,220
Less: Accumulated depreciation and amortization			(894)	(226,946)
Construction in progress				11,993
Total Capital Assets			668	336,771
Other assets				20,220
Total Noncurrent Assets	4,080		2,115	929,630
Total Assets	9,880	76,194	6,435	1,470,385
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	123	1,187	341	15,353
Current portion of long-term debt:				
Bonds payable	2,040			18,076
Capital lease obligations				3,375
Compensated absences				1,905
Claims liability		8,890		8,890
Deferred revenues		2,176		7,829
Other current liabilities				53
Total Current Liabilities	2,163	12,253	341	55,481
Noncurrent liabilities:				
Bonds payable	14,181			140,354
Capital lease obligations				77,857
Compensated absences				743
Other long-term liabilities				3,733
Total Noncurrent Liabilities	14,181			222,687
Total Liabilities	16,344	12,253	341	278,168
<b>Net Assets</b>				
Invested in capital assets, net of related debt				258,947
Restricted for:				
Capital projects				10,089
Other purposes		63,941	4,935	776,461
Unrestricted	(6,464)		1,159	146,720
Total Net Assets	\$ (6,464)	\$ 63,941	\$ 6,094	\$ 1,192,217

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**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Kentucky River Authority</b>	<b>Kentucky Higher Education Assistance Authority</b>	<b>Bluegrass State Skills Corporation</b>	<b>Kentucky State Fair Board</b>	<b>Kentucky Center for the Arts Corporation</b>
<b>Expenses:</b>					
Operating and other expenses	\$ 2,473	\$ 203,442	\$ 7,004	\$ 50,382	\$ 10,029
Depreciation					2,526
Total expenses	<u>2,473</u>	<u>203,442</u>	<u>7,004</u>	<u>50,382</u>	<u>12,555</u>
<b>Program Revenues:</b>					
Charges for services	1,738	25,201		42,861	4,661
Operating grants and contributions		189,722			1,598
Capital grants and contributions					90
Total Program Revenues	<u>1,738</u>	<u>214,923</u>	<u></u>	<u>42,861</u>	<u>6,349</u>
<b>Net Program (Expense) Revenue</b>	<u>(735)</u>	<u>11,481</u>	<u>(7,004)</u>	<u>(7,521)</u>	<u>(6,206)</u>
<b>General Revenues:</b>					
Unrestricted grants and contributions					366
Unrestricted investment earnings	383				(133)
Gain on sale of capital assets					12
Miscellaneous general	341		6,997	1,941	3,352
Total General Revenues	<u>724</u>	<u></u>	<u>6,997</u>	<u>1,941</u>	<u>3,597</u>
Change in Net Assets	<u>(11)</u>	<u>11,481</u>	<u>(7)</u>	<u>(5,580)</u>	<u>(2,609)</u>
Net Assets at July 1, as Restated	20,745	56,865	(18)	223,762	36,263
Net Assets at June 30	<u>\$ 20,734</u>	<u>\$ 68,346</u>	<u>\$ (25)</u>	<u>\$ 218,182</u>	<u>\$ 33,654</u>

Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 31,266	\$ 11,741	\$ 2,467	\$ 144,757	\$ 167	\$
31,266	11,741	2,467	144,757	15	
				182	
2,573	1,037	1,637	12,065		6
10,763		861	32,107		
403					
13,739	1,037	2,498	44,172		6
(17,527)	(10,704)	31	(100,585)	(182)	6
(387)	1,445	2	10,413		193
14,451	3,246	4	151,357	800	
14,064	4,691	6	161,770	800	193
(3,463)	(6,013)	37	61,185	618	199
27,534	82,712	8,542	587,351	24,537	4,516
\$ 24,071	\$ 76,699	\$ 8,579	\$ 648,536	\$ 25,155	\$ 4,715

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS - AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2008
<b>Expenses:</b>				
Operating and other expenses	\$ 2,269	\$ 50,433	\$ 1,858	\$ 518,288
Depreciation				2,541
Total expenses	2,269	50,433	1,858	520,829
<b>Program Revenues:</b>				
Charges for services	4,850	25,435	400	122,464
Operating grants and contributions	221	32,600	3,627	271,499
Capital grants and contributions				493
Total Program Revenues	5,071	58,035	4,027	394,456
<b>Net Program (Expense) Revenue</b>	<b>2,802</b>	<b>7,602</b>	<b>2,169</b>	<b>(126,373)</b>
<b>General Revenues:</b>				
Unrestricted grants and contributions				366
Unrestricted investment earnings		2,396	40	14,352
Gain on sale of capital assets				12
Miscellaneous general				182,489
Total General Revenues		2,396	40	197,219
Change in Net Assets	2,802	9,998	2,209	70,846
Net Assets at July 1, as Restated	(9,266)	53,943	3,885	1,121,371
Net Assets at June 30	<u><u>\$ (6,464)</u></u>	<u><u>\$ 63,941</u></u>	<u><u>\$ 6,094</u></u>	<u><u>\$ 1,192,217</u></u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**COMPONENT UNITS-AUTHORITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
(Expressed in Thousands)

	<b>Non-major</b>		
	<b>Kentucky Agricultural Finance Corporation</b>	<b>Kentucky Grain Insurance Corporation</b>	<b>Totals June 30, 2008</b>
<b>Cash Flows from Operating Activities</b>			
Cash received from customers - public	\$ 799	\$ 6	\$ 805
Cash payments to suppliers for goods and services	(36)		(36)
Cash payments for employee salaries and benefits	(121)		(121)
Cash payments from other sources	(3,109)		(3,109)
Net Cash Provided (Used) by Operating Activities	(2,467)	6	(2,461)
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities	(100)	(814)	(914)
Interest and dividends on investments		193	193
Net Cash Provided (Used) in Investing Activities	(100)	(621)	(721)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,567)	(615)	(3,182)
Cash and Cash Equivalents at July 1	5,861	2,871	8,732
Cash and Cash Equivalents at June 30	\$ 3,294	\$ 2,256	\$ 5,550
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 619	\$ 6	\$ 625
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization	15		15
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(3,109)		(3,109)
Increase (decrease) in liabilities:			
Accounts payable	9		9
Compensated absences	(1)		(1)
Net Cash Provided (Used) by Operating Activities	(2,467)	6	(2,461)

