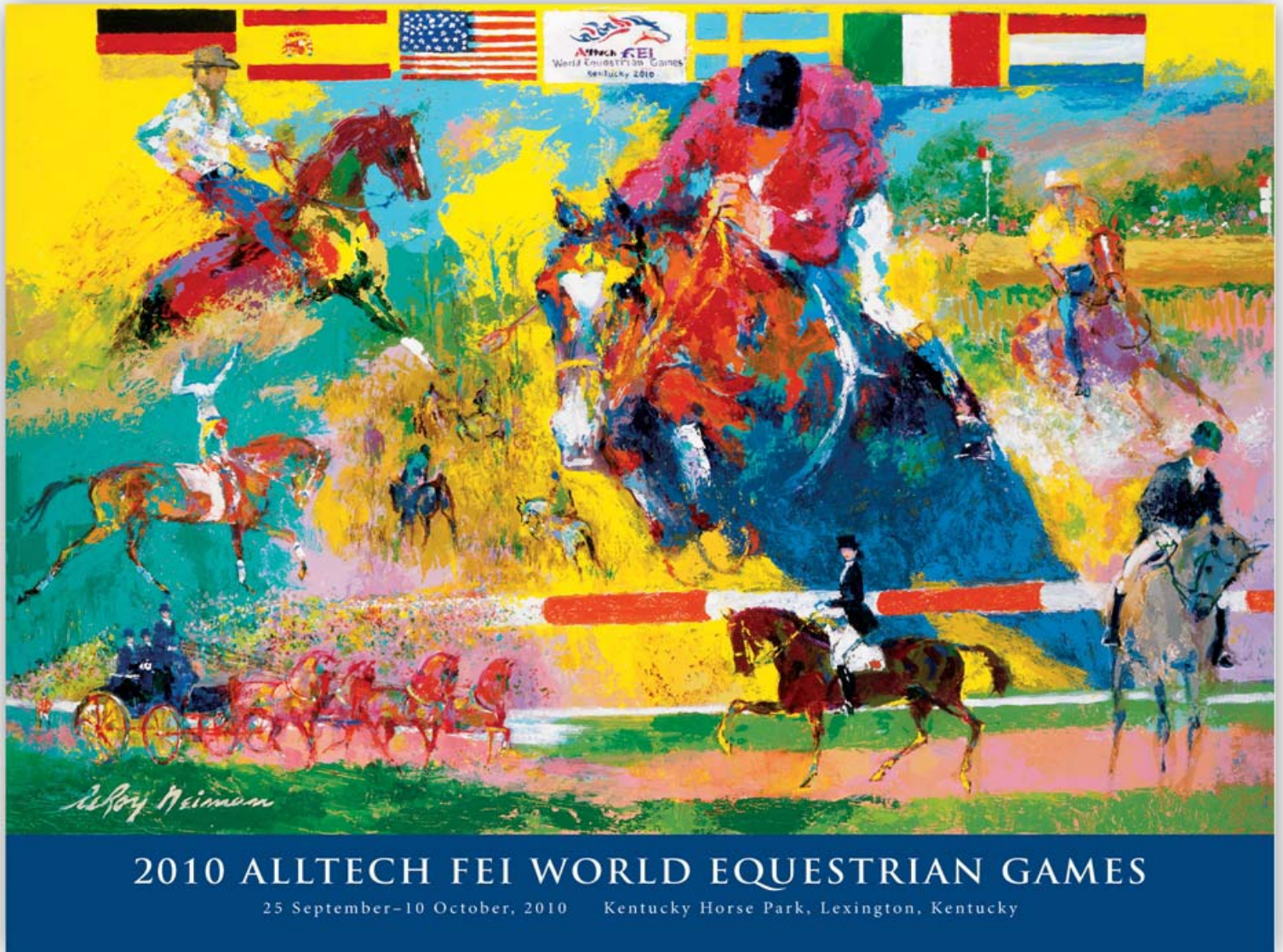


Commonwealth of Kentucky

Comprehensive Annual Financial Report



Fiscal Year Ended June 30, 2009



Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2009

Steven L. Beshear, Governor

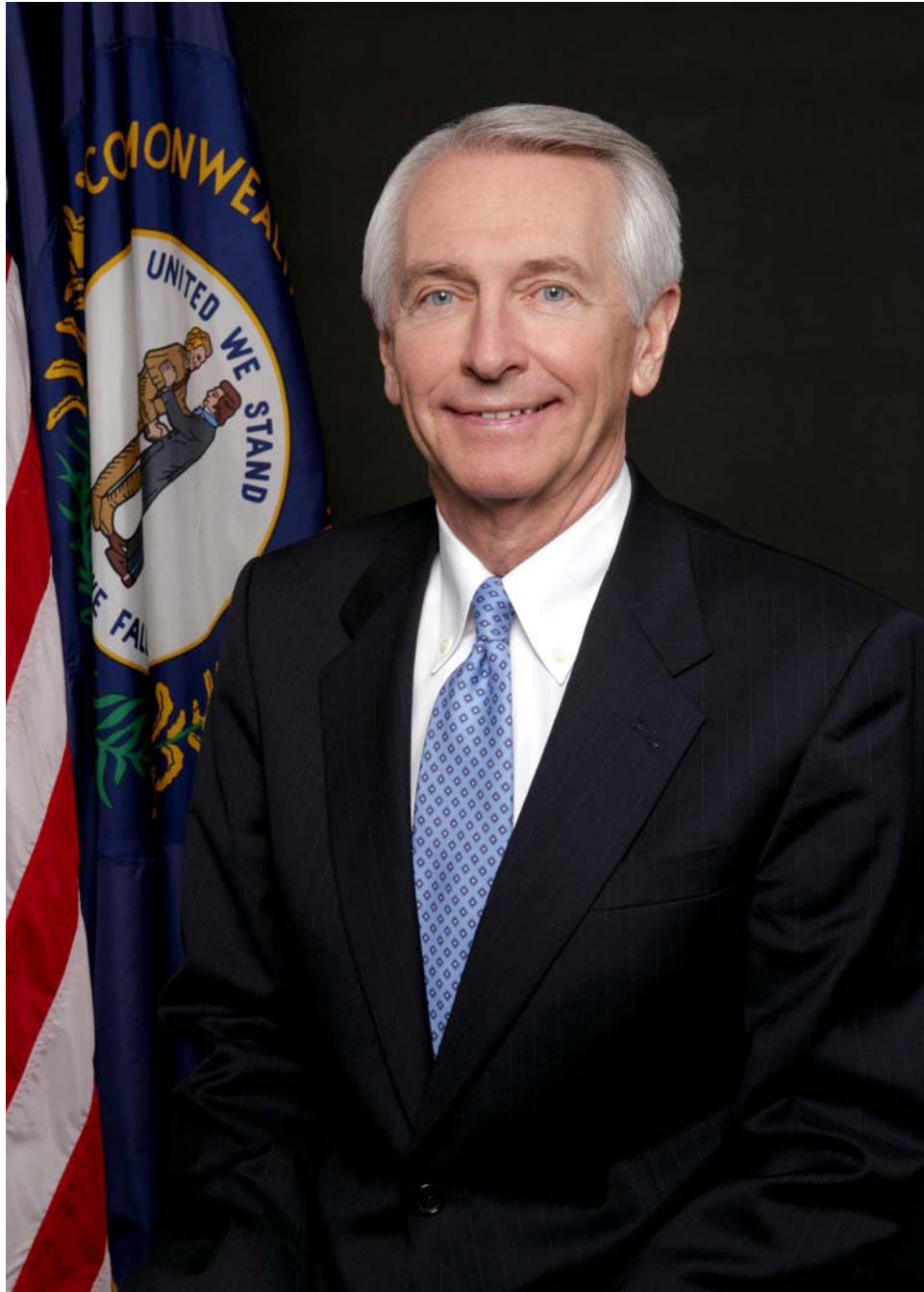


Prepared by:
Finance and Administration Cabinet
Jonathan Miller, Secretary

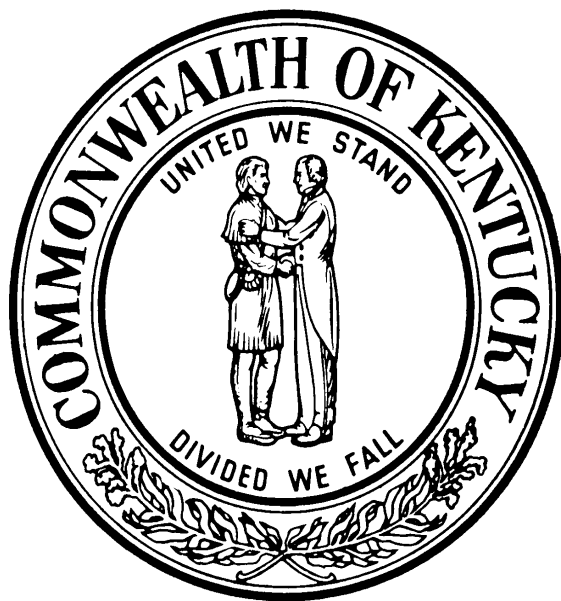
Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Donald Sweasy, Assistant Controller

Cover: The print by internationally acclaimed artist LeRoy Neiman, is used with permission of the artist and the World Games 2010 Foundation, Inc. The 2010 event will be held at the Kentucky Horse Park, September 25 thru October 10, 2010. Information about the games and merchandise available, including the print used, may be found on the official website: www.alltechfeigames.com.



Steven L. Beshear
Governor



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INTRODUCTORY SECTION



STEVEN L. BESHEAR

Governor

OFFICE OF THE SECRETARY
Finance and Administration Cabinet

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

JONATHAN MILLER

Secretary

December 21, 2009

The Honorable Steven Beshear, Governor
Members of the Kentucky General Assembly
Citizens of Kentucky

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, 2009. 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, 2009, 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 (GASB) 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, Kentucky Teachers' Retirement System, and Kentucky Gas Pipeline Authority.

The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, Kentucky School Facilities Construction Commission, Kentucky River Authority, Kentucky State Fair Board, Kentucky Center for the Arts Corporation, Kentucky Educational Television Authority, Kentucky Economic Development Finance Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Artisan Center, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Horse Park Foundation, Kentucky Council on Postsecondary Education, Kentucky Community 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 and is 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 US economy officially entered a recession in December 2007 according to the National Bureau of Economic Research, which maintains the chronology of the official turning points in the national economy. The economy, as measured by real gross domestic product (GDP), contracted sharply for the last two consecutive quarters. In non-seasonally adjusted terms, real GDP fell from \$11,727.4 billion in the fourth quarter of FY08 to \$11,712.4 billion in the first quarter of FY09 and then to \$11,545.2 billion in the second quarter of FY09. These are adjacent-quarter growth rates of -0.1 percent and -1.4 percent respectively. However, this is the first time in which quarter-over-same-quarter-last-year growth is negative. On that basis, real GDP fell by 0.5 percent. This means that the peak for real GDP occurred in the fourth quarter of fiscal 2008 and the US has been in a recession ever since.

GDP is composed of five components: Consumption, Investment, Government Expenditures, Exports and Imports. The negative performance was fairly evenly distributed across the various components. Government Expenditures was the only component which increased in the second quarter of fiscal 2009. This is mostly expected however as Government Expenditures are generally counter-cyclical in nature, rising as outlays for the unemployed and welfare programs like food stamps are increased during contraction periods.

Real consumption (consumer spending on all goods and services) makes up the largest share of GDP. In the second quarter of FY09, real consumption made up 71.1 percent of real GDP. Consumption peaked in the fourth quarter of FY08 with \$8,341.3 billion in expenditures. Consumption declined in each of the first two quarters of FY09, by 0.2 percent and 1.1 percent respectively. Consumption losses were widespread in the second quarter as consumer confidence shriveled to its lowest level in over a decade. Consumer spending on light vehicles declined to its lowest level since 1995. In the second quarter, spending on light vehicles fell by 37.2 percent over that which was spent in the second quarter of FY08. Meanwhile, consumer spending on energy fell by 6.8 percent and 2.0 percent in the first and second quarters of FY09 respectively.

Investment is the most volatile of the five components and makes up 13.9 percent of real GDP for the second quarter of FY09. Fears over the overall economic landscape hit the investment component the hardest both in terms of absolute dollar amounts and as a percentage lost for the second quarter. In absolute dollars, \$171.8 billion in real investment was lost in the second quarter of FY09 alone. As consumer demand dried up, so too did the investment opportunities. Significant losses were spread across residential and nonresidential investments.

Government expenditures made up 18.1 percent of real GDP in the second quarter of FY09. Government expenditures rose by 3.1 percent over the same quarter last year. Defense purchases make up 36.5 percent of total government expenditures. This is up from 33.5 percent in second quarter of FY08. Defense spending rose by 12.4 percent and 12.2 percent in the first and second quarter of FY09. Defense purchases rose by \$83.1 billion over this compared to the second quarter of FY09, completely outstripping the net increase in total government expenditures, which was \$57.5 billion for the same period.

US personal income growth slowed substantially in the second quarter to \$12,163.7 billion, experiencing growth of only 2.5 percent. Personal income growth was above 5.8 percent for all of calendar 2007. Personal income grew by a modest 3.7 percent in the first quarter of FY09.

The recent fluctuations in major economic variables underscore the difficulty of pegging future movements of the national economy, or even the state economy, during a period of time that includes a turning point from a recession to an ultimate recovery. Few economists dispute the pending national recovery. The duration of the actual trough and the “slope” of the upswing, on the other hand, continue to be hotly contested. In plainest terms, most baseline scenarios assume that the recent improvements in key economic variables will set the stage for a robust recovery, beginning in the final quarter of calendar year 2009 for some variables or in the next few quarters for others. In contrast, alternative scenarios are predicated upon a belief that some of the recent improvements may not lead to an immediate recovery until a longer series of inventory adjustments can rebase the economy, and until producers see the temporary increase in aggregate demand transition into a more sustained period of stable demand for the goods and services of industry. For example, the highly-touted manufacturer’s new orders index recently eclipsed the coveted 50-mark, a sign of expansion in the manufacturing sector. Much will hinge on whether the recent movement will be sustainable beyond the immediate period where many sectors are replenishing inventories that have been depleted during special economic events such as the Federal “Cash for Clunkers” program.