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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, 2008**  
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 40,152	\$ 103,838	\$ 24,884
Restricted cash			3,129
Investments, net of amortization	3,970	1,398	
Accounts receivable, net	26,688	7,267	7,925
Interest receivable	394	1,591	11
Inventories	290	2,212	1,675
Prepaid expenses	750	1,584	
Other current assets		6,076	512
Total Current Assets	72,244	123,966	38,136
Noncurrent assets:			
Restricted cash	8,899	3,523	
Long-term investments	52,748	113,994	29,649
Restricted long-term investments			
Long-term receivables, net	5,856	18,687	3,670
Land	7,840	8,889	17,202
Improvements other than buildings	20,488	25,126	
Buildings	239,810	340,170	169,450
Machinery and equipment	29,623	81,617	16,788
Other capital assets	37,912		27,591
Less: Accumulated depreciation and amortization	(165,523)	(176,398)	(113,531)
Construction in progress	23,068	66,677	14,288
Total Capital Assets	193,218	346,081	131,788
Other assets		1,774	1,185
Total Noncurrent Assets, Net	260,721	484,059	166,292
Total Assets	332,965	608,025	204,428
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	14,663	7,174	2,661
Current portion of long-term debt:			
Notes payable		532	
Bonds payable	3,970	6,580	2,575
Capital lease obligations	1,868	162	469
Compensated absences	4,348	2,627	
Claims liability		706	
Deferred revenues	7,554	8,296	3,143
Payable from restricted assets	316	342	5,774
Other current liabilities	565	5,716	897
Total Current Liabilities	33,284	32,135	15,519
Noncurrent liabilities:			
Notes payable		3,432	
Bonds payable	28,005	151,310	21,275
Capital lease obligations	19,076	316	3,877
Compensated absences			
Other long-term liabilities	268	45,313	4,246
Total Noncurrent Liabilities	47,349	200,371	29,398
Total Liabilities	80,633	232,506	44,917
<b>Net Assets</b>			
Invested in capital assets, net of related debt	137,728	156,021	102,745
Restricted for:			
Debt service	4,050	4,106	
Capital projects	8,160	22,120	
Other purposes	45,082	96,427	38,968
Unrestricted	57,312	96,845	17,798
Total Net Assets	\$ 252,332	\$ 375,519	\$ 159,511

<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, 2008</b>
\$ 33,656	\$ 56,986	\$ 13,149	\$	\$ 272,665
	26,167		5,374	34,670
		2,118		7,486
5,210	17,383	9,481	11,259	85,213
1,259	1,394			4,649
2,065	261	53		6,556
767	1,418	203	234	4,956
956	95	50		7,689
43,913	103,704	25,054	16,867	423,884
41,298	20,279			73,999
	2,145		216	198,752
75,581	48,765	13,670	7,193	145,209
3,816	2,093	524	460	35,106
9,922	8,450	1,649		53,952
10,352	15,426	3,898		75,290
205,522	318,916	114,399		1,388,267
52,565	66,205	25,975	645	273,418
1,352		9,156		76,011
(147,557)	(134,218)	(97,700)	(320)	(835,247)
19,010	12,977	22,238		158,258
151,166	287,756	79,615	325	1,189,949
789	1,928	28		5,704
272,650	362,966	93,837	8,194	1,648,719
316,563	466,670	118,891	25,061	2,072,603
6,729	9,733	666	7,479	49,105
912	2,100	31		3,575
2,030	5,105	1,185		21,445
143	3,453	530		6,625
4,025	2,594	1,484	672	15,750
1,252		36		1,994
3,531	6,454	1,334		30,312
	12,916			19,348
2,489	38	364	6,938	17,007
21,111	42,393	5,630	15,089	165,161
14,833	4,425	64		22,754
37,704	86,485	6,969		331,748
1,189	21,526	5,927		51,911
			281	281
3,459	16,189	1,049		70,524
57,185	128,625	14,009	281	477,218
78,296	171,018	19,639	15,370	642,379
112,845	173,576	64,851	325	748,091
6,622	5,805			20,583
11,127	10,937			52,344
67,807	59,261	22,534	9,652	339,731
39,866	46,073	11,867	(286)	269,475
\$ 238,267	\$ 295,652	\$ 99,252	\$ 9,691	\$ 1,430,224

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**JUNE 30, 2008**

(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	\$ 253,241	\$ 271,472	\$ 140,225
Total Expenses	253,241	271,472	140,225
<b>Program Revenues:</b>			
Charges for services	72,937	134,245	47,317
Operating grants and contributions	98,410	34,418	34,400
Capital grants and contributions	14,000		
Total Program Revenues	185,347	168,663	81,717
<b>Net Program (Expense) Revenue</b>	<b>(67,894)</b>	<b>(102,809)</b>	<b>(58,508)</b>
<b>General Revenues:</b>			
Unrestricted grants and contributions	1,846	41,046	
Unrestricted investment earnings	(623)	9,291	1,053
Gain on sale of capital assets			
Miscellaneous general	82,295	101,473	69,002
Total General Revenues	83,518	151,810	70,055
Change in Net Assets	15,624	49,001	11,547
Net Assets at July 1	236,708	326,518	147,964
Net Assets at June 30	<b>\$ 252,332</b>	<b>\$ 375,519</b>	<b>\$ 159,511</b>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>Kentucky Council Postsecondary Education</b>	<b>Totals June 30, 2008</b>
<b>\$</b> 152,673	<b>\$</b> 180,092	<b>\$</b> 62,208	<b>\$</b> 113,989	<b>\$</b> 1,173,900
152,673	180,092	62,208	113,989	1,173,900
72,742	100,383	19,595	385	447,604
24,976	22,584	17,800	16,548	249,136
	4,814	75	440	19,329
97,718	127,781	37,470	17,373	716,069
(54,955)	(52,311)	(24,738)	(96,616)	(457,831)
5,593	10,431	2,075		60,991
5,391	2,962	467	8	18,549
86				86
53,985	53,173	35,915	86,775	482,618
65,055	66,566	38,457	86,783	562,244
10,100	14,255	13,719	(9,833)	104,413
228,167	281,397	85,533	19,524	1,325,811
<b>\$</b> 238,267	<b>\$</b> 295,652	<b>\$</b> 99,252	<b>\$</b> 9,691	<b>\$</b> 1,430,224