Due to the depth and duration of the current recession, a clean and robust recovery appears unlikely. Rather, the economy appears poised to move sideways until economic agents can more positively identify that the tide has turned. Businesses, faced with slumping current sales, will continue to be exceedingly cautious about expanding production and employment. Moreover, caution about current production decisions seems to be bleeding over into extreme caution about future production plans, which will further delay any meaningful rebound in business planned investment.

An examination of the blended projections provides a quantitative depiction of the aforementioned narrative. The final three quarters of FY10 are expected to produce GDP growth of 0.5 percent in the blended forecast, thus ending the period of declining national production. However, personal income is only expected to grow by a tepid 0.3 percent, which is well below historical growth in recovery periods. More importantly, employment is expected to decline 2.5 percent in the next three quarters, representing national employment losses of 3.3 million. Manufacturing employment losses represent 1.0 million of the total employment decline.

Eventually production increases will lead to a rebound in employment, but not until excess capacity has been eliminated. In early reports it was posited that new orders for finished goods could rise before aggregate demand rises due to the depletion and replenishment of inventories. The same concept is true of the current uptick in national production. Many businesses have excess capacity that accumulated during the recession. This excess capacity allows businesses to produce more in the short run without necessarily hiring more labor and utilizing additional capital. Eventually the production function will prevail (a relationship that only allows production to increase by increasing labor and capital inputs), but it is certainly plausible to expect the employment recovery to lag the production data. Traditional theories of the firm assume starting in equilibrium, where capacity is assumed fully utilized, so the current macroeconomic trends are more an acknowledgment of excess capacity rather than a counterproof to established theories of production.

Kentucky's Economy

Kentucky total nonfarm employment growth continued to fall throughout calendar 2008, as the recession enveloped Kentucky. In the second quarter of FY09 employment growth turned negative with 0.6 percent in losses over the second quarter of FY08. Approximately 11,000 seasonally adjusted jobs were lost over this period. Few sectors escaped the downturn. There were substantial losses in the manufacturing sector and lesser moderate losses in the construction, information and business services sectors. Manufacturing employment declined by 11,700 net seasonally adjusted jobs (-4.6 percent).

Kentucky has a history of having a large manufacturing sector. The largest component of which is in transportation equipment. As the automobile industries are struggling with decreased demand, firms have laid off over 6,000 employees since the second quarter of FY08. The housing market woes impacted the construction industry with equal force, as construction employment dropped by 3,600 seasonally adjusted jobs (-4.2 percent). Trade, Transportation and Utilities employment is the largest supersector in Kentucky; growth slowed substantially in the second quarter to 0.6 percent, but managed to remain positive. Employment in these sectors was hurt some as imports fell and exports increased due to the appreciation of the dollar over this period. The dollar versus the euro appreciated steadily from 0.6332 to 0.7166 from July 2008 to December 2008.

The short-run outlook for the Kentucky economy is dominated by weaknesses in the employment sector. Kentucky employment is expected to fall 2.3 percent during the final three quarters of FY10. Goods-producing sectors will experience the most pronounced weakness. Construction employment is expected to fall 11.3 percent for the remainder of FY10 as the economy tries to work through large inventories of commercial real estate and vacancies. Manufacturing employment is expected to fall 8.4 percent, or 18,600 positions, during the same period. Losses in the goods-producing sectors are especially hard on the state economy due to the profound effect that these sectors have on supporting businesses that rely on a robust regional economy as their customer base.

The weak short-term employment outlook corresponds to similar weakness on the personal income front. Kentucky personal income is expected to rise an anemic 0.8 percent, but wage and salary income is expected to fall 0.9 percent in the blended forecast for the next three quarters. Wage and salary income comprises approximately 52 percent of state personal income. The second largest category of Kentucky personal income is transfer payments, which represent approximately 24% of personal income in FY10. Transfer payments are expected to increase 8.8 percent in FY10. The rate of growth in transfer payments, and the percentage of total income, both exceed the corresponding national data. This partially explains why the Kentucky personal income growth is expected to exceed that national rate of growth despite the underlying weakness in Kentucky wage and salary income growth.

The path to recovery for the Kentucky economy traverses the same terrain as the national economy. Production will eventually increase, excess capacity will be worked through, and then higher sustained demand for goods and services will trigger a period of employment and business investment. The end of the path and the recovery in employment is not projected to be reached until FY11, but a return to employment growth patterns of the 1990's is not expected. It will take considerable time for businesses to return to staffing levels enjoyed in the prior decade.

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, 2009, the BRTF has a balance of \$7.1 million which was maintained throughout the fiscal year. The reduction in the BRTF was a result of a transfer to balance the FY09 budget.

Major Initiatives

Fiscal year 2009 was the first fiscal year of the Commonwealth's 2009-2010 biennial period. It was highlighted by the beginning of a retrenchment in spending resulting from past budgetary actions and the beginning of the economic downturn. The enacted budget contained significant spending reductions from the prior fiscal year due primarily to the reliance upon one-time funds to finance the FY08 budget. In some areas of the government, 12 percent spending declines

were a part of the enacted budget. During FY09, General Fund tax receipts began to deviate from budgeted projections around the middle of the fiscal year. By the end of the fiscal year, actual tax revenues were 5.7 percent less than budgeted. The Governor proposed a budget reduction plan to the 2009 Session of the General Assembly that included spending reductions, an increase in the tobacco excise taxes, applying the sales tax to packaged liquor, and the use of the Commonwealth's Rainy Day fund. Federal stimulus funds provided to the Medicaid program also contributed to resolving the revenue shortfall. The General Assembly adopted the primary aspects of that plan.

Spending in FY09 declined from FY08 by 1.5 percent. This was the first time in over two generations that General Fund spending declined. In crafting the budget reductions, critical areas were preserved from reductions or incurred only minor reductions. Foremost among them was the Commonwealth's primary education funding program, the SEEK program. Other areas that were not reduced were Corrections, mental health programs, contributions to pension plans, and school and state employee health insurance. Public safety programs were also not reduced as much as the rest of Kentucky state government.

In contrast to the operating budget, the Commonwealth's capital program for the 2008-10 biennial period was budgeted to include a significant level of investment. The majority of it was financed through the issuance of debt. The capital budget included \$1.9 billion in bond financed projects. The largest proportion of new project activity was directed to the Commonwealth's nine postsecondary education institutions, over \$600 million, and for road construction, \$400 million. Other large areas of commitment of support were for local water and sewer infrastructure projects, over \$280 million. The School Facilities Construction Commission, which aids local school districts in new construction and renovation projects, received \$100 million in new bonds from the 2008 General Assembly to support offers of assistance to local school districts. The capital budget for the 2008-10 biennial period followed two consecutive biennia with the largest capital spending investments the Commonwealth has ever budgeted.

During FY09, the Commonwealth began to implement the actions initiated in the prior year to address a significant policy and financial issue, the financing of the large unfunded liabilities of its pension systems, and restructuring future employee benefits to ensure a sustainable pension system. The effort 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. Another significant effort initiated by the Governor was the expansion of the children's health insurance program that resulted in health insurance coverage through the Medicaid program for a substantial number of uninsured children. The federal stimulus legislation, which passed in February, 2009, also resulted in an estimated \$3 billion in additional federal funding to Kentucky, spread over three years. The Commonwealth geared up in a number of areas to implement that legislation. Most of that spending will occur in FY10 and FY11, but the planning and preparation efforts were initiated in FY09.

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 2009 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$577,442	2.92 %	\$1,038

No general obligation bonds were authorized or outstanding at June 30, 2009.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2009 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, 2008. This is the 22nd consecutive year the Commonwealth has received this prestigious award.

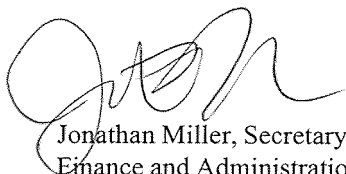
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both accounting principles generally accepted in the 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
Room 484, Capitol Annex
702 Capital Avenue
Frankfort, Kentucky 40601
(502) 564-2210
(502) 564-6597 Facsimile

JONATHAN MILLER
Secretary

EDGAR C. ROSS
Controller

December 21, 2009

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, 2009, 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, 2008

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



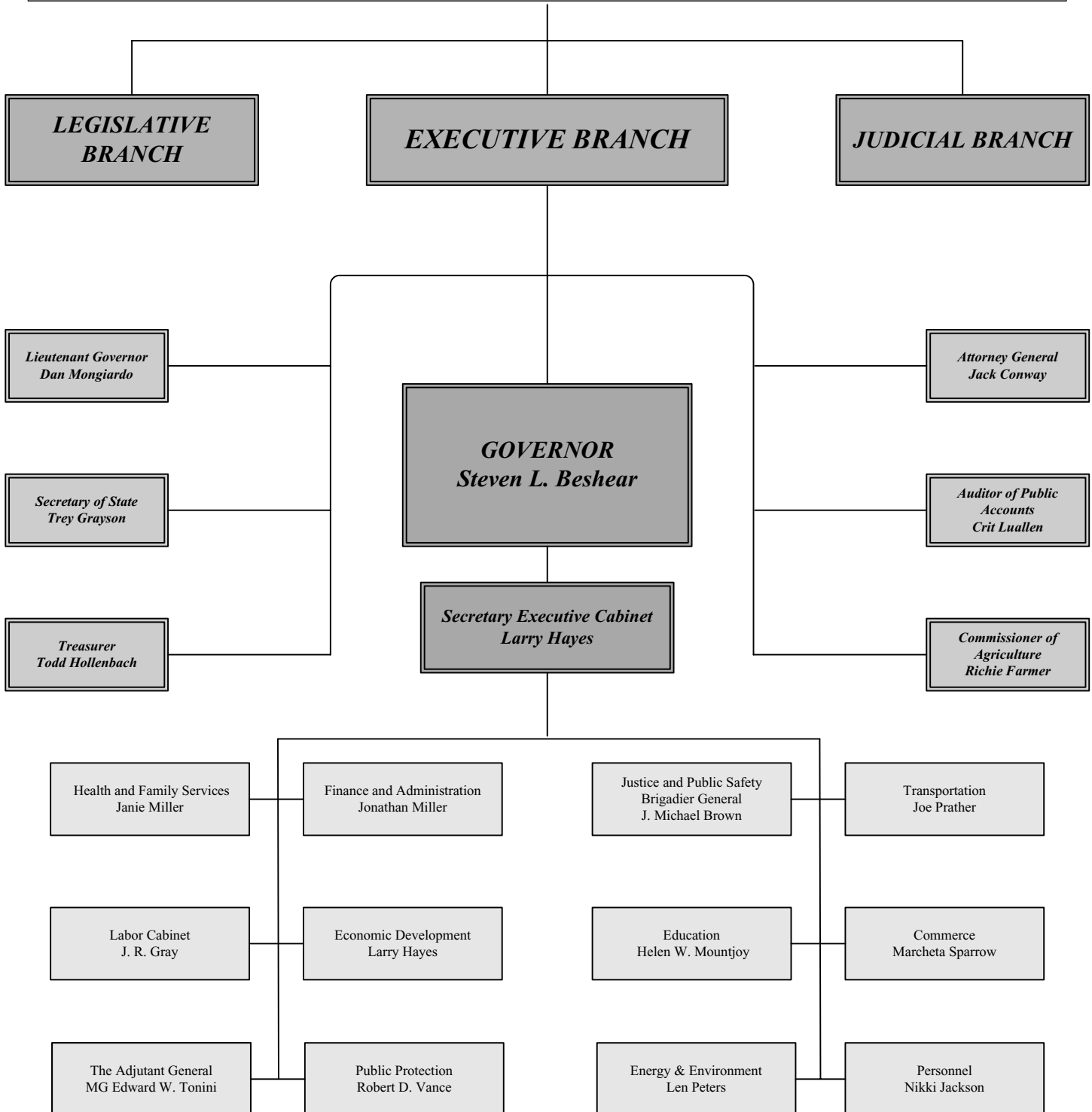
President

Executive Director

COMMONWEALTH OF KENTUCKY

ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



*Principal Officials at June 30, 2009

FINANCIAL SECTION



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, 2009, 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

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817

TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

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:

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government - Governmental Activities	2.29%	.19%
Primary Government - Business-Type Activities	46.87%	30.73%
Component Units	99.25%	98.35%
Fund Financial Statements:		
Governmental Funds - Non-Major Funds	49.06%	4.02%
Proprietary Funds - Business-Type Activities - Enterprise Funds	46.80%	30.30%
Proprietary Funds - Governmental Activities - Internal Service Funds	4.81%	14.64%
Fiduciary Funds - Pension and Insurance Trust Funds	100.00%	100.00%
Component Units	99.25%	98.35%

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, 2009, 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 112 through 127, and information about infrastructure assets reported using the modified approach on pages 128 and 129, and claims development information for entity risk pools on page 130, 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 134 through 185 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 2 through 10 and 188 through 209 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,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

December 21, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2009. 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, 2009, by \$14.8 billion, a decrease of \$1.3 billion related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$524 million, a decrease in net assets of \$570 million related to current year activity. Total net assets decreased by \$1.88 billion to \$14.2 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2009, by \$6.63 billion, a decrease of \$37.8 million related to current year activity.

Fund Highlights:

As of the close of FY09, the Commonwealth's governmental funds reported combined ending fund balances of \$1.99 billion, a decrease of \$444 million in comparison with the prior year. Of this total amount, \$962.8 million was reserved and the balance of approximately \$1.02 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$(50) million at June 30, 2009.

Enterprise funds reported net assets of \$(524) million, of which \$335.7 million was restricted or invested in capital assets, and the balance of \$(859.77) million was unrestricted.

Long-Term Debt:

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$355.6 million to \$5.49 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 restructure current debt requirements and to fund new projects authorized and started during FY09. Additional details of these activities can be found in Note 15 beginning on Page 97.

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 and individual financial statements and schedules). Each of these components is described below.