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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)**

	2008	2007	2006	2005
<b>General Fund:</b>				
Reserved	\$ 290,108	\$ 295,917	\$ 183,555	\$ 76,505
Unreserved	(1,937)	517,277	713,339	593,472
Total General Fund	<u>\$ 288,171</u>	<u>\$ 813,194</u>	<u>\$ 896,894</u>	<u>\$ 669,977</u>
<b>All Other Governmental Funds:</b>				
Reserved	\$ 919,085	\$ 704,496	\$ 597,827	\$ 664,265
Unreserved, reported in:				
Debt Service Fund	369,603	381,313	377,202	292,406
Special Revenue Funds	786,125	1,031,387	1,394,633	1,112,499
Capital Projects Funds	72,094	(66,785)	(129,103)	(120,098)
Total All Other Governmental Funds	<u>\$ 2,146,907</u>	<u>\$ 2,050,411</u>	<u>\$ 2,240,559</u>	<u>\$ 1,949,072</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.



2004	2003	2002	2001	2000	1999
\$ 85,834	\$ 114,415	\$ 123,502	\$ 404,057	\$ 431,571	\$ 370,696
303,623	183,922	(36,033)	(8,870)	206,795	116,858
<u>\$ 389,457</u>	<u>\$ 298,337</u>	<u>\$ 87,469</u>	<u>\$ 395,187</u>	<u>\$ 638,366</u>	<u>\$ 487,554</u>
\$ 941,891	\$ 575,983	\$ 1,064,829	\$ 947,481	\$ 1,027,135	\$ 1,078,766
293,654	354,836	316,560	282,653	22,147	23,210
603,323	969,767	1,219,937	1,111,739	1,313,600	1,076,281
(201,248)	(36,012)	(265,510)	(300,205)	(102,863)	(22,818)
<u>\$ 1,637,620</u>	<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>

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

	2008	2007	2006	2005
<b>Revenues</b>				
Taxes	\$ 9,871,590	\$ 9,668,573	\$ 9,465,785	\$ 8,745,358
Licenses, fees, and permits	309,413	303,849	294,575	287,045
Intergovernmental	6,169,116	5,810,270	5,662,112	5,351,830
Charges for services	758,805	752,532	781,105	728,998
Fines and forfeits	97,898	80,741	90,118	86,771
Interest and other investment income	149,833	163,833	111,894	84,006
Increase (decrease) in fair value of investments	6,529	11,241	(5,799)	9,408
Securities lending income	31,576	36,673	39,918	16,831
Other revenues	474,555	517,266	597,088	611,966
<b>Total Revenues</b>	<b>17,869,315</b>	<b>17,344,978</b>	<b>17,036,796</b>	<b>15,922,213</b>
<b>Expenditures</b>				
Current:				
General government	2,702,730	2,591,176	2,444,023	2,131,008
Legislative and judicial	338,839	303,799	302,303	277,792
Commerce	100,535	96,572	81,037	66,609
Education and humanities	4,800,460	4,554,565	4,395,948	4,091,135
Human resources	7,301,114	6,764,174	6,602,797	6,188,350
Justice	767,270	727,178	710,142	633,662
Natural resources and environmental protection	192,957	195,980	171,407	161,899
Public protection and regulation	97,482	98,517	67,329	73,868
Transportation	2,090,584	1,825,318	1,661,585	1,520,371
Debt Service:				
Principal retirement	341,733	285,809	246,404	247,290
Interest and fiscal charges	210,331	200,297	174,972	190,225
Other expenditures	21,025	15,960	26,649	26,574
Securities lending expense	26,774	35,318	38,144	15,619
Capital outlay:				
Buildings	582,550	583,302	446,855	279,953
<b>Total Expenditures</b>	<b>19,574,384</b>	<b>18,277,965</b>	<b>17,369,595</b>	<b>15,904,355</b>
Excess (Deficiency) of Revenues over (under) Expenditures	<b>(1,705,069)</b>	<b>(932,987)</b>	<b>(332,799)</b>	<b>17,858</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,357,766	2,216,889	2,124,893	1,791,143
Transfers from component units				
Transfers out	(2,258,283)	(2,041,824)	(1,969,206)	(1,645,143)
Transfers to component units				
Capitalized leases	3,280	7,364	6,079	18,905
Proceeds from the sale of bonds:				
New issues	372,135	159,140	445,350	213,750
Refunding issues	100,000	105,085		257,685
Premiums	46,322	16,610	21,416	53,484
Discounts				
Proceeds from notes	750,085	520,354	(58)	232,760
Other financing sources				
Payments to refunded bond escrow agent	(100,000)	(330,193)		(258,550)
<b>Total Other Financing Sources (Uses)</b>	<b>1,271,305</b>	<b>653,425</b>	<b>628,474</b>	<b>664,034</b>
<b>Net Change in Fund Balances</b>	<b>\$ (433,764)</b>	<b>\$ (279,562)</b>	<b>\$ 295,675</b>	<b>\$ 681,892</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>2.91%</b>	<b>2.75%</b>	<b>2.49%</b>	<b>2.82%</b>

**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.

2004	2003	2002	2001	2000	1999
\$ 7,933,198	\$ 7,777,612	\$ 7,474,709	\$ 7,534,101	\$ 7,385,286	\$ 7,075,495
265,699	252,123	308,209	200,239	203,608	188,304
5,150,705	5,093,078	4,821,756	4,208,631	4,602,881	3,825,985
616,638	548,226	506,924	426,173	359,782	298,952
95,745	73,691	54,169	54,297	49,986	53,024
75,980	133,532	188,385	213,523	175,062	156,499
(40,558)	15,614	13,548	18,577	(11,169)	(16,171)
15,549					
625,008	506,272	406,869	616,361	230,325	185,881
14,737,964	14,400,148	13,774,569	13,271,902	12,995,761	11,767,969
1,933,909	1,889,243	2,036,798	672,605	541,008	556,913
265,847	246,838	239,515	216,608	212,978	186,168
65,518	62,486	58,741	51,283	52,941	49,927
3,823,798	3,752,918	3,584,412	3,442,741	3,351,422	3,250,456
5,984,514	5,650,039	5,563,087	5,110,365	5,109,752	4,368,927
563,890	575,237	564,427	553,499	511,106	451,532
149,401	135,349	143,924	127,048	125,724	120,938
112,587	139,299	120,764	124,725	131,350	130,245
1,724,342	1,695,652	1,724,061	1,588,052	1,502,356	1,356,322
286,166	260,977	227,648	265,689	133,153	197,363
181,424	195,126	124,625	181,006	191,429	158,225
78,052	4,153	(14,727)	(36,637)	(21,874)	2,110
13,123					
293,761	244,419	483,145	309,011	225,409	266,165
15,476,332	14,851,736	14,856,420	12,605,995	12,066,754	11,095,291
(738,368)	(451,588)	(1,081,851)	665,907	929,007	672,678
1,781,871	1,926,260	1,698,673	1,268,907	1,650,318	2,233,184
(1,563,679)	(1,676,970)	(1,523,710)	942		
5,359	7,592	6,414	(1,552,020)	(1,524,032)	(2,370,750)
508,991		653,696	(1,428,957)	(1,048,810)	(910,373)
601,879		322,659	941	987	1,638
103,316		44,824	516,697	91,658	252,337
		(4,798)	410,706	288,667	35,745
171,260		19,135	100,400	99,618	
(944,495)	(1,567)	(321,565)			13,008
664,502	255,315	895,328	(463,429)	(271,985)	(31,304)
			(1,145,813)	(713,579)	(776,515)
\$ (73,866)	\$ (196,273)	\$ (186,523)	\$ (479,906)	\$ 215,428	\$ (103,837)
3.18%	3.24%	2.48%	3.33%	2.56%	3.30%

★ 1809 – 2009 ★



**KENTUCKY**  
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**LINCOLN**

★ BICENTENNIAL ★

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

	2008	2007	2006	2005	2004	2003	2002
<b>Governmental Activities:</b>							
Invested in capital assets, net of related debt	\$ 19,911,942	\$ 17,947,656	\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
Restricted	1,139,727	1,237,151	1,376,301	1,081,388	994,827	1,189,894	1,524,926
Unrestricted	(4,816,142)	(1,807,615)	(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
Total Governmental Activities Net Assets	16,235,527	17,377,192	17,818,983	17,449,838	16,670,564	16,270,378	15,626,084
<b>Business-type Activities:</b>							
Invested in Capital Assets, net of related debt	290,365	267,144	254,623	249,728	257,794	249,023	220,996
Restricted	310,216	359,605	392,318	375,488	382,173	464,354	451,761
Unrestricted	(553,995)	(634,297)	(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
Total Business-Type Activities Net Assets	46,586	(7,548)	34,159	(7,830)	(81,911)	(60,742)	(242,808)
<b>Primary Government:</b>							
Invested in capital assets, net of related debt	20,202,307	18,214,800	17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
Restricted	1,449,943	1,596,756	1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
Unrestricted	(5,370,137)	(2,441,912)	(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
Total Primary Government Net Assets	\$ 16,282,113	\$ 17,369,644	\$ 17,853,142	\$ 17,442,008	\$ 16,588,653	\$ 16,209,636	\$ 15,383,276

**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 SEVEN FISCAL YEARS**  
**(Expressed in Thousands)**

	2008	2007	2006
<b>Function/Program Revenues</b>			
<b>Primary Government:</b>			
Governmental Activities:			
Charges for Services:			
General government	\$ 494,587	\$ 375,662	\$ 374,655
Legislative and judicial	15,225	14,558	13,667
Commerce	41,821	42,267	34,390
Education and humanities	68,609	85,538	102,783
Human Resources	200,913	197,556	106,238
Justice	24,096	22,189	33,185
Natural resources and environmental protection	42,511	39,412	33,205
Public protection and regulation	66,495	64,260	63,341
Transportation	16,849	215,869	202,569
Operating Grants and Contributions	5,554,089	5,261,989	5,139,428
Capital Grants and Contributions	750,184	658,132	597,282
Total Governmental Activities	<u>7,275,379</u>	<u>6,977,432</u>	<u>6,700,743</u>
Business-Type Activities:			
Charges for Services:			
State Parks	57,605	56,208	52,751
Kentucky Lottery Corporation	778,211	744,222	742,312
Kentucky Horse Park	6,763	6,632	6,010
Insurance Administration	129,870	130,994	178,305
Kentucky Public Employees' Health Plan	1,270,899	1,158,078	595,435
Unemployment Compensation	381,410	357,396	377,265
Operating Grants and Contributions	53,838	46,798	45,573
Capital Grants and Contributions	1,735	476	112
Total Business-Type Activities	<u>2,680,331</u>	<u>2,500,804</u>	<u>1,997,763</u>
Total Primary Government	<u>\$ 9,955,710</u>	<u>\$ 9,478,236</u>	<u>\$ 8,698,506</u>
<b>Expenses</b>			
<b>Primary Government:</b>			
Governmental Activities:			
General government	\$ 4,370,883	\$ 3,708,700	\$ 2,714,165
Legislative and judicial	335,635	313,010	305,466
Commerce	107,774	96,486	103,996
Education and humanities	4,852,742	4,608,914	4,421,812
Human Resources	6,904,568	6,468,225	6,259,383
Justice	845,153	803,120	794,698
Natural resources and environmental protection	197,265	191,052	207,369
Public protection and regulation	97,360	116,770	68,108
Transportation	1,170,102	1,123,493	1,263,891
Interest expense	254,488	266,388	250,622
Total Governmental Activities	<u>19,135,970</u>	<u>17,696,158</u>	<u>16,389,510</u>
Business-Type Activities:			
State Parks	104,672	111,973	90,283
Kentucky Lottery Corporation	599,490	563,549	558,435
Kentucky Horse Park	12,799	10,624	9,690
Insurance Administration	117,817	176,338	70,683
Kentucky Public Employees' Health Plan	1,288,981	1,152,794	507,282
Unemployment Compensation	493,397	450,629	396,052
Total Business-Type Activities	<u>2,617,156</u>	<u>2,465,907</u>	<u>1,632,425</u>
Total Primary Government	<u>\$ 21,753,126</u>	<u>\$ 20,162,065</u>	<u>\$ 18,021,935</u>
<b>Net (Expense)/Revenue</b>			
Governmental Activities	\$ (11,860,591)	\$ (10,718,726)	\$ (9,688,767)
Business-Type Activities	63,175	34,897	365,338
Total Primary Government Net Expense	<u>\$ (11,797,416)</u>	<u>\$ (10,683,829)</u>	<u>\$ (9,323,429)</u>