Government-Wide Financial Statements

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

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

These three types of activities are:

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$14.3 billion at the end of 2009, as compared to \$16.1 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$19.9 billion, is invested in capital assets (e.g. land, infrastructure, buildings and improvements and machinery and equipment), 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 \$1.1 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 \$(6.7) 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, 2009 and June 30, 2008, 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	
	2009	2008	2009	2008	2009	2008
Current Assets	\$ 5,034,466	\$ 6,107,703	\$ 899,294	\$ 1,426,390	\$ 5,933,760	\$ 7,534,093
Capital Assets	20,959,362	20,416,967	330,289	290,540	21,289,651	20,707,507
Other Assets	3,005	5,566	-	11,643	3,005	17,209
Total Assets	25,996,833	26,530,236	1,229,583	1,728,573	27,226,416	28,258,809
Non Current Liabilities	9,120,112	7,744,468	1,650,335	1,493,605	10,770,447	9,238,073
Other Liabilities	2,096,588	2,699,004	103,327	188,419	2,199,915	2,887,423
Total Liabilities	11,216,700	10,443,472	1,753,662	1,682,024	12,970,362	12,125,496
Invested in Capital Assets						
Net of Related Debt	19,547,435	19,904,356	330,078	290,328	19,877,513	20,194,684
Restricted	1,094,433	1,139,727	5,615	310,216	1,100,048	1,449,943
Unrestricted	(5,861,735)	(4,957,319)	(859,772)	(553,995)	(6,721,507)	(5,511,314)
Total Net Assets	\$ 14,780,133	\$ 16,086,764	\$ (524,079)	\$ 46,549	\$ 14,256,054	\$ 16,133,313

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 FY09. The Commonwealth received program revenues of \$11.24 billion and general revenues (including transfers) of \$9.86 billion for total revenues of \$21.1 billion during FY09. Expenses for the Commonwealth during FY09 were \$23 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$(1.9) billion, net of contributions, transfers and special items.

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

	2009 Governmental Activities	2008 Governmental Activities	2009 Business-Type Activities	2008 Business-Type Activities	2009 Total	2008 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 981,463	\$ 971,106	\$ 2,768,245	\$ 2,624,758	\$ 3,749,708	\$ 3,595,864
Operating Grants and Contributions	6,575,144	5,554,089	363,028	53,838	6,938,172	5,607,927
Capital Grants and Contributions	550,416	750,184	4,633	1,735	555,049	751,919
General Revenues:						
Income Taxes	3,637,574	3,910,750			3,637,574	3,910,750
Sales Taxes	4,777,321	4,828,223			4,777,321	4,828,223
Property Taxes	534,441	497,326			534,441	497,326
Other Taxes	590,621	558,608			590,621	558,608
Investment Earnings	(9,977)	31,335	(28,261)	16,531	(38,238)	47,866
Other	342,401	607,635	48,932	18,805	391,333	626,440
Total Revenues	17,979,404	17,709,256	3,156,577	2,715,667	21,135,981	20,424,923
Expenses:						
Governmental Activities:						
General Government	3,837,639	4,505,648			3,837,639	4,505,648
Legislative and Judicial	360,872	335,635			360,872	335,635
Commerce	112,825	107,774			112,825	107,774
Education and Humanities	4,887,919	4,852,742			4,887,919	4,852,742
Human Resources	7,611,725	6,904,568			7,611,725	6,904,568
Justice	822,301	845,153			822,301	845,153
Natural Resources and Environmental Protection	197,086	200,773			197,086	200,773
Public Protection and Regulation	121,952	97,360			121,952	97,360
Transportation	1,331,764	1,170,102			1,331,764	1,170,102
Interest Expense	265,984	254,488			265,984	254,488
Business-type Activities:						
State Parks			98,795	104,672	98,795	104,672
Kentucky Lottery Corporation			619,902	599,490	619,902	599,490
Kentucky Horse Park			11,411	12,799	11,411	12,799
Kentucky Public Employees Health Plan			1,434,951	1,288,981	1,434,951	1,288,981
Insurance Administration			(18,953)	117,854	(18,953)	117,854
Unemployment Compensation			1,317,067	493,397	1,317,067	493,397
Total Expenses	19,550,067	19,274,243	3,463,173	2,617,193	23,013,240	21,891,436
Increase (Decrease) in Net Assets Before Transfers	(1,570,663)	(1,564,987)	(306,596)	98,474	(1,877,259)	(1,466,513)
Transfers	264,032	126,716	(264,032)	(126,716)		
Change in Net Assets	(1,306,631)	(1,438,271)	(570,628)	(28,242)	(1,877,259)	(1,466,513)
Net Assets, July 1, as restated	16,086,764	17,525,035	46,549	74,791	16,133,313	17,599,826
Net Assets, June 30	\$ 14,780,133	\$ 16,086,764	\$ (524,079)	\$ 46,549	\$ 14,256,054	\$ 16,133,313

Governmental Activities:

The slowing economy during the fiscal year caused revenues to decline, resulting in the decrease in net assets of governmental activities by \$(1.3) billion or 8.12 percent. Approximately 53 percent of the governmental activities' total revenue came from taxes, while 40 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

Table 4 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 3,837,639	\$ 664,787	\$ 3,172,852
Legislative and Judicial	360,872	30,167	330,705
Commerce	112,825	63,387	49,438
Education and Humanities	4,887,919	985,229	3,902,690
Human Resources	7,611,725	5,320,416	2,291,309
Justice	822,301	60,171	762,130
Natural Resources and Environmental Protection	197,086	104,647	92,439
Public Protection and Regulation	121,952	76,423	45,529
Transportation	1,331,764	801,796	529,968
Totals	\$ 19,284,083	\$ 8,107,023	\$ 11,177,060

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 \$(328) 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	\$ 98,795	\$ 52,439	\$ 46,356
Kentucky Lottery Corporation	619,902	810,544	(190,642)
Kentucky Horse Park	11,411	11,056	355
Kentucky Public Employees Health Plan	1,434,951	1,392,971	41,980
Insurance Administration	(18,953)	93,438	(112,391)
Unemployment Compensation	1,317,067	775,458	541,609
Totals	\$ 3,463,173	\$ 3,135,906	\$ 327,267

Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2009 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 \$14.8 billion and the condition of the State's business-type activities worsened to the point that liabilities exceeded assets by \$(524) .
- The State's total net assets decreased during the year by \$1.88 billion. Net assets of governmental activities decreased by \$1.3 billion, while net assets of business-type activities decreased by \$571 million.
- The major reason for the decline in net assets of the governmental activities was a reduction in tax revenues. Individual Income, corporate income, motor fuel consumption and use tax on vehicle transfers declined in FY09. Other significant factors are an increase in bonds payable of \$356 million along with an increase in the liability for employers unfunded pension contribution of \$993 million. The primary cause of the decrease in business-type activities net assets was an increase in unemployment benefits attributable to the nation's economic downturn.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

At June 30, 2009, the Commonwealth's governmental funds reported combined ending fund balances of \$1.99 billion, a decrease of \$444 million in comparison with the prior year. \$962.8 million 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 \$1.02 billion.

General Fund

The General Fund is the primary operating fund of the Commonwealth. The fund balance at June 30, 2009, was \$30.4 million. The balance reported reflects a decrease of \$257.7 million from the previously reported amount, which represents a decline of 89.44%. The major factor for the decline is attributable to the slow national and state economy which has reduced individual and corporate income taxes.

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, 2009, has \$80.13 million as reserved fund balance and a negative (\$49.7) 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, except for the Transportation Fund which was affected by the nation's current economic conditions. The Transportation fund taxes motor fuel consumption and levies a use tax on motor vehicles transfers. Both of these activities experience a downturn resulting in a \$(69) million decrease in tax receipts.

Proprietary Funds - The Commonwealth's proprietary funds reported net assets of \$(367.6) million, which included \$(524) million in the enterprise funds and \$156.4 million in the internal service funds. This is a total decrease in net assets of \$145.7 million from the previous year.

The overall decrease in net assets is due to increase in unemployment benefit payments within the Unemployment Compensation Fund. Benefit payments increased by \$797.5 million for an increase of 161.8%.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, as the national and state economy failed to fully recover, the official revenue forecast for the General Fund was decreased. The General Fund revenues, for the year, failed to meet the final budgetary estimates by approximately \$47.7 million. The original budgeted expenditures were decreased to accommodate revenue shortfalls. Actual expenditures for the year were approximately \$326 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, 2009, amounts to \$22.3 billion, with accumulated depreciation of \$1 billion, leaving a net book value of \$21.3 billion. This investment in capital assets includes land, improvements, buildings, equipment, and 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 2.76 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were 55.8 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$90.8 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” as it relates to guidelines set forth in the GASB (Government Accounting Standards Board) Statement Number 34. Under this alternative method the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include nearly 63,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

- On the surface, it appears that condition levels for bridges have deteriorated. We attribute this partly to the manner in which we record and report structurally deficient bridges. Additionally, the declining economy has decreased resources available for preservation of highway infrastructure assets. We have developed a new reporting methodology for FY10 that will reveal a more accurate portrayal of infrastructure condition levels. The condition levels for roadways have remained consistent.

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 \$812.4 million to \$4.4 billion, a 22.46% 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, 2009. 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 11.2 percent. October’s rate is 4.3 percent higher than the 6.9 percent unemployment rate in Kentucky just one year ago. The national unemployment rate has also increased from 6.6 percent in October last year to 10.2 percent in October 2009. All sectors of the labor market continue to struggle as the state and national economies attempt to claw back from the deep recession of 2008-2009.

Both the national and Kentucky economies show some signs of improvement on the production front, but employment and wages will be impediments to growth in FY10. Federal relief has helped cushion the blow to the state’s economy. However, high federal budget deficits will likely forestall additional rounds of fiscal relief to the state.

Modest economic growth is expected in FY11 and FY12. An improvement in global demand will likely help export demand. Moreover, businesses are in a very competitive position to capitalize on global demand as unit labor costs are down and workforces are lean. As production increases, employment and wages will eventually follow. The speed and magnitude of the recovery will be largely dependent upon the willingness of businesses to increase workforces in response to slowly improving demand conditions.

Low energy prices and low interest rates should also aid in recharging the depleted economy. Despite these historically low interest rates, credit conditions remain tight to all but the lowest-risk borrowers. Tight credit markets and uncertainty in the financial markets will limit the upside in the economy over the next biennium as consumers are reigned in by uncertain employment and limited credit options.

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 Capital Avenue, Frankfort, KY 40601.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2009
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	\$ 187,845	\$ 96,518	\$ 284,363	\$ 1,118,088
Cash with fiscal agents (Note 5)	61,229		61,229	
Investments, net of amortization (Note 5)	1,697,960	175,246	1,873,206	2,425,419
Invested security collateral	366,847		366,847	
Receivables, net (Note 4)	2,199,560	222,962	2,422,522	4,740,044
Notes receivable	6,087		6,087	
Capital lease receivable (Note 4)	439,745		439,745	
Internal balances (Note 7)	(41,276)	41,276		
Inventories	56,278	2,543	58,821	38,016
Prepaid expenses	9,982	595	10,577	18,016
Deferred charges	50,209		50,209	87,926
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		7,935	7,935	414,666
Investments (Note 5)		352,219	352,219	849,623
Capital assets (Note 6):				
Land	157,335	22,995	180,330	244,603
Improvements other than buildings	15,265	113,695	128,960	242,174
Buildings	1,132,339	225,562	1,357,901	4,830,587
Machinery and equipment	570,749	59,196	629,945	1,623,161
Other capital assets				102,129
Easements and other intangibles	115,998	2,322	118,320	
Less: Accumulated depreciation and amortization	(840,880)	(206,325)	(1,047,205)	(3,121,943)
Construction in progress	2,436,087	112,844	2,548,931	745,738
Infrastructure	17,372,469		17,372,469	
Total Capital Assets	20,959,362	330,289	21,289,651	4,666,449
Other assets	3,005		3,005	798,705
Total Assets	25,996,833	1,229,583	27,226,416	15,156,952
Liabilities				
Accounts payable (Note 4)	1,238,759	74,536	1,313,295	413,092
Tax refunds payable	305,900		305,900	
Interfund loans payable (Note 7)	154,395		154,395	
Unearned revenue	30,687	18,754	49,441	174,126
Other liabilities		10,037	10,037	123,267
Liabilities from restricted assets				11,154
Obligations under securities lending	366,847		366,847	
Noncurrent liabilities:				
Due within one year (Note 15)	733,481	273,246	1,006,727	841,046
Due in more than one year (Note 15)	8,386,631	1,377,089	9,763,720	6,961,621
Total Liabilities	11,216,700	1,753,662	12,970,362	8,524,306
Net Assets				
Invested in capital assets, net of related debt	19,547,435	330,078	19,877,513	3,119,783
Restricted for:				
Debt service	353,391		353,391	288,006
Capital projects	293,127		293,127	287,606
Highways	447,915		447,915	
Other purposes (Note 1)		5,615	5,615	2,208,954
Unrestricted	(5,861,735)	(859,772)	(6,721,507)	728,297
Total Net Assets	\$ 14,780,133	\$ (524,079)	\$ 14,256,054	\$ 6,632,646

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, 2009
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 3,837,639	\$ 366,634	\$ 276,575	\$ 21,578
Legislative and judicial	360,872	28,561	1,606	
Commerce	112,825	47,770	15,280	337
Education and humanities	4,887,919	50,988	934,241	
Human resources	7,611,725	121,752	5,196,255	2,409
Justice	822,301	20,611	39,415	145
Natural resources and environmental protection	197,086	35,959	68,688	
Public protection and regulation	121,952	71,078	5,345	
Transportation	1,331,764	238,110	37,739	525,947
Interest expense	265,984			
Total Governmental Activities	19,550,067	981,463	6,575,144	550,416
Business-Type Activities:				
State Parks	98,795	52,439		
Kentucky Lottery Corporation	619,902	810,544		
Kentucky Horse Park	11,411	6,423		4,633
Kentucky Public Employees Health Plan	1,434,951	1,392,971		
Insurance Administration	(18,953)	93,438		
Unemployment Compensation	1,317,067	412,430	363,028	
Total Business-Type Activities	3,463,173	2,768,245	363,028	4,633
Total Primary Government	\$ 23,013,240	\$ 3,749,708	\$ 6,938,172	\$ 555,049
Component Units:				
Authorities:				
Kentucky Housing Corporation	\$ 312,280	\$ 165,712	\$ 163,093	\$
Kentucky Higher Education Student Loan Corporation	121,287	132,367		
School Facilities Construction Commission	107,672		8,297	
Universities, Colleges, & Related Entities:				
University of Kentucky	2,026,647	1,265,211	351,210	107,546
University of Louisville	824,938	414,564	185,530	
Kentucky Community and Technical College System	538,700	96,147	80,003	
Other component units	1,804,477	631,251	397,951	50,509
Total Component Units	\$ 5,736,001	\$ 2,705,252	\$ 1,186,084	\$ 158,055
General Revenues (Note 1):				
Sales and gross receipt tax				
Individual income tax				
Corporate income tax				
Property tax				
License and privilege tax				
Severance tax				
Inheritance and estate tax				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Totals	Component Units
Governmental Activities	Business-Type Activities		
\$ (3,172,852)	\$	\$ (3,172,852)	
(330,705)		(330,705)	
(49,438)		(49,438)	
(3,902,690)		(3,902,690)	
(2,291,309)		(2,291,309)	
(762,130)		(762,130)	
(92,439)		(92,439)	
(45,529)		(45,529)	
(529,968)		(529,968)	
(265,984)		(265,984)	
(11,443,044)		(11,443,044)	
	(46,356)	(46,356)	
	190,642	190,642	
	(355)	(355)	
	(41,980)	(41,980)	
	112,391	112,391	
	(541,609)	(541,609)	
	(327,267)	(327,267)	
(11,443,044)	(327,267)	(11,770,311)	
			\$ 16,525
			11,080
			(99,375)
			(302,680)
			(224,844)
			(362,550)
			(724,766)
			(1,686,610)
4,777,321		4,777,321	
3,359,471		3,359,471	
278,103		278,103	
534,441		534,441	
37,442		37,442	
362,965		362,965	
43,237		43,237	
146,977		146,977	
10,263		10,263	462,034
(9,977)	(28,261)	(38,238)	(384,661)
12,730	38	12,768	
319,408	48,894	368,302	1,571,377
264,032	(264,032)		
10,136,413	(243,361)	9,893,052	1,648,750
(1,306,631)	(570,628)	(1,877,259)	(37,860)
16,086,764	46,549	16,133,313	6,670,506
\$ 14,780,133	\$ (524,079)	\$ 14,256,054	\$ 6,632,646

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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 134

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents (Note 5)	\$ 15,012	\$ 5,444	\$ 6	\$ 9,009	\$ 3,248	\$ 14	\$ 134,920	\$ 167,653
Cash with fiscal agents (Note 5)						44,157		44,157
Restricted cash (Note 5)				17,072				17,072
Investments, net of amortization (Note 5)	47,917	310,815		397,312	260,681	2,240	630,273	1,649,238
Invested security collateral	19,208	71,563		97,971	71,137		106,968	366,847
Receivables, net (Note 4)	881,119	119,915	1,046,161	72,785	18,628		58,384	2,196,992
Notes receivable				5,636			451	6,087
Capital lease receivable (Note 4)						439,745		439,745
Interfunds receivable (Note 7)	74,393	1,206	15,489	153,297	3,846		233,351	481,582
Interfund loans receivable (Note 7)	18,281				29,423		49,243	96,947
Inventories	6,825	43,609	90	3,107			9	53,640
Other assets							1,104	1,104
Total Assets	<u>\$ 1,062,755</u>	<u>\$ 552,552</u>	<u>\$ 1,061,746</u>	<u>\$ 756,189</u>	<u>\$ 386,963</u>	<u>\$ 486,156</u>	<u>\$ 1,214,703</u>	<u>\$ 5,521,064</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable (Note 4)	\$ 401,236	\$ 77,011	\$ 707,492	\$ 64,472	\$ 9,084	\$	\$ 16,086	\$ 1,275,381
Tax refunds payable	305,900							305,900
Interfunds payable (Note 7)	104,236	18,281	84,914	74,672	3,656		240,514	526,273
Interfund loans payable (Note 7)		2,279	248,920					251,199
Obligations under securities lending	19,208	71,563		97,971	71,137		106,968	366,847
Deferred revenue	201,738	18,755	100,358	23,154	9,959	439,745	14,078	807,787
Total Liabilities	<u>1,032,318</u>	<u>187,889</u>	<u>1,141,684</u>	<u>260,269</u>	<u>93,836</u>	<u>439,745</u>	<u>377,646</u>	<u>3,533,387</u>
Fund Balances:								
Reserved for:								
Encumbrances		448,470			59,415			507,885
Statutory obligations	66,185	72,511						138,696
Budget stabilization	7,125							7,125
Inventories	6,825	43,609	90	3,107			9	53,640
Long-term receivables				5,636			451	6,087
Deposit with fiscal agents				17,072		44,157		61,229
Capital outlay					188,127			188,127
Unreserved, reported in:								
General fund	(49,698)							(49,698)
Special revenue funds		(199,927)	(80,028)	470,105			529,617	719,767
Debt service fund						2,254	306,980	309,234
Capital projects fund					45,585			45,585
Total Fund Balances	<u>30,437</u>	<u>364,663</u>	<u>(79,938)</u>	<u>495,920</u>	<u>293,127</u>	<u>46,411</u>	<u>837,057</u>	<u>1,987,677</u>
Total Liabilities and Fund Balances	<u>\$ 1,062,755</u>	<u>\$ 552,552</u>	<u>\$ 1,061,746</u>	<u>\$ 756,189</u>	<u>\$ 386,963</u>	<u>\$ 486,156</u>	<u>\$ 1,214,703</u>	<u>\$ 5,521,064</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, 2009
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds	\$ 1,987,677
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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	141,672	
Buildings, equipment, and other depreciable assets	1,441,027	
Infrastructure	17,372,469	
Accumulated depreciation	(602,682)	
Construction in progress	<u>2,353,848</u>	20,706,334

Certain revenues are earned but not available, and therefore, are deferred in the funds.	777,882
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	56,248
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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.	156,482
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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	(14,753)	
Compensated absences	(208,978)	
Pollution remediation obligations	(34,524)	
Judgements and contingencies	(11,628)	
Net pension obligations	<u>(2,846,221)</u>	(3,116,104)

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	(4,429,520)	
Notes payable	(1,059,520)	
Unamortized premiums and discounts	(226,877)	
Less deferred amounts on refundings	14,275	
Accrued interest payable	<u>(86,744)</u>	(5,788,386)

Net Assets of Governmental Activities	<u>\$ 14,780,133</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, 2009
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 8,099,138	\$ 1,027,282	\$	\$ 328,086	\$	\$	\$ 105,777	\$ 9,560,283
Licenses, fees, and permits	35,100	130,597		155,763			1,552	323,012
Intergovernmental	81,909		6,906,853	26,136	25,703		15,023	7,055,624
Charges for services	35,381	9,432	295	541,953		32,763	154,729	774,553
Fines and forfeits	52,061	66	3	9,121			29,561	90,812
Interest and other investment income	2,311	9,478	660	13,430	21,776	980	18,441	67,076
Increase (decrease) in fair value of investments	(412)	(535)		(384)	1,522	(1)	(194)	(4)
Securities lending income	579	2,158		2,954	2,144		3,225	11,060
Other revenues	158,708	4,892	72,258	176,599	100		49,267	461,824
Total Revenues	<u>8,464,775</u>	<u>1,183,370</u>	<u>6,980,069</u>	<u>1,253,658</u>	<u>51,245</u>	<u>33,742</u>	<u>377,381</u>	<u>18,344,240</u>
Expenditures								
Current:								
General government	1,922,640		123,706	132,649			293,457	2,472,452
Legislative and judicial	315,424		2,548	41,662			32	359,666
Commerce	36,635		15,090	41,331			1,933	94,989
Education and humanities	3,885,285		878,790	42,035			54,332	4,860,442
Human resources	1,838,349		5,281,336	768,244			31,703	7,919,632
Justice	611,413		34,060	90,459			2,065	737,997
Natural resources and environmental protection	66,477		61,439	47,945			12,178	188,039
Public protection and regulation	15,130		4,359	77,897			23,020	120,406
Transportation	5,050	1,159,870	512,757	237,972			62,275	1,977,924
Debt service:								
Principal retirement						160,975	138,965	299,940
Interest and fiscal charges						199,011	53,455	252,466
Other expenditures						24,507	529	25,036
Securities lending expense	318	1,186		1,624	1,179		1,773	6,080
Capital outlay:								
Buildings					442,315			442,315
Total Expenditures	<u>8,696,721</u>	<u>1,161,056</u>	<u>6,914,085</u>	<u>1,481,818</u>	<u>443,494</u>	<u>384,493</u>	<u>675,717</u>	<u>19,757,384</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(231,946)</u>	<u>22,314</u>	<u>65,984</u>	<u>(228,160)</u>	<u>(392,249)</u>	<u>(350,751)</u>	<u>(298,336)</u>	<u>(1,413,144)</u>
Other Financing Sources (Uses)								
Transfers in	450,694	1,624	19	528,674	33,307	294,038	849,306	2,157,662
Transfers out	(475,994)	(144,775)	(115,568)	(387,624)	(37,921)	(4,572)	(713,906)	(1,880,360)
Capitalized leases	2,584	860	139	869			4	4,456
Issuance of bonds:								
New issues				9,000	459,672	37,708	148,970	655,350
Refunding issues						308,520	200,000	508,520
Premiums						23,723	12,182	35,905
Discounts						(4,193)		(4,193)
Payments to refunded bond escrow agent						(308,320)	(200,000)	(508,320)
Total Other Financing Sources (Uses)	<u>(22,716)</u>	<u>(142,291)</u>	<u>(115,410)</u>	<u>150,919</u>	<u>455,058</u>	<u>346,904</u>	<u>296,556</u>	<u>969,020</u>
Net Change in Fund Balances	(254,662)	(119,977)	(49,426)	(77,241)	62,809	(3,847)	(1,780)	(444,124)
Fund Balances at July 1, as restated (Note 2)	288,171	480,911	(30,539)	573,609	230,318	50,258	838,842	2,431,570
Increase (decrease) in inventories	(3,072)	3,729	27	(448)			(5)	231
Fund Balances at June 30	<u>\$ 30,437</u>	<u>\$ 364,663</u>	<u>\$ (79,938)</u>	<u>\$ 495,920</u>	<u>\$ 293,127</u>	<u>\$ 46,411</u>	<u>\$ 837,057</u>	<u>\$ 1,987,677</u>

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, 2009**
(Expressed in Thousands)

Net Change in Fund Balances-Total Governmental Funds	\$	(444,124)
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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	(16,107)	
Donated assets, fair market value	11,607	
Buildings, equipment, and other depreciable assets	49,552	
Infrastructure	561,399	
Accumulated depreciation	<u>(57,360)</u>	549,091

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		38,698
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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	4,005	
Inventories	<u>231</u>	4,236

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.		(18,840)
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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.

Pollution remediation payments	(2,749)	
Excess contributions to pension funds	(993,174)	
Capital lease payments	5,636	
Compensated absence payments	15,775	
Litigation payments	<u>978</u>	(973,534)

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	(1,195,582)	
Repayment of bond principal	299,940	
Payment to refunded bond escrow agent	508,320	
Accrued interest	(77,130)	
Loss on refunding	(2,654)	
Deferred issue costs	<u>4,948</u>	(462,158)

Change in Net Assets of Governmental Activities	\$	<u><u>(1,306,631)</u></u>
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THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Enterprise Funds (All Major)

State Parks Fund

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

Kentucky Lottery Corporation

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

Kentucky Horse Park Fund

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

Insurance Administration Fund

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

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

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

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

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

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

Kentucky Public Employees Health Insurance Fund

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

Unemployment Compensation Fund

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

Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 142

COMMONWEALTH OF KENTUCKY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 4,480	\$ 17,824	\$ 640
Cash on deposit with the Federal government (Note 5)			
Investments, net of amortization (Note 5)		29,694	
Receivables, net (Note 4)	515	30,240	571
Interfunds receivable (Note 7)	24		
Inventories	1,775	107	661
Prepaid expenses	39	398	
Total Current Assets	<u>6,833</u>	<u>78,263</u>	<u>1,872</u>
Noncurrent assets:			
Restricted investments (Note 5)			
Investments, net of amortization (Note 5)	8,625	105,536	
Receivables, net		4,717	55
Capital assets (Note 6):			
Land	18,100	442	4,453
Improvements other than buildings	93,386	378	19,931
Buildings	201,884	7,305	16,373
Machinery and equipment	14,277	39,495	3,764
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(140,238)	(39,926)	(25,164)
Construction in progress	44,678		68,166
Total Capital Assets	<u>234,409</u>	<u>7,694</u>	<u>87,523</u>
Total Noncurrent Assets	<u>243,034</u>	<u>117,947</u>	<u>87,578</u>
Total Assets	<u>249,867</u>	<u>196,210</u>	<u>89,450</u>
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	2,805	8,778	3,117
Judgments payable	16		
Interfunds payable (Note 7)	1,797		
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	60		24
Prize liability		52,991	
Compensated absences (Note 15)	2,584	1,057	282
Deferred revenue	1,175		73
Other liabilities			
Total Current Liabilities	<u>8,437</u>	<u>62,826</u>	<u>3,496</u>
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	88		39
Prize liability		96,964	
Compensated absences (Note 15)	2,894		293
Loans payable the Federal Government (Note 15)			
Total Noncurrent Liabilities	<u>2,982</u>	<u>96,964</u>	<u>332</u>
Total Liabilities	<u>11,419</u>	<u>159,790</u>	<u>3,828</u>
Net Assets			
Invested in capital assets, net of related debt	234,261	7,694	87,459
Restricted for:			
Other purposes (Note 1)			
Unrestricted	4,187	28,726	(1,837)
Total Net Assets	<u>\$ 238,448</u>	<u>\$ 36,420</u>	<u>\$ 85,622</u>