2005	2004	2003	2002
\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
11,314	11,111	9,755	8,752
35,002	34,689	32,247	27,918
106,059	14,185	8,789	9,298
181,921	138,487	418,444	419,916
22,790	23,011	18,631	32,730
31,094	39,311	19,961	21,547
53,629	69,194	71,829	55,609
227,700	207,151	235,700	247,265
4,915,115	4,528,038	4,583,434	4,366,372
520,194	524,936	547,363	646,847
6,460,708	5,902,120	6,222,945	6,085,597
50,655	50,925	49,368	47,640
707,260	725,252	673,485	638,728
5,791	5,896	5,840	5,379
133,380	129,084	157,109	133,749
371,099	332,047	354,432	226,762
49,509	130,212	210,488	220,812
33	586	1,046	
1,317,727	1,374,002	1,451,768	1,273,070
\$ 7,778,435	\$ 7,276,122	\$ 7,674,713	\$ 7,358,667
\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
282,389	268,001	247,503	243,571
81,639	128,548	80,459	88,229
4,092,896	3,824,742	3,752,426	3,639,130
5,897,619	5,630,683	5,646,075	5,576,596
702,796	564,202	616,236	611,350
164,498	150,380	136,057	114,496
68,956	111,928	139,518	50,798
1,191,512	1,020,786	1,062,576	1,093,070
201,564	200,315	227,926	335,499
14,917,980	14,221,628	13,857,843	13,670,028
92,193	92,287	88,423	97,706
552,410	554,880	515,629	475,944
9,387	11,732	8,562	6,715
101,312	77,241	83,536	156,851
429,007	556,870	490,348	612,112
1,184,309	1,293,010	1,186,498	1,349,328
\$ 16,102,289	\$ 15,514,638	\$ 15,044,341	\$ 15,019,356
\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
133,418	80,992	265,270	(76,258)
\$ (8,323,854)	\$ (8,238,516)	\$ (7,369,628)	\$ (7,660,689)

Continued

**COMMONWEALTH OF KENTUCKY**  
**GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE**  
**FOR THE LAST SEVEN FISCAL YEARS**  
**(Expressed in Thousands)**

	2008	2007	2006
<b>General Revenues and</b>			
<b>Other Changes in Net Assets</b>			
Governmental Activities:			
Taxes:			
Sales and gross receipt	\$ 4,828,223	\$ 4,623,126	\$ 4,433,893
Individual income	3,512,908	2,975,875	2,863,269
Corporate income	397,842	961,204	1,013,768
Property	497,326	503,853	492,532
License and privilege	33,049	42,738	73,679
Severance	310,294	279,924	290,203
Inheritance and estate	51,423	49,574	40,498
Miscellaneous taxes	163,842	164,715	161,663
Unrestricted grants and contributions	11,923	731	723
Unrestricted investment earnings	31,335	57,070	58,428
Gain on sale of capital assets	10,123	3,288	4,637
Miscellaneous general	596,079	421,772	499,657
Transfers	126,716	169,150	187,101
Total General Revenues and Transfers	10,571,083	10,253,020	10,120,051
Change in Net Assets	(1,289,508)	(465,706)	431,284
Net Assets at July 1, as Restated	17,525,035	17,842,898	17,387,699
Net Assets at June 30	\$ 16,235,527	\$ 17,377,192	\$ 17,818,983
Business-Type Activities:			
Unrestricted grants and contributions	\$ 16,531	\$ 83,846	\$ 26,793
Unrestricted investment earnings	59	72	30
Gain on sale of capital assets	18,746	8,628	25,900
Miscellaneous general	(126,716)	(169,150)	(187,101)
Transfers	(91,380)	(76,604)	(134,378)
Total General Revenues and Transfers	(28,205)	(41,707)	230,960
Change in Net Assets	74,791	34,159	(196,801)
Net Assets at July 1, as Restated	\$ 46,586	\$ (7,548)	\$ 34,159
Net Assets at June 30			
<b>Change in Net Assets</b>			
Governmental Activities	\$ (1,289,508)	\$ (465,706)	\$ 431,284
Business-Type Activities	(28,205)	(41,707)	230,960
Total Primary Government Changes			
in Net Assets	\$ (1,317,713)	\$ (507,413)	\$ 662,244



2005	2004	2003	2002
\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
3,060,274	2,790,732	2,764,133	2,564,182
476,524	311,284	290,403	607,213
479,815	462,062	439,129	450,134
142,962	142,048	162,929	92,953
237,512	194,369	176,300	158,354
66,766	66,287	93,553	94,609
180,045	152,921	149,089	147,126
1,836	69,037	68,721	2
31,858	24,368	10,184	49,259
		(73,096)	(3,768)
456,736	468,056	392,330	344,484
141,338	201,712	231,828	184,084
9,307,118	8,663,080	8,359,038	8,031,714
849,846	343,572	724,140	447,283
16,599,992	16,326,992	15,546,140	15,178,801
\$ 17,449,838	\$ 16,670,564	\$ 16,270,280	\$ 15,626,084
\$	\$	\$	\$
36,782	20	(5,015)	(370)
61	21,259	19,251	7,178
47,820	75	437	
(141,338)	66,689	(1,987)	
(56,675)	(201,712)	(231,828)	(184,084)
76,743	(113,669)	(219,142)	(177,276)
(84,573)	(32,677)	46,128	(253,534)
\$ (7,830)	(49,234)	(106,870)	10,726
	\$ (81,911)	\$ (60,742)	\$ (242,808)
\$	\$	\$	\$
849,846	343,572	724,140	447,283
76,743	(32,677)	46,128	(253,534)
\$ 926,589	\$ 310,895	\$ 770,268	\$ 193,749