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

Enterprise Funds				Governmental
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2009	Activities- Internal Service Funds
\$ 22,139	\$ 14,450	\$ 7,291	\$ 66,824	\$ 20,192
		7,935	7,935	
			29,694	
19,487	57,522	109,855	218,190	2,568
3,203	40,040		43,267	4,127
			2,543	2,639
	158		595	5,841
44,829	112,170	125,081	369,048	35,367
352,219			352,219	
27,171	22,799	11,115	175,246	48,723
			4,772	
			22,995	15,663
			113,695	3,144
			225,562	266,766
1,660			59,196	123,414
			2,322	
(997)			(206,325)	(238,198)
			112,844	82,239
663			330,289	253,028
380,053	22,799	11,115	862,526	301,751
424,882	134,969	136,196	1,231,574	337,118
3,957	10,281	45,598	74,536	6,262
			16	
28	166		1,991	855
114,792	92,944		207,736	15,130
6,970			6,970	917
			84	3,846
			52,991	
1,407	119		5,449	2,989
		17,506	18,754	782
	10,037		10,037	
127,154	113,547	63,104	378,564	30,781
926,722			926,722	134,773
47,858			47,858	5,346
			127	8,039
			96,964	
231	100		3,518	1,697
		301,900	301,900	
974,811	100	301,900	1,377,089	149,855
1,101,965	113,647	365,004	1,755,653	180,636
664			330,078	241,143
5,615			5,615	
(683,362)	21,322	(228,808)	(859,772)	(84,661)
\$ (677,083)	\$ 21,322	\$ (228,808)	\$ (524,079)	\$ 156,482

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Operating Revenues:			
Charges for sales and services:			
State parks sales and services	\$ 52,431	\$	\$
Lottery sales		810,544	
Horse park admissions and sales			6,423
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	583		1,323
Total Operating Revenues	53,014	810,544	7,746
Operating Expenses:			
Personal services	53,203		4,953
Utilities, rental, and other services	14,359	1,415	2,221
Commodities and supplies	21,518		635
Grants and subsidies			
Depreciation and amortization	9,167	2,585	597
Travel	314	41	4
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Prize expense		515,947	
Other expenses		88,348	2,968
Total Operating Expenses	98,561	608,336	11,378
Operating Income (Loss)	(45,547)	202,208	(3,632)
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of capital assets	(217)	38	(30)
Interest and other investment income		8,771	
Increase (decrease) in fair value of investments	31	(980)	(133)
Interest expense	(17)	(8,531)	(3)
Other revenues (expenses)		(3,035)	
Total Nonoperating Revenues (Expenses)	(203)	(3,737)	(166)
Income (Loss) before Capital Contributions and Transfers	(45,750)	198,471	(3,798)
Capital contributions			4,633
Transfers in	30,311		28,323
Transfers out	(33)	(201,176)	
Change in Net Assets	(15,472)	(2,705)	29,158
Net Assets at July 1, as restated (Note 2)	253,920	39,125	56,464
Net Assets at June 30	\$ 238,448	\$ 36,420	\$ 85,622

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, 2009	
\$	\$	\$	\$	\$
			52,431	
			810,544	
			6,423	
93,438	1,392,971		1,486,409	
		795,447	795,447	
				169,155
27,007			28,913	904
120,445	1,392,971	795,447	3,180,167	170,059
18,274	4,479	1	80,910	57,349
2,305	1,579	1	21,880	38,367
428	35	3,507	26,123	23,213
		1,290,217	1,290,217	
157			12,506	20,921
352	11		722	87
				916
(31,814)	1,419,534	23,341	1,411,061	38,237
(14,013)	(724)		(14,737)	(333)
			515,947	
14	10,037		101,367	
(24,297)	1,434,951	1,317,067	3,445,996	178,757
144,742	(41,980)	(521,620)	(265,829)	(8,698)
			(209)	(3,107)
13,143	2,359	8,438	32,711	11
(59,598)	(196)	(96)	(60,972)	(101)
(11)			(8,562)	(627)
(5,333)			(8,368)	55
(51,799)	2,163	8,342	(45,400)	(3,769)
92,943	(39,817)	(513,278)	(311,229)	(12,467)
435			4,633	
(71,127)	(50,000)	(765)	59,069	2,159
22,251	(89,817)	(514,043)	(323,101)	(8,532)
			(570,628)	(18,840)
(699,334)	111,139	285,235	46,549	175,322
\$ (677,083)	\$ 21,322	\$ (228,808)	\$ (524,079)	\$ 156,482

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Business-Type Activities		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Cash Flows from Operating Activities			
Cash received from customers - public	\$ 53,044	\$ 765,292	\$ 6,641
Cash received from customers - state	72		
Cash payments to suppliers for goods and services	(36,683)	(578,768)	(5,081)
Cash payments for employee salaries and benefits	(53,787)	(13,000)	(4,968)
Cash payments for claims expense			
Cash payments from other sources	582		
Cash payments to other sources			
Net Cash Provided (Used) by Operating Activities	<u>(36,772)</u>	<u>173,524</u>	<u>(3,408)</u>
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	30,311		28,323
Transfers to other funds	(33)	(201,176)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>30,278</u>	<u>(201,176)</u>	<u>28,323</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(4,836)	(1,266)	(41,529)
Principal paid on revenue bond maturities and equipment contracts	(85)		(29)
Interest paid on revenue bonds and equipment contracts	(17)		(3)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(4,938)</u>	<u>(1,266)</u>	<u>(41,561)</u>
Cash Flows from Investing Activities			
Purchase of investment securities	10,917	(1,626)	
Proceeds from the sale of investment securities		31,842	14,891
Interest and dividends on investments	32	477	
Net Cash Provided (Used) in Investing Activities	<u>10,949</u>	<u>30,693</u>	<u>14,891</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(483)	1,775	(1,755)
Cash and Cash Equivalents at July 1	4,963	16,049	2,395
Cash and Cash Equivalents at June 30	<u>\$ 4,480</u>	<u>\$ 17,824</u>	<u>\$ 640</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (45,547)	\$ 202,208	\$ (3,632)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	9,167	2,585	597
Miscellaneous nonoperating income (expense)		162	
Change in assets and liabilities:			
(Increase) decrease in assets:			
Receivables, net	256	96	(154)
Interfund receivables	114		
Inventories	699	10	(23)
Prepaid expenses	6		
Other assets		72	(9)
Increase (decrease) in liabilities:			
Accounts payable	(2,914)	(1,167)	(171)
Interfund payables	1,387	3,218	
Claims liability			
Claims adjustment liability			
Compensated absences	(270)	125	(16)
Deferred revenue	315		
Other liabilities	15	(33,785)	
Net Cash Provided (Used) by Operating Activities	<u>\$ (36,772)</u>	<u>\$ 173,524</u>	<u>\$ (3,408)</u>
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	\$ 31	\$ (980)	\$ (133)
Contributions of capital assets		41	4,633
Capital assets acquired through leases	113		
Accretion of investments held to fund grand prizes, which increased prize liability		8,531	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 144</u>	<u>\$ 7,592</u>	<u>\$ 4,500</u>

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

- Enterprise Funds				Governmental
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2009	Activities - Internal Service Funds
\$ 118,729	\$ 165,542	\$ 765,864	\$ 1,875,112	\$ 61,624
	1,130,970		1,131,042	108,356
(1,727)	(74,332)	(1)	(696,592)	(64,261)
(18,272)	(4,466)	(1)	(94,494)	(58,107)
(90,275)	(1,345,184)		(1,435,459)	(26,127)
4,019	28,089		32,690	960
(9,056)		(989,456)	(998,512)	(1,228)
3,418	(99,381)	(223,594)	(186,213)	21,217
435			59,069	2,159
(71,127)	(50,000)	(765)	(323,101)	(8,532)
(70,692)	(50,000)	(765)	(264,032)	(6,373)
(127)			(47,758)	(12,379)
			(114)	(3,645)
			(20)	(627)
(127)			(47,892)	(16,651)
6,986		(9,059)	7,218	(2,054)
27,109	73,830		147,672	2,059
12,982	2,359	8,343	24,193	(13)
47,077	76,189	(716)	179,083	(8)
(20,324)	(73,192)	(225,075)	(319,054)	(1,815)
42,463	87,642	240,301	393,813	22,007
\$ 22,139	\$ 14,450	\$ 15,226	\$ 74,759	\$ 20,192
\$ 144,742	\$ (41,980)	\$ (521,620)	\$ (265,829)	\$ (8,698)
157			12,506	20,921
25,061			25,223	55
(34,180)	31,003	(15,783)	(18,762)	(1,910)
(2)			112	2,215
	(66)		686	2,548
			(60)	(1,138)
			63	
(957)	(8,836)	327,954	313,909	(4,039)
4,698		(345)	8,958	(41)
(122,089)	13,829		(108,260)	11,936
(14,013)	(724)		(14,737)	(333)
1	12		(148)	(864)
	(102,656)	(13,800)	(116,141)	546
	10,037		(23,733)	19
\$ 3,418	\$ (99,381)	\$ (223,594)	\$ (186,213)	\$ 21,217
\$ (59,598)	\$ (196)	\$ (96)	\$ (60,972)	\$ (101)
			4,674	
			113	497
			8,531	
\$ (59,598)	\$ (196)	\$ (96)	\$ (47,654)	\$ 396

FIDUCIARY FUNDS FINANCIAL STATEMENTS

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, 2009
(Expressed in Thousands)

	Pension (and Other Post Employment Benefit) Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 5)	\$ 1,830,650	\$ 40,791
Investments, net of amortization (Note 5)		136,664
Pension trust fund investments (Note 5):		
Corporate and government bonds	5,691,935	
Common stocks	14,115,295	
Mortgages	1,612,959	
Mutual funds	1,519,875	
Real estate	441,292	
Invested security collateral	2,434,882	289,381
Receivables, net	281,501	19,231
Interfund loan receivable (Note 7)		154,395
Prepaid expenses	270	
Buildings	11,288	
Total Assets	<u>27,939,947</u>	<u>640,462</u>
Liabilities		
Accounts payable	27,743	256,733
Amounts held in custody for others		94,348
Obligations under securities lending	2,434,882	289,381
Impairment	48,263	
Total Liabilities	<u>2,510,888</u>	<u>640,462</u>
Net Assets		
Held in trust for:		
Employee pension and post employment benefits	25,429,059	
Total Net Assets	<u>\$ 25,429,059</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, 2009
(Expressed in Thousands)

	Pension (and Other Post Employment Benefit) Trust Funds
Additions	
Contributions:	
Employer	\$ 1,314,304
Member	804,407
Total Contributions	2,118,711
Other Contributions:	
Recovery income	27,401
Medicare D receipts	30,447
Participant fees	5,918
Total Other Contributions	63,766
Investment income:	
Net increase (decrease) in fair value of investments	(5,898,293)
Interest	630,048
Dividends	154,361
Real estate operating income, net	29,794
Securities lending income, net	51,229
Total Investment Income	(5,032,861)
Less: Investment expense	43,222
Less: Securities lending expense	28,734
Net Investment Income	(5,104,817)
Total Additions	(2,922,340)
Deductions	
Benefit payments	3,064,465
Refunds	38,858
Administrative expenses	48,116
Self funding insurance costs	114,555
Healthcare premiums subsidies	198,273
Total Deductions	3,464,267
Change in Net Assets	(6,386,607)
Net Assets Held In Trust	
Net Assets at July 1	31,815,666
Net Assets at June 30	\$ 25,429,059

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

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Kentucky Housing Corporation

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

Kentucky Higher Education Student Loan Corporation

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

Kentucky School Facilities Construction Commission

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

Universities, Colleges, and Related Entities

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 page168

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2009
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Kentucky School Facilities Construction Commission
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 60,951	\$ 18,402	\$ 6,323
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	286,361		
Accounts receivable, net	3,973	3,410	
Interest receivable		60,211	
Inventories			
Prepaid expenses		4,766	
Other current assets	43,328	685,484	
Total Current Assets	394,613	772,273	6,323
Noncurrent assets:			
Restricted cash (Note 5)		139,293	
Long-term investments (Note 5)	594,593		10,345
Restricted long-term investments (Note 5)			
Long-term receivables, net	1,575,340	1,830,984	
Deferred charges	41,008	38,887	6,654
Capital assets (Note 6):			
Land	1,076		
Improvements other than buildings			
Buildings	5,035		
Machinery and equipment	4,727	14,340	
Other capital assets			
Less: Accumulated depreciation and amortization	(6,212)	(13,559)	
Construction in progress			
Total Capital Assets	4,626	781	
Other assets			
Total Noncurrent Assets, Net	2,215,567	2,009,945	16,999
Total Assets	2,610,180	2,782,218	23,322
Liabilities			
Current liabilities:			
Accounts payable and accruals	53,065	20,102	11,178
Current portion of long-term debt:			
Notes payable (Note 15)	17,099	472,045	
Bonds payable (Note 15)	56,535	50,000	68,488
Capital lease obligations (Note 10)			
Compensated absences (Note 16)		1,538	15
Claims liability			
Deferred revenues			
Payable from restricted assets			
Other current liabilities	52,181		
Total Current Liabilities	178,880	543,685	79,681
Noncurrent liabilities:			
Notes payable (Note 15)			
Bonds payable (Note 15)	2,118,883	2,155,100	744,739
Capital lease obligations (Note 10)			
Compensated absences (Note 16)			20
Other long-term liabilities	16,642	679	
Total Noncurrent Liabilities	2,135,525	2,155,779	744,759
Total Liabilities	2,314,405	2,699,464	824,440
Net Assets			
Invested in capital assets, net of related debt	4,626		
Restricted for:			
Debt service	226,733	12,946	
Capital projects			
Other purposes (Note 1)	16,585	39,668	
Unrestricted	47,831	30,140	(801,118)
Total Net Assets	\$ 295,775	\$ 82,754	\$ (801,118)

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

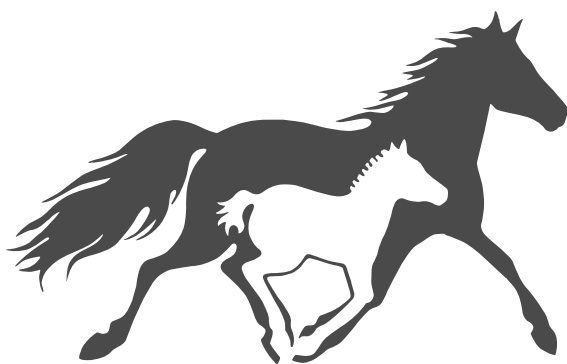
UNIVERSITIES, COLLEGES, AND RELATED ENTITIES				
University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2009
\$ 378,009	\$ 94,306	\$ 184,207	\$ 375,890	\$ 1,118,088
3,834	68,619	41	26,239	26,239
205,442	87,651	59,596	196,473	555,328
3,759		2,748	223,318	583,390
29,404	1,244		6,633	73,351
4,773	655	2,097	7,368	38,016
2,920	9,944		5,725	18,016
628,141	262,419	248,689	14,943	756,619
			856,589	3,169,047
63,546	75,048	21,752	88,788	388,427
211,940	678,387	70,483	304,343	1,870,091
701,762	5,570		142,291	849,623
51,754	59,283	7,826	558,116	4,083,303
			1,377	87,926
63,436	71,445	23,814	84,832	244,603
140,498	6,174	9,201	86,301	242,174
1,450,949	880,878	519,942	1,973,783	4,830,587
721,989	367,636	148,456	366,013	1,623,161
			102,129	102,129
(1,145,898)	(525,641)	(305,957)	(1,124,676)	(3,121,943)
340,556	71,571	133,693	199,918	745,738
1,571,530	872,063	529,149	1,688,300	4,666,449
17,612	5,175		19,299	42,086
2,618,144	1,695,526	629,210	2,802,514	11,987,905
3,246,285	1,957,945	877,899	3,659,103	15,156,952
170,106	67,528	7,032	84,081	413,092
4,883			4,450	498,477
14,429	18,088		38,976	246,516
33,118	1,734	2,181	12,411	49,444
490		11,510	22,219	35,772
			10,837	10,837
68,756	40,899	26,445	38,026	174,126
			11,154	11,154
21,301	13,607	13,342	22,836	123,267
313,083	141,856	60,510	244,990	1,562,685
21,906	27,692		21,992	71,590
163,302	309,902		478,351	5,970,277
449,820	1,733	12,145	168,948	632,646
4,240			1,058	5,318
80,853	73,689	37,210	72,717	281,790
720,121	413,016	49,355	743,066	6,961,621
1,033,204	554,872	109,865	988,056	8,524,306
909,736	614,509	514,824	1,076,088	3,119,783
3,321	25,182		19,824	288,006
57,042	44,648	60,716	125,200	287,606
616,252	394,904	56,537	1,085,008	2,208,954
626,730	323,830	135,957	364,927	728,297
\$ 2,213,081	\$ 1,403,073	\$ 768,034	\$ 2,671,047	\$ 6,632,646

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
JUNE 30, 2009
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Kentucky School Facilities Construction Commission
Expenses:			
Operating and other expenses	\$ 312,280	\$ 121,287	\$ 107,672
Depreciation			
Total Expenses	312,280	121,287	107,672
Program Revenues:			
Charges for services	165,712	132,367	
Operating grants and contributions	163,093		8,297
Capital grants and contributions			
Total Program Revenues	328,805	132,367	8,297
Net Program (Expense) Revenue	16,525	11,080	(99,375)
General Revenues:			
Unrestricted grants and contributions			100
Unrestricted investment earnings			121,722
Miscellaneous general		2,833	
Total General Revenues		2,833	121,822
Change in Net Assets	16,525	13,913	22,447
Net Assets at July 1, As Restated (Note 2)	279,250	68,841	(823,565)
Net Assets at June 30	\$ 295,775	\$ 82,754	\$ (801,118)

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, 2009
\$ 2,026,647	\$ 824,938	\$ 538,700	\$ 1,801,804	\$ 5,733,328
			2,673	2,673
2,026,647	824,938	538,700	1,804,477	5,736,001
1,265,211	414,564	96,147	631,251	2,705,252
351,210	185,530	80,003	397,951	1,186,084
107,546			50,509	158,055
1,723,967	600,094	176,150	1,079,711	4,049,391
(302,680)	(224,844)	(362,550)	(724,766)	(1,686,610)
82,025	80,415	144,759	154,835	462,034
(169,113)	(188,645)	6,076	(33,079)	(384,661)
306,264	201,473	288,113	650,972	1,571,377
219,176	93,243	438,948	772,728	1,648,750
(83,504)	(131,601)	76,398	47,962	(37,860)
2,296,585	1,534,674	691,636	2,623,085	6,670,506
\$ 2,213,081	\$ 1,403,073	\$ 768,034	\$ 2,671,047	\$ 6,632,646



KENTUCKY HORSE PARK

Home of the



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World Equestrian Games™

Kentucky 2010

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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 Public Employees' Deferred Compensation Authority, 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 108 and 109 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.

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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, Kentucky Gas Pipeline 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.

Kentucky Gas Pipeline Authority (KRS 353.752)

This authority is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development. The authority consists of nine members, the Secretary of the Finance and Administration Cabinet, the Secretary of the Commerce Cabinet, the Secretary of the Environmental and Public Protection Cabinet, a member designated by the Kentucky Oil and Gas Association, a member designated by the Kentucky Society of Professional Engineers, a member designated by the Kentucky Gas Association, a citizen member appointed by the governor, and two legislative members.

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.

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Notes to Financial Statements

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Kentucky Housing Corporation (KRS 198A.030)

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

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

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

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the 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.

Kentucky School Facilities Construction Commission (KRS 157.617)

This commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the commission.

Kentucky State Fair Board (KRS 247.090)

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

Kentucky Center for the Arts Corporation (KRS 153.410)

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

Kentucky Educational Television Authority (KET) (KRS 168.030)

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

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

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

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

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. The authority is governed by a board of directors consisting of fifteen 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 sixteen members—thirteen citizens appointed by the Governor, one faculty member, one student, and the Commissioner of Education. This council coordinates change and improvement in

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Kentucky's postsecondary education system. This council strives to increase literacy, improve work-related skills, and to raise the number of students attending college and completing college degrees.

Kentucky Infrastructure Authority (KRS 224A.030)

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

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

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

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

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

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

The Kentucky Health Care Improvement Authority was created as a body corporate and politic and is funded by assessments on insurers, enrollment fees, and Tobacco Trust Funds. Consisting of fifteen 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, 2009 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.

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

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

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

Restricted Net Assets

(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government	
	Business Type Activities	Component Units-Major
Loans	\$	\$ 29,969
Education		101,833
Instruction		79,803
Scholarships and Fellowships		175,270
Research		239,743
Claims	5,615	
Other		497,328
Totals	\$ 5,615	\$ 1,123,946

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. The sales and gross receipts taxes reflected on the statement of activities for the governmental activities include various taxes that are computed using sales price or gross receipts of the reporting entity. For fiscal year 2009, the total amount of sales and gross receipts taxes reported in the entity wide statements was \$4,777,321,000, and comprised of:

Sales and Use Tax	\$ 2,807,232,000
Motor Fuels Tax	638,367,000
Motor Vehicles Usage Tax	336,038,000
Healthcare Provider Tax	308,643,000
Tobacco Products Taxes	231,461,000
Insurance Premiums Tax	131,295,000
Limited Liability Entity Tax	130,836,000
Alcoholic Beverage Taxes	112,238,000
Telecommunications Tax	66,320,000
Transient Room Tax	9,567,000
Parimutuel and Race Track Admission Taxes	5,324,000
Total Sales and Gross Receipts Tax	\$ 4,777,321,000

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.

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Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date. In governmental funds, where the focus is on the flow of current resources, expenditures are usually recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; and principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

A description of significant governmental funds follows:

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

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

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

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

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

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

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

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

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.

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Notes to Financial Statements

June 30, 2009

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
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 70,000 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
Kentucky School Facilities Construction Commission
University of Kentucky
University of Louisville

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June 30, 2009

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 2009, the primary government provided \$314,920,500 to the University of Kentucky, \$214,931,200 to the Kentucky Community and Technical College System, \$182,269,500 to the University of Louisville, and \$180,447,254 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$201,176,237 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2009 are \$1,918,159,274.

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.

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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 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 2009 do not contain the Center's capital assets. The Finance and Administration Cabinet, Office of Statewide Accounting Services, 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:

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Notes to Financial Statements

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1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.

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

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

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

3. Outstanding capital lease obligations for governmental funds.

4. Judgments and contingent liabilities of governmental funds that will be paid with noncurrent resources.

5. Long-term liabilities of internal service funds.

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

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

P. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$1,962,523,880 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 decrease of \$148,763,000.

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 decrease of \$37,000.

Capital Projects Fund - The Capital Projects Fund was restated for implementation of GASB 49 "Accounting and Financial Reporting for Pollution Remediation Obligations". The effect on fund balance is a net decrease of \$1,450,000.

Agency Revenue Fund - The Agency Revenue Fund was restated for implementation of GASB 49 "Accounting and Financial Reporting for Pollution Remediation Obligations". The effect on fund balance is a net decrease of \$2,058,000.

Enterprise Funds - The Insurance Administration Fund within the Enterprise Funds was restated for prior period errors. The effect on net assets is a decrease of \$37,000.

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Internal Service Funds – The Fleet Management Fund within the Internal Service Funds was restated for prior period errors. The effect on net assets is a decrease of \$7,586,000.

Component Units – Universities, Colleges, and Related Entities:

University of Louisville – The University of Louisville restated net assets for a change in reporting entity through assumption of assets and liabilities of a related party. The effect on net assets is a decrease of \$340,000.

Murray State University – Murray State University restated net assets for an additional component unit not previously reported. The effect on net assets is an increase of \$47,000.

Western Kentucky University – Western Kentucky University restated net assets for a prior period adjustment of a component unit. The effect on net assets is an increase of \$597,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$304,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Federal Funds** – The Federal Fund has a fund balance deficit of \$79,938,000. 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 \$677,083,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods. The Unemployment Compensation Fund has net assets deficit of \$228,808,000, due to an increase in demand for unemployment insurance payments.
- C. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$132,505,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured workers' compensation programs, and is to be funded in future periods.

- D. Component Units – Authorities** – The Kentucky School Facilities Construction Commission has a net assets deficit of \$801,118,000. 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 \$5,070,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

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, 2009. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2009. 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.

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Disaggregation of Payables and Receivables
(Expressed in Thousands)

	Governmental Activities			Total Governmental Activities	Business- Type Activities	Total Primary Government
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	
Current Payables						
Personal services	\$ 126,824	\$ 383	\$ 3,402	\$ 130,609	\$ 21,983	\$ 152,592
Utilities, rental and other services	31,234	176	1,626	33,036	981	34,017
Commodities and supplies	9,993	213	1,155	11,361	1,338	12,699
Grants and subsidies	879,273	6,817	(2)	886,088	44,668	930,756
Capital outlay	78,069	90	58	78,217	199	78,416
Travel	2,907	5	5	2,917	17	2,934
Interest Payable	87,063	32	18	87,113		87,113
Other	1,048	8,370		9,418	5,350	14,768
Total Current Payables	<u>\$ 1,216,411</u>	<u>\$ 16,086</u>	<u>\$ 6,262</u>	<u>\$ 1,238,759</u>	<u>\$ 74,536</u>	<u>\$ 1,313,295</u>
Current Receivables						
Charges for services	\$ 44,979	\$ 20,671	\$	\$ 65,650	\$ 88,872	\$ 154,522
Taxes receivable	1,934,487	25,972		1,960,459	(9)	1,960,450
Investment receivable	12,331	1,088		13,419	1,208	14,627
Intergovernmental revenue	1,078,454	1,317	3	1,079,774	52,564	1,132,338
Other	104,656	27,131	2,565	134,352	82,102	216,454
Allowances for uncollectables	(1,036,299)	(17,795)		(1,054,094)	(6,547)	(1,060,641)
Total Current Receivables	<u>\$ 2,138,608</u>	<u>\$ 58,384</u>	<u>\$ 2,568</u>	<u>\$ 2,199,560</u>	<u>\$ 218,190</u>	<u>\$ 2,417,750</u>

Taxes Receivable
(Expressed in Thousands)

	Governmental Activities		Total Primary Government
	Major Funds	Non-Major Funds	
Current Taxes Receivable			
Sales and gross receipts	\$ 909,514	\$ 3,652	\$ 913,166
Individual income	735,141		735,141
Corporate	60,925		60,925
Property	129,161		129,161
License and privilege	2,537	5,957	8,494
Coal severance	78,751		78,751
Inheritance and estate	8,933	532	9,465
Miscellaneous	9,525	15,831	25,356
Total Current Taxes Receivable	<u>\$ 1,934,487</u>	<u>\$ 25,972</u>	<u>\$ 1,960,459</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, 2009, are as follows (Expressed in Thousands):**

	Principal	Interest	Total
2010	\$ 14,160	\$ 20,311	\$ 34,471
2011	19,800	19,626	39,426
2012	20,545	18,857	39,402
2013	21,410	17,994	39,404
2014	22,390	17,009	39,399
2015-2019	126,785	67,981	194,766
2020-2024	129,995	36,874	166,869
2025-2029	84,660	9,097	93,757
Total leases receivable	<u>\$ 439,745</u>	<u>\$ 207,749</u>	<u>\$ 647,494</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 \$298,048,391 and the bank balance was \$297,382,855. 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 \$115,013,266 in deposits that are uninsured and uncollateralized, and \$189,882,011 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 \$8,910,465 in securities lending income. On June 30, 2009, the fair value of the securities transferred was \$758,367,364 and the fair value of the securities purchased by the Commonwealth was \$656,227,697. 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.

The Commonwealth had in its securities lending account several securities that became impaired during the year. The Commonwealth entered into a security swap with our agent Credit Suisse. The Commonwealth swapped the impaired securities owned in the securities lending portfolio for a security in Credit Suisse's name. The par value of the securities swapped was \$221,142,550 which is the par value of the Credit Suisse security. The security is a floating rate note that matures December 20, 2019.

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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, 2009, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

Interest Rate Risk

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

The primary government's investments (excluding the pension and (OPEB) trust funds) at June 30, 2009 are presented below. All investments are presented by investment type.

Cash And Investments By Type
Primary Government

I. Cash:

	Carrying Amount	Bank Balance
Cash	\$ 95,924,050	\$ 95,748,339
Cash with Fiscal Agents	61,239,344	61,239,344
Cash with Feds	7,935,362	7,935,362
Other	132,949,810	132,459,810
Total Cash	\$ 298,048,566	\$ 297,382,855

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	< 1 year	1-5 Years
Cash Equivalents	\$ 58,709,039	\$ 58,709,039	\$
U.S. Government & Agency Obligations	266,402,972	127,744,885	138,658,087
Total	\$ 325,112,011	\$ 186,453,924	\$ 138,658,087

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective
Cash Equivalents	29,424,969	0.619
Fixed Income Mutual Funds	242,386,419	3.441
U.S. Government & Agency Obligations	841,654,046	1.265
Mortgage-Backed Securities	233,839,077	0.395
Corporate Obligations	113,685,648	1.569
Asset Backed Securities	264,123,744	2.314
Municipal Obligations	213,023,921	0.545
Other	8,353,229	5.497
Total Debt Securities	1,946,491,053	
Portfolio Effective Weighted Duration		1.521

Other Investments

Cash Equivalents	15,715,321
Fixed Income Mutual Funds	13,047,500
Common Stock	157,991,987
Securities Lending Invest	656,227,697
Total Other Investments	842,982,505
Total Investments	\$ 3,114,585,569

COMMONWEALTH OF KENTUCKY

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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. 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, 2009 and the ratings are presented in the following table.