**COMMONWEALTH OF KENTUCKY  
PERSONAL INCOME TAX INFORMATION  
CALENDAR YEARS 2000 - 2006**

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

Ky Federal AGI ( from Ky form 740) Income Level	Calendar Year 2006			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
<b>Resident Taxpayer</b>				
less than \$25,001	767,424	45.40%	\$ 229,987,659	8.16%
\$25,001-\$50,000	415,963	24.61%	529,147,666	18.77%
\$50,001-\$100,000	368,080	21.77%	949,847,298	33.69%
\$100,001-\$200,000	109,444	6.47%	557,688,917	19.78%
\$200,001-\$500,000	23,454	1.39%	274,647,561	9.74%
Greater than \$500,000	6,118	0.36%	278,275,135	9.87%
<b>Total Resident</b>	<b>1,690,483</b>	<b>100.00%</b>	<b>2,819,594,236</b>	<b>100.00%</b>
<b>Non-Resident Taxpayer</b>				
less than \$25,001	45,787	36.39%	4,902,653	5.24%
\$25,001-\$50,000	22,096	17.56%	11,540,427	12.34%
\$50,001-\$100,000	22,334	17.75%	20,290,113	21.69%
\$100,001-\$200,000	13,230	10.52%	19,021,143	20.34%
\$200,001-\$500,000	9,282	7.38%	14,037,620	15.01%
Greater than \$500,000	13,081	10.40%	23,738,886	25.38%
<b>Total Non-Resident</b>	<b>125,810</b>	<b>100.00%</b>	<b>93,530,842</b>	<b>100.00%</b>
<b>Totals</b>	<b>1,816,293</b>		<b>\$ 2,913,125,078</b>	

**Personal Income Tax Rates**

**Tax Years 2000 - 2006**

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>2006</b>		<b>2000</b>		
Personal Income Tax Revenue	\$ 2,913,125,078	(A)	\$ 2,618,135,253		
Personal Income	94,581,000	(B)	68,851,883		
Average Effective Rate	3.2%		2.6%		

**Source of Tax Information:**

(A) Kentucky Department of Revenue

NOTE: Calendar year 2006 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</b>		<b>Percentage of Total</b>
		<b>Liability</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</b>		<b>Percentage of Total</b>
		<b>Liability</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>\$</b>	<b>2,618,135,253</b>	



**COMMONWEALTH OF KENTUCKY**  
**ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY**  
**FOR CALENDAR YEARS 1998-2007**  
(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	
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%
2007	209,408,191	222,774,671	155,998,799	155,998,799	365,406,990	378,773,470	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 1998-2007**  
(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
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%
2007	513,301	483,127	94.1%	17,520	500,647	97.5%

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)

	2008	2007	2006	2005
<b>Governmental Activities Debt</b>				
Revenue Bonds (2)	\$ 3,617,080	\$ 3,442,634	\$ 3,546,468	\$ 3,236,766
Notes (2)	1,516,350	910,310	554,790	373,990
Capital Leases (2)	30,968	39,079	28,450	32,518
Total Government Activities Debt	5,164,398	4,392,023	4,129,708	3,643,274
<b>Business-Type Activities Debt</b>				
Notes (2)				
Capital Leases (2)	212	197	307	275
Total Business-Type Activities Debt	212	197	307	275
<b>Total Primary Government Debt</b>	<u>\$ 5,164,610</u>	<u>\$ 4,392,220</u>	<u>\$ 4,130,015</u>	<u>\$ 3,643,549</u>
<b>Total Debt Ratios</b>				
Ratio of Total Debt to Personal Income	5.68%	4.83%	4.54%	4.26%
Total Debt Per Capita (1)	<u>\$ 1,237.51</u>	<u>\$ 1,052.43</u>	<u>\$ 989.60</u>	<u>\$ 878.83</u>
<b>Net Bonded Debt</b>				
Gross Bonded Debt	\$ 3,617,080	\$ 3,442,634	\$ 3,546,468	\$ 3,236,766
Less: Debt Service Funds	405,028	415,386	403,002	314,554
Net Bonded Debt	<u>\$ 3,212,052</u>	<u>\$ 3,027,248</u>	<u>\$ 3,143,466</u>	<u>\$ 2,922,212</u>
<b>Net Bonded Debt Ratios</b>				
Ratio of Net Bonded Debt to				
Governmental Funds Revenues	17.97%	17.45%	18.45%	18.35%
Net Bonded Debt Per Capita (1)	<u>\$ 769.65</u>	<u>\$ 725.37</u>	<u>\$ 753.21</u>	<u>\$ 704.84</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

2004	2003	2002	2001	2000	1999
\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683
186,970	31,475	81,535	73,875	218,680	338,400
17,252	8,565	24,712	2,153	1,882	1,946
3,429,653	3,205,263	3,511,293	3,020,867	2,536,095	2,519,029
451		339	1,697	3,055	4,412
245	77	183	4,630	2,213	5,398
696	77	522	6,327	5,268	9,810
\$ 3,430,349	\$ 3,205,340	\$ 3,511,815	\$ 3,027,194	\$ 2,541,363	\$ 2,528,839
4.28%	4.42%	4.98%	4.40%	3.93%	4.15%
\$ 833.05	\$ 783.15	\$ 863.10	\$ 747.67	\$ 632.49	\$ 634.53
\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533	\$ 2,178,683
317,665	354,836	329,267	529,164	301,432	314,306
\$ 2,907,766	\$ 2,810,387	\$ 3,075,779	\$ 2,415,675	\$ 2,014,101	\$ 1,864,377
19.73%	19.52%	22.33%	18.20%	15.50%	15.84%
\$ 706.14	\$ 686.65	\$ 755.94	\$ 596.64	\$ 501.26	\$ 467.80