Investments and Credit Ratings

Primary Government

	Standard & Poor's/Moody's Credit Ratings					
	AAA/Aaa	AA/Aa	A	BBB/Baa	BB/Ba	B/B
Cash Equivalents	\$ 58,709,039	\$	\$	\$	\$	\$
Fixed Income Mutual Funds	2,016,904			1,971,995		
U.S. Government & Agency Obligations	1,160,325,865					
Mortgage-Backed Securities	234,852,610					
Corporate Obligations	107,827,767	37,243,094	27,859,666	28,973,328	3,065,631	
Common Stock				5,453	5,741	
Asset Backed Securities	162,008,515	40,365,219	12,987,567		6,369,759	17,811,095
Municipal Obligations	62,077,732	107,799,116	41,247,707	4,154,158		
Securities Lending						
Other	161,133,775					
Total Investments	\$ 1,948,952,207	\$ 185,407,429	\$ 82,094,940	\$ 35,104,934	\$ 9,441,131	\$ 17,811,095
						Total Fair Value of Investments
	CCC/Caa	CC/Ca	D	Unrated	NA	
Cash Equivalents	\$	\$	\$	\$ 29,369,970	\$	\$ 88,079,009
Fixed Income Mutual Funds		58,742		65,970,867	5,235,440	75,253,948
U.S. Government & Agency Obligations				3,190,877		1,163,516,742
Mortgage-Backed Securities				22,108,993		256,961,603
Corporate Obligations	1,622,648			3,315,325		209,907,459
Common Stock					15,222,646	15,233,840
Asset Backed Securities	13,976,463	2,398,948	8,206,177			264,123,743
Municipal Obligations				419,736		215,698,449
Securities Lending					656,227,697	656,227,697
Other			96,075	8,353,229		169,583,079
Total Investments	\$ 15,599,111	\$ 2,457,690	\$ 8,302,252	\$ 132,728,997	\$ 676,685,783	\$ 3,114,585,569

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, 2009, the primary government had no investments which would constitute a concentration of credit risk.

At June 30, 2009, The Turnpike Authority of Kentucky (TAK) a blended component unit had investments of \$58,709,039 in Morgan Stanley which would constitute a concentration credit risk as it is more than 5% of TAK's total investments.

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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 historically has been to invest only in securities in U.S. denominations. The Kentucky Workers' Compensation Funding Commission (KWCFC), by its policy, now invests in international equities.

The Workers' Compensation Funding Commission's investments in foreign currency as of June 30, 2009 are presented in the following table.

Foreign Currency Risk
Primary Government (KWCFC)

Foreign Currency	Equity	Debt	Total
British pound sterling	\$ 2,228,221	\$	\$ 2,228,221
Canadian dollar	763		763
Danish krone	124,609		124,609
Euro	2,914,392		2,914,392
Hong Kong dollar	286,500		286,500
Japanese yen	2,356,123		2,356,123
Norwegian krone	74,639		74,639
Singapore dollar	117,650		117,650
South African rand	4,416		4,416
Swedish krona	139,586		139,586
Swiss franc	1,161,594		1,161,594
Total Securities Subject To Foreign Currency Risk	9,408,493		9,408,493
USD (Securities Held By Int'l Investment Managers)		751,205	751,205
Total Int'l Investment Securities	\$ 9,408,493	\$ 751,205	\$ 10,159,698

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 \$61,094,505 and the bank balance was \$61,094,505.

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 \$7,614,774 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

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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. 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, 2009 are presented below. All investments are presented by investment type.

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

I. Cash

	Carrying Amount	Bank Balance
Cash	\$ 8,660,610	\$ 8,660,610
Money Market	24,359,051	24,359,051
Other	28,074,844	28,074,844
Total Cash	\$ 61,094,505	\$ 61,094,505

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	1-5 Years	6-15 Years	15-25 Years
Fixed Income Mutual Funds	\$ 78,803,641	\$ 78,803,641	\$	\$
U.S. Government & Agency Obligations	1,024,818,746	51,979,523	972,839,223	
Mortgage-Backed Securities	588,790,288			588,790,288
Corporate Obligations	1,673,025,368	35,697,229	1,637,328,139	
Asset Backed Securities	67,889,109		67,889,109	
Municipal Obligations	393,237,899		393,237,899	
Mortgage Loans	125,751,715			125,751,715
Total	3,952,316,766	\$ 166,480,393	\$ 3,071,294,370	\$ 714,542,003

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective	Macaulay
Fixed Income Mutual Funds	60,154,719	2.450	
U.S. Government & Agency Obligations	2,442,093,844	4.764	
Mortgage-Backed Securities	106,131,129	4.400	
Corporate Obligations	538,973,533	6.010	
Asset Backed Securities	101,699,907	0.360	
Asset Backed Securities	538,800,362		3.310
Municipal Obligations	20,093,413	7.480	
Mortgage Loans	162,234,869	1.380	
Total Debt Securities	3,970,181,776		
Portfolio Weighted Effective Duration		4.633	
Portfolio Weighted Macaulay Duration			3.310

Other Investments

Cash Equivalents	256,900,000
Common Stock	13,027,185,704
Limited Partnerships	1,088,109,988
Real Estate	441,291,625
Securities Lending	2,434,882,447
Other Investments	2,414,926,832
Total Other Investments	19,663,296,596
Total Investments	\$ 27,585,795,138

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

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, 2009 and the ratings are presented in the following table.

Investments and Credit Ratings Pension and (OPEB) Trust Funds

<u>Quality Rating</u>	<u>Amount</u>
AAA	\$ 1,637,128,442
AA+	222,534,537
AA	374,793,922
AA-	14,112,366
A+	64,261,249
A	1,312,392,751
A-	60,256,001
BBB+	81,424,712
BBB	625,979,595
BBB-	62,510,693
BB+	6,241,124
BB	21,521,353
BB-	2,212,888
B+	3,389,891
B	7,629,229
B-	923,953
CCC	7,319,295
CC	278,130
Not Rated	46,927,613
Total Credit Risk Debt Securities	<u>4,551,837,744</u>
Cash Equivalents	256,900,000
U.S. Government & Agencies	3,334,963,569
Corporate Obligations	35,697,229
Common Stock	13,027,185,704
Limited Partnerships	1,088,109,988
Real Estate	441,291,625
Securities Lending	2,434,882,447
Other	2,414,926,832
Total Investments	<u>\$ 27,585,795,138</u>

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, 2009:

<u>Asset Description</u>	<u>Amount</u>
State Street Bank	\$ 86,851,720
JP Morgan	103,065,704
Pacific Life Insurance	95,138,635
ING Life & Annuity	86,827,366
Monumental Life	86,300,573

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

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 Funds 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. The Pension and (OPEB) Trust Funds, investments in foreign currency as of June 30, 2009 are presented in the following table.

Foreign Currency Risk Pension and (OPEB) Trust Funds

Foreign Currency	Equity	None Designated	Total
Australian dollar	\$ 73,617,617	\$	\$ 73,617,617
British pound sterling	554,095,310		554,095,310
Canadian dollar	339,012,447		339,012,447
Danish krone	4,190,353		4,190,353
Euro	444,897,394		444,897,394
Hong Kong dollar	44,075,837		44,075,837
Japanese yen	340,599,429		340,599,429
Malaysian ringgit	7,047,390		7,047,390
New Taiwan dollar	4,927,518		4,927,518
Norwegian krone	9,743,011		9,743,011
Singapore dollar	29,941,540		29,941,540
South African rand	4,169,993		4,169,993
South Korean won	11,434,470		11,434,470
Swedish krona	16,508,693		16,508,693
Swiss franc	120,548,586		120,548,586
International Equity Mutual Fund (Various Currencies)	565,358,583		565,358,583
American Funds Euro Pacific Growth Fund	48,853,458		48,853,458
Federated Int'l Small Co. Fund	11,010,843		11,010,843
Dodge & Cox International Stock Fund	9,557,581		9,557,581
Baring Asset Management	245,698,127		245,698,127
Baillie Gifford	259,859,950		259,859,950
UBS Global Asset Management	429,263,724		429,263,724
Total Securities Subject To Foreign Currency Risk	3,574,411,854		3,574,411,854
USD (Securities Held By Int'l Investment Managers)		527,935,944	527,935,944
USD in (ADR) American Depositary Receipt investments		420,727,764	420,727,764
Total Int'l Investment Securities	\$ 3,574,411,854	\$ 948,663,708	\$ 4,523,075,562

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, 2009, 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.

In September 2008, as the ongoing financial market crisis took an adverse turn, and it was determined that securities held in the collateral investment pools by the Kentucky Retirement System's custodial bank, had experienced impairment in value. Per an agreement, each participant in the collateral pool (including KRS) was allocated their share of the Collateral Deficiency which comprised both unrealized and realized losses. The custodial bank elected to book this obligation as a receivable to each investment pool, avoiding any immediate cash outflows by participants. As of June 30, 2009, the impairment in the pension funds totaled \$39,279,421 and the impairment in the insurance fund totaled \$8,984,210, for a total impairment of \$48,263,631. This is an unrealized loss and will decrease with time as the market values of assets increase.

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 \$1,041,836,006 and bank balance was \$1,033,308,808.

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, 2009.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

Custodial Risk

Discretely Presented Major Component Units

I. Deposits

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

Deposits are uninsured and

a) uncollateralized;	\$	9,091,000
b) collateralized with securities held by the pledging financial institution; or		13,151,645
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.		20,641,660

Total Deposits Subject To Custodial Credit Risk

\$ 42,884,305

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	\$	787,207,040
(b) the counterparty's trust department or agent but not in the Commonwealth's name.		993,055,944

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

\$ 1,780,262,984

Investment Types:

	Type A (counterparty)	Type B (trust or agent)
Debt Securities		
Cash Equivalents	\$	\$
Fixed Income Mutual Funds	234,087	61,170,679
U.S. Government & Agency Obligations	36,967,069	123,999,965
Mortgage Backed Securities		124,592,616
Corporate Obligations	36,808,000	43,000
Municipal Obligations	4,466,544	56,514,257
Total Debt Securities	78,475,700	366,320,517
Other Investments		
Cash Equivalents	1,900,029	700,306
Fixed Income Mutual Funds	79,975,000	
Common Stock	83,991,406	455,003,045
Pooled Real Estate Funds		57,402,885
Mortgage Loans		418,840
Limited Partnerships	299,274,000	
Real Estate	4,051,026	
Funds Held In Trust By Others		34,847,000
Other Various	239,539,879	78,363,351
Total Other Investments	708,731,340	626,735,427
Total Type A	787,207,040	Total Type B
		993,055,944
Total Non-Current Cash And Investments Subject To Custodial Credit Risk		\$ 1,780,262,984

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

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, 2009.

Cash And Investments By Type
Discretely Presented Major Component Units

I. Cash

	Carrying Amount	Bank Balance
Cash	\$ 839,624,465	\$ 828,984,342
Money Market	23,437,107	23,437,107
Government Mutual Funds	136,967,794	139,080,719
Other	41,806,640	41,806,640
Total Cash	\$ 1,041,836,006	\$ 1,033,308,808

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	< 1 year	1-5 Years	6-10 Years	> 10 Years
Cash Equivalents	\$ 64,011,146	\$ 48,070,146	\$ 11,000,000	\$ 1,008,452	\$ 3,932,548
Fixed Income Mutual Funds	234,087	234,087			
U.S. Government & Agency Obligations	140,709,129	59,709,178	79,922,469	1,060,775	16,707
Corporate Obligations	1,736,335		639,868	1,096,467	
Guaranteed Investment Contract/Annuities	65,903,530	50,190,317	5,806,453	9,906,760	
Total	272,594,227	\$ 158,203,728	\$ 97,368,790	\$ 13,072,454	\$ 3,949,255

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective	Modified
Cash Equivalents	276,120,585	0.002	
Fixed Income Mutual Funds	53,948,733	1.277	
Fixed Income Mutual Funds	128,669,288		3.155
U.S. Government & Agency Obligations	72,721,478	5.775	
U.S. Government & Agency Obligations	14,194,190		0.715
Mortgage Backed Securities	538,592,515	2.046	
Corporate Debt	666,790	1.570	
Corporate Debt	54,777,923		3.360
Asset Backed Securities	1,549,141	2.310	
State and Municipal Obligations	1,249,430	0.550	
Other Investments	48,993	5.500	
Other Investments	1,888,916		3.950
Total Debt Securities	1,144,427,982		
Portfolio Effective Weighted Duration		1.690	
Portfolio Modified Weighted Duration			3.045

Other Investments

Fixed Income Mutual Funds	80,115,306
Common Stock	559,051,945
Pooled Real Estate Funds	57,402,885
Municipal Obligations	36,808,000
Mortgage Loans	418,840
Limited Partnerships	299,274,000
Real Estate	4,051,026
Funds Held In Trust By Others	34,847,000
Other	142,944,242
Total Other Investments	1,214,913,244
Total Investments	\$ 2,631,935,453

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

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, 2009 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					
	AAA/Aaa	AA/Aa	A	BBB/Baa	BB/Ba	B
Cash Equivalents	\$ 16,419,311					
Fixed Income Mutual Funds		53,598,223				
U.S. Government & Agency Obligations	170,316,368					
Mortgage Backed Securities	538,592,805					
Corporate Obligations	7,157,325	3,278,077	13,106,553	43,971,660	158,755	9,339,691
Common Stock						
Asset Backed Securities	949,712	236,911	76,556		37,244	104,489
Municipal Obligations	2,025,711	632,107	242,083	24,829		
Guaranteed Investment Contracts/Annuities				295,588		
Limited Partnerships						
Real Estate						
Funds Held In Trust						
By Others						
Other	234,087					
Total Investments	\$ 735,695,319	\$ 57,745,318	\$ 13,425,192	\$ 44,292,077	\$ 195,999	\$ 9,444,180

	CCC/Caa	CC/Ca	D	Unrated	NA	Total Fair Value of Investments
Cash Equivalents	\$	\$	\$	\$ 307,662,787	\$ 16,017,354	\$ 340,099,452
Fixed Income Mutual Funds				208,644,288		262,242,511
U.S. Government & Agency Obligations				44,328,613	22,457,058	237,102,039
Mortgage Backed Securities					418,840	539,011,645
Corporate Obligations				18,865,358		95,877,419
Common Stock				83,991,406	475,060,538	559,051,944
Asset Backed Securities	81,729	14,484	48,624			1,549,749
Municipal Obligations						2,924,730
Guaranteed Investment Contracts/Annuities				65,903,531		66,199,119
Limited Partnerships				299,274,000		299,274,000
Real Estate				4,051,026	57,402,885	61,453,911
Funds Held In Trust						
By Others				34,847,000		34,847,000
Other				93,606,504	38,461,343	132,301,934
Total Investments	\$ 81,729	\$ 14,484	\$ 48,624	\$ 1,161,174,513	\$ 609,818,018	\$ 2,631,935,453

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

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 61% and 31%, 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, 2009.