**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>
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
2008	235,398	47,782	4.93

SOURCE: Commonwealth of Kentucky Comprehensive Annual  
Financial Reports; State universities' audited financial statements

**TOP 10 MANUFACTURERS  
(Ranked by Number of Employees)  
June 30, 2008**

<b>Company</b>	<b>Number of Locations</b>	<b>Number of Employees</b>
Humana, Inc.	16	9,344
Toyota Motor Corp.	6	8,928
United Parcel Service, Inc.	19	7,664
General Electric Co.	9	6,904
Ford Motor Co.	2	6,829
Delta Air Lines, Inc.	1	4,274
Citigroup	2	3,900
Fidelity Investments	1	3,900
Johnson Controls, Inc.	13	3,826
Dana Corp.	9	3,418

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

**DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 1998-2007**

<b>For the Year Ended December 31</b>	<b>Estimated Population</b>	<b>Per Capita Income</b>	<b>Unemployment Rate</b>
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%
2007	4,241,474	31,111	5.5%

SOURCE: Website Addresses: <http://www.bea.gov/bea/regional/spi/drill.cfm>  
<http://www.bls.gov/lau/lastrk07.htm>



**COMMONWEALTH OF KENTUCKY  
SOURCES OF PERSONAL INCOME  
FOR CALENDAR YEARS 1998-2007**  
(Expressed in Thousands, Except Percent Data)

Source	1998		1999		2000		2001		2002*	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 957,190	1.6%	\$ 730,192	1.1%	\$ 1,361,530	2.0%	\$ 973,207	1.4%	\$ 883,000	1.2%
Agriculture services, forestry, fisheries and others	423,380	0.7%	462,975	0.7%	502,305	0.7%	521,571	0.7%	521,000	0.7%
Mining	1,348,968	2.2%	1,350,661	2.1%	1,197,845	1.7%	1,332,006	1.9%	1,382,000	1.9%
Manufacturing	12,666,832	20.8%	13,373,527	20.7%	13,945,732	20.3%	13,636,163	19.3%	13,611,000	18.8%
Construction	3,612,018	5.9%	3,922,877	6.1%	4,196,268	6.1%	4,330,236	6.1%	4,276,000	5.9%
Wholesale and retail trade	9,356,004	15.3%	10,032,800	15.5%	10,537,792	15.3%	10,699,135	15.2%	11,088,000	15.3%
Finance, insurance and real estate	3,102,800	5.1%	3,296,512	5.1%	3,690,749	5.4%	3,776,761	5.4%	4,034,000	5.6%
Transportation and public utilities	4,687,916	7.7%	5,005,048	7.7%	5,337,433	7.8%	5,495,944	7.8%	5,478,000	7.6%
Services	13,716,312	22.5%	14,716,433	22.8%	15,629,585	22.7%	16,507,154	23.4%	17,285,000	23.8%
Government and government enterprises	11,125,965	18.2%	11,770,589	18.2%	12,452,644	18.1%	13,218,964	18.8%	13,940,000	19.2%
Earnings by Place of Work	<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>	<u>\$ 72,498,000</u>	<u>100.0%</u>

Source	2003**		2004**		2005**		2006**		2007**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 854,000	1.1%	\$ 580,000	0.7%	\$ 1,520,500	1.7%	\$ 532,750	0.6%	\$ 1,040,750	1.0%
Agriculture services, forestry, fisheries and others	383,250	0.5%	359,250	0.4%	369,750	0.4%	422,500	0.4%	407,250	0.4%
Mining	1,310,500	1.6%	1,495,250	1.7%	1,879,750	2.1%	2,128,750	2.3%	2,227,000	2.2%
Manufacturing	14,816,000	18.5%	16,142,000	18.9%	16,364,000	18.0%	17,033,000	18.0%	17,069,000	17.2%
Construction	4,821,250	6.0%	4,819,750	5.6%	5,133,750	5.6%	5,225,750	5.5%	5,292,750	5.3%
Wholesale and retail trade	9,940,250	12.4%	10,475,250	12.3%	10,857,250	11.9%	11,430,750	12.1%	11,726,500	11.8%
Finance, insurance and real estate	4,962,750	6.2%	5,274,250	6.2%	5,487,250	6.0%	5,922,750	6.3%	6,345,250	6.4%
Transportation and public utilities	5,023,250	6.3%	5,386,750	6.3%	5,452,500	6.0%	5,653,750	6.0%	6,237,000	6.3%
Services	23,330,250	29.1%	24,756,000	29.0%	26,222,250	28.9%	27,810,500	29.4%	29,033,250	29.3%
Government and government enterprises	14,686,250	18.3%	16,196,000	18.9%	17,594,750	19.4%	18,420,500	19.5%	19,826,000	20.0%
Earnings by Place of Work	<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>	<u>\$ 99,204,750</u>	<u>100.0%</u>

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov/bea/regional>)

NOTE: Percentages may not add to 100% due to rounding.

\* 2002 annual estimates computed with BEA table SQ5 by adding 4 quarters of 2002 and dividing by 4.

\*\* Annual estimates computed with BEA table SQ5N by adding 4 quarters of each year and dividing by 4.

Quarterly charts show each quarter as an annualized amount based on amounts to date.

Amounts are based on the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system used in previous years. This affects comparability of amounts. NAICS will be used in the future fiscal years.

**COMMONWEALTH OF KENTUCKY  
OPERATING INDICATORS BY FUNCTION  
FOR THE LAST THREE FISCAL YEARS**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Personnel</b>			
Number of Full Time Employees-			
Executive Branch	33,608	33,204	34,947
Health Insurance Expenditures -			
Percentage Increase	6.10%	-1.80%	29%
<b>Education</b>			
K-12 Enrollment	671,542	668,337	664,606
K-12 Attendance Rate	94.18%	94.60%	94.31%
K-12 Graduation Rate	83.72%	83.26%	82.84%
Statewide Academic Index	82.20%	81.80%	78.30%
Average ACT Score	20.9	20.7	20.6
GED Graduates	10,307	9,757	9,054
College Going Rate for 9th Graders	38%	38%	37%
Postsecondary Education Enrollment	212,994	206,419	202,197
Bachelor's and Higher Degrees Awarded	27,246	27,042	26,544
<b>Justice and Public Safety</b>			
Incarcerated Population-Daily Average	22,219	20,772	19,943
Probation and Parole Average Daily			
Caseload	39,206	33,642	33,643
<b>Health and Family Services</b>			
Medicaid Enrollment-Average	722,559	710,000	699,595
Food Stamp Recipients-Monthly Average	623,997	595,366	598,486
Temporary Assistance for Needy			
Families (TANF)-Monthly Average	48,743	68,260	69,696
Children with substantiated incidences			
of abuse/neglect	15,196	15,500	15,526
<b>Environmental and Public Protection</b>			
Air Pollution Source Inspections	4,310	4,000	4,600
Waste Management Inspections	6,443	7,500	7,200
Acres of Land Reforested	5,105	2,000	1,600
Mine Permits Issued	848	954	1,025
Mine Reclamation and Enforcement			
Inspections	26,062	22,898	22,001
Mine Safety-Completed Inspections	2,718	2,364	2,500
<b>Transportation</b>			
Percentage of Total Road System			
Needing Improvement	15%	15%	14%
Statewide Road Maintainance			
Rating (Top Score = 80)	81.7	80.1	79.1
Daily Miles Traveled-Percentage			
Changed (2005 Data)	-0.5%	0.1%	-0.3%
State-Maintained Lane Miles-			
Percent Change	0.6%	0.2%	0.2%
Kentucky Road Construction Cost			
Index-Percent Increase (2005 Data)	27.95%	32.0%	19.5%

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b><u>General Government</u></b>			
Number of Buildings	558	566	297
Number of Vehicles	411	487	258
Land (Acres)	17,024	14,108	13,294
<b><u>Commerce</u></b>			
Number of Resort Parks	17	17	17
Number of Recreation Parks	24	24	24
Number of Historic Sites	10	11	10
Area of State Parks (Acres)	42,428	42,428	45,137
<b><u>Education and Humanities</u></b>			
Number of Buildings	70	69	70
Number of Vehicles	123	134	209
Land (Acres)	372	388.4	388
<b><u>Human Resources</u></b>			
Number of Buildings	196	193	190
Number of Vehicles	150	165	215
Land (Acres)	1,007	1,206	1,206
<b><u>Justice</u></b>			
Number of Buildings	482	449	440
Number of Vehicles	1,696	1,668	3,911
Land (Acres)	6,166	5,314	9,044
<b><u>Natural Resources and Environmental Protection</u></b>			
Number of Buildings	26	27	25
Number of Vehicles	847	1319	2,622
Land (Acres)	51,175	50,983	64,134
<b><u>Public Protection and Regulation</u></b>			
Number of Vehicles	76	86	44
<b><u>Transportation</u></b>			
Number of Lane Miles -State Maintained Highways	62,419	62,071	62,193
Number of State maintained Bridges	8,842	8,974	8,974
Land (Acres)	1,977	1,977	1,961

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

	2008	2007	2006	2005
<b><u>FULL-TIME EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	4,855	4,984	5,004	5,150
Legislative and judicial	3,730	3,626	3,445	3,332
Commerce	2,141	2,155	2,212	2,206
Education and humanities	2,967	2,984	2,906	2,923
Human resources	7,387	7,751	8,411	8,861
Justice	8,090	7,967	7,932	7,693
Natural resources and environmental protection	1,601	1,673	1,659	1,681
Public protection and regulation	1,208	1,194	1,199	1,164
Transportation	4,549	4,711	4,715	5,082
<b>Total full-time employees</b>	<b>36,528</b>	<b>37,045</b>	<b>37,483</b>	<b>38,092</b>
<b><u>PART-TIME and TEMPORARY EMPLOYEES</u></b>				
<b>FUNCTION</b>				
General government	649	757	781	787
Legislative and judicial	574	554	583	751
Commerce	1,506	1,548	1,516	1,522
Education and humanities	228	281	306	265
Human resources	71	165	114	97
Justice	58	33	50	49
Natural resources and environmental protection	27	67	54	51
Public protection and regulation	15	54	34	35
Transportation	156	202	165	126
<b>Total part-time and temporary employees</b>	<b>3,284</b>	<b>3,661</b>	<b>3,603</b>	<b>3,683</b>
<b>Total Employees</b>	<b>39,812</b>	<b>40,706</b>	<b>41,086</b>	<b>41,775</b>

2004	2003	2002	2001	2000	1999
5,062	5,317	5,514	5,160	5,154	5,063
3,138	3,177	2,861	3,047	2,957	2,806
2,188	2,348	2,357	2,412	2,398	2,397
3,158	2,026	3,184	3,218	3,402	3,347
9,015	9,395	9,607	9,489	9,068	9,005
7,488	7,139	7,121	7,002	6,663	6,691
1,692	1,575	1,564	1,580	1,601	1,497
1,112	1,819	1,815	1,821	1,778	1,539
5,251	5,860	6,057	6,123	6,061	5,979
38,104	38,656	40,080	39,852	39,082	38,324
665	684	707	746	729	756
747	720	516	696	706	690
1,525	1,587	1,468	1,431	1,522	1,463
347	408	468	507	415	450
69	112	289	215	225	150
27	33	66	93	89	57
38	26	31	35	35	25
23	33	33	48	58	56
80	88	117	257	261	262
3,521	3,691	3,695	4,028	4,040	3,909
41,625	42,347	43,775	43,880	43,122	42,233

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*Commonwealth of Kentucky*  
*Comprehensive Annual Financial Report*  
*for the Fiscal Year Ended June 30, 2008*