Foreign Currency Risk
Discretely Presented Major Component Units

Foreign Currency

Pooled Fixed Income Funds

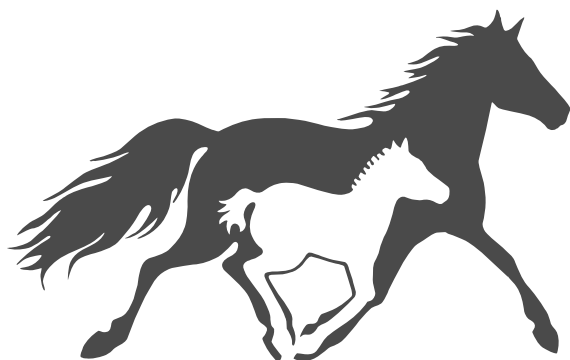
Pooled Global Equity Funds

Pooled Non-U.S. Equity Funds

Total Securities Subject To

Foreign Currency Risk

Investment Type		
Equity	Debt	Total
\$	\$	\$
217,181,385	6,668,411	6,668,411
42,658,123		217,181,385
		42,658,123
\$ 259,839,508	\$ 6,668,411	\$ 266,507,919



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COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
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Note 6

CAPITAL ASSETS

*Capital asset activity for the year ended June 30, 2009
(Expressed in Thousands):*

	Primary Government		
	Beginning Balance Restated	Additions	Decreases
Primary Government:			
Governmental Activities			Ending Balance
<i>Capital assets, not being depreciated:</i>			
Land	\$ 143,039	\$ 17,728	\$ (3,432)
Construction in progress	2,019,952	1,885,305	(1,469,170)
Infrastructure	17,233,401	143,418	(4,350)
Total capital assets not being depreciated	19,396,392	2,046,451	(1,476,952)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	15,172	93	
Buildings	1,128,088	6,823	(2,572)
Machinery and Equipment	562,892	50,786	(42,929)
Easements and Other Intangibles	111,883	4,262	(147)
Total capital assets, being depreciated/amortized	1,818,035	61,964	(45,648)
<i>Less accumulated depreciation/amortization:</i>			
Improvements other than buildings	(6,036)	(561)	
Buildings	(428,773)	(29,162)	2,262
Machinery and Equipment	(354,412)	(46,333)	32,599
Easements and Other Intangibles	(8,239)	(2,225)	
Total accumulated depreciation	(797,460)	(78,281)	34,861
Total capital assets, being depreciated/amortized, net	1,020,575	(16,317)	(10,787)
Governmental activities capital assets, net	\$ 20,416,967	\$ 2,030,134	\$ (1,487,739)
Business-type activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 22,578	\$ 417	\$
Construction in progress	85,754	48,548	(21,458)
Total capital assets, not being depreciated	108,332	48,965	(21,458)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	98,247	15,449	(1)
Buildings	218,461	7,790	(689)
Machinery and Equipment	58,924	1,760	(1,488)
Easements and Other Intangibles	2,322		
Total capital assets, being depreciated/amortized	377,954	24,999	(2,178)
<i>Less accumulated depreciation for:</i>			
Improvements other than buildings	(54,598)	(2,283)	
Buildings	(95,173)	(6,766)	462
Machinery and Equipment	(45,217)	(3,341)	1,466
Easements and Other Intangibles	(759)	(116)	
Total accumulated depreciation	(195,747)	(12,506)	1,928
Total capital assets, being depreciated/amortized, net	182,207	12,493	(250)
Business-type activities capital assets, net	\$ 290,539	\$ 61,458	\$ (21,708)

COMMONWEALTH OF KENTUCKY
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June 30, 2009

**Depreciation expense, charged to functions/programs
of the primary government as follows:**
(Expressed in Thousands)

	Governmental Activities	Business-type Activities
General Government	\$ 8,736	\$
Legislative and Judicial	463	
Commerce	2,356	
Education and Humanities	4,576	
Human Resources	3,365	
Justice	16,761	
Natural Resources and Environmental Protection	3,449	
Public Protection and Regulation	114	
Transportation	17,540	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	20,921	
State Parks		9,167
Lottery Corporation		2,585
Horse Park		597
Insurance Administration		157
Total depreciation expense by activities	<u>\$ 78,281</u>	<u>\$ 12,506</u>

Discretely presented major component units

Capital asset activity for the year ended June 30, 2009
(Expressed in Thousands):

	Component Units			
	Beginning Balance Restated	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 137,278	\$ 22,493	\$	\$ 159,771
Construction in progress	395,974	322,718	(172,872)	545,820
Totals, capital assets not being depreciated	<u>533,252</u>	<u>345,211</u>	<u>(172,872)</u>	<u>705,591</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	140,456	15,417		155,873
Buildings	2,562,747	299,805	(5,748)	2,856,804
Machinery and Equipment	1,176,964	118,728	(38,544)	1,257,148
Total capital assets, being depreciated/amortized	<u>3,880,167</u>	<u>433,950</u>	<u>(44,292)</u>	<u>4,269,825</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(64,499)	(4,028)		(68,527)
Buildings	(1,043,581)	(71,268)	3,974	(1,110,875)
Machinery and Equipment	(753,854)	(89,494)	25,483	(817,865)
Total accumulated depreciation	<u>(1,861,934)</u>	<u>(164,790)</u>	<u>29,457</u>	<u>(1,997,267)</u>
Total capital assets, being depreciated/amortized, net	<u>2,018,233</u>	<u>269,160</u>	<u>(14,835)</u>	<u>2,272,558</u>
Component units capital assets, net	<u>\$ 2,551,485</u>	<u>\$ 614,371</u>	<u>\$ (187,707)</u>	<u>\$ 2,978,149</u>

**Depreciation expense, charged to functions/programs
of discretely presented major component units as follows:**
(Expressed in Thousands)

Kentucky Housing Corporation	\$ 538
Kentucky Higher Education Student Loan Corporation	1,379
University of Kentucky	99,067
University of Louisville	40,945
Kentucky Community and Technical College System	22,861
Total depreciation expense by functions/programs	<u>\$ 164,790</u>

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

Note 7

INTERFUND TRANSACTIONS

Interfund Transfers In and Out

The table below shows the interfund operating transfers for fiscal year 2009
(Expressed in Thousands):

Transfers In	Transfers Out					
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund	Debt Service Fund
General Fund	\$	\$	\$ 7	\$ 47,664	\$ 5,800	\$
Transportation Fund					1,624	
Federal Fund				3	16	
Agency Revenue Fund	31,661		66,224		1,113	
Capital Projects Fund	1,200	14,377	1,173	12,212		
Debt Service	208,529	7,366	44,298	5,193	1,423	
Non-Major Governmental Funds	202,540	123,032	3,550	321,643	513	4,572
State Parks Fund	29,684		120			
Kentucky Horse Park Fund	1,327				26,996	
Insurance Administration Fund			196	239		
Internal Service Funds	1,053			670	436	
Fiduciary Funds						
Total	\$ 475,994	\$ 144,775	\$ 115,568	\$ 387,624	\$ 37,921	\$ 4,572

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 fiscal year 2009
(Expressed in Thousands):

Interfund Receivables	Interfund Payables			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$ 18,661	\$ 2,543	\$ 68,802
Transportation Fund	2		70	520
Federal Fund	11,840	2		2,968
Agency Revenue Fund	30,757	1,548	82,142	
Capital Projects Fund			29,449	557
Non-Major Governmental Funds	18,369		65,181	1,471
State Parks Fund	2	2	18	2
Kentucky Public Employees Health Plan	40,040			
Insurance Administration Fund	2			
Internal Service Funds	3,224	347	36	352
Fiduciary Funds *			154,395	
Total	<u>\$ 104,236</u>	<u>\$ 20,560</u>	<u>\$ 333,834</u>	<u>\$ 74,672</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.

* Due to a smaller than normal amount of liquidity in the intermediate investment pool, at June 30, 2009, funds with high concentrations in the intermediate investment pool had negative cash balances. To clear the negative cash balances in those funds it was necessary to make interfund loans from funds with investments in pools with greater liquidity, including fiduciary funds. Cash from the fiduciary funds was not used in the normal operations of the Commonwealth.

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Transfers Out

Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Public Employees Health Plan	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 73,566	\$	\$ 193,500	\$ 50,000	\$ 67,039	\$	\$ 7,093	\$ 6,025	\$ 450,694
								1,624
								19
424,394				3,678		557	1,047	528,674
3,223	14			229		879		33,307
27,213	13					3		294,038
185,003	6	7,676		6	765			849,306
507								30,311
								28,323
								435
								2,159
				175				175
<u>\$ 713,906</u>	<u>\$ 33</u>	<u>\$ 201,176</u>	<u>\$ 50,000</u>	<u>\$ 71,127</u>	<u>\$ 765</u>	<u>\$ 8,532</u>	<u>\$ 7,072</u>	<u>\$ 2,219,065</u>

Interfund Payables

Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Kentucky Employee Health Plan	Insurance Administration Fund	Internal Service Funds	Total
\$ 1	\$ 93	\$ 1,792	\$	\$ 1	\$ 781	\$ 92,674
	607				7	1,206
28	651					15,489
12	38,638		166	23	11	153,297
	3,219				44	33,269
262	197,306	5				282,594
						24
						40,040
3,201						3,203
152				4	12	4,127
						154,395
<u>\$ 3,656</u>	<u>\$ 240,514</u>	<u>\$ 1,797</u>	<u>\$ 166</u>	<u>\$ 28</u>	<u>\$ 855</u>	<u>\$ 780,318</u>

Note 8**PENSION PLANS AND OTHER POST EMPLOYMENT BENEFITS**

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

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation preceeding 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 preceeding 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.

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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:

Years of Service	Percent Paid by the Fund
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:

Years of Service	Percent Paid by the Fund
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.

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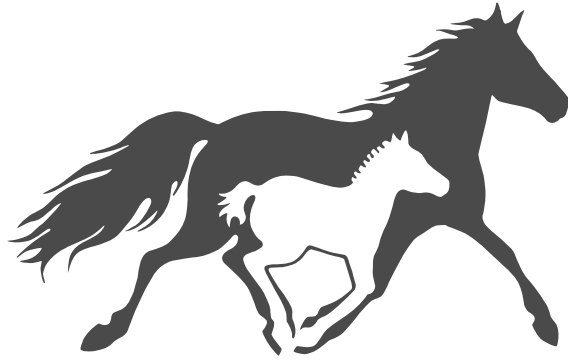
The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for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



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	Kentucky Legislators' Retirement Plan		Kentucky Judicial Retirement Plan		State Police Retirement System	
	Pension	Insurance	Pension	Insurance	Pension	Insurance
Contribution rates:						
State	7.00%	1.00%	14.30%	2.30%	30.07%	
Plan members	5.0%-6.0%		5.0%-6.0%		8.0%-9.0%	
Portion of State Contribution for Health Insurance						
Annual required contribution (ARC) (Thousands)	\$375	\$60	\$4,512	\$838	\$15,952	\$29,325
Contributions made (Thousands)	\$320	\$60	\$4,470	\$830	\$8,186	\$7,643
Actuarial valuation date	June 30, 2009		June 30, 2009		June 30, 2009	
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		28 years	
Asset valuation method	Market value		Market value		Five-year smoothed market	
Actuarial assumptions:						
Investment rate of return	7.00%		7.00%		7.75%	
Inflation Rate					4.50%	
Projected salary increases	1%-4%		1%-4%		4.5%-21%	
Increases in Health Insurance Cost	5% - 11%		5% - 11%		5.0%-10.5%	
(Dollar amounts in thousands)						
Actuarial Required						
Contribution (ARC)	\$ 375	\$ 60	\$ 4,512	\$ 838	\$ 15,952	\$ 29,325
Interest on NPO/NOPEBO	(42)	(22)	(66)	(13)	1,230	4,853
Adjustment to ARC	49	26	80	15	(795)	(3,137)
Annual pension cost	382	64	4,526	840	16,387	31,041
Contributions made	320	60	4,470	830	8,186	7,643
Increase (Decrease) in NPO/NOPEBO	62	4	56	10	8,201	23,398
NPO/NOPEBO beginning of year	(588)	(313)	(954)	(179)	15,868	62,617
NPO/NOPEBO as of 6/30/09	<u>\$ (526)</u>	<u>\$ (309)</u>	<u>\$ (898)</u>	<u>\$ (169)</u>	<u>\$ 24,069</u>	<u>\$ 86,015</u>
Percentage APC contributed	<u>85.3%</u>	<u>100.0%</u>	<u>99.1%</u>	<u>99.1%</u>	<u>51.3%</u>	<u>26.1%</u>
6/30/2008						
Annual Pension Cost	\$ 433	\$ 288	\$ 2,379	\$ 461	\$ 14,076	\$ 44,181
Percentage APC Contributed	100.0%	100.0%	100.0%	100.0%	53.8%	17.3%
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>
6/30/2007						
Annual Pension Cost	\$ 722	Included in	\$ 2,830	Included in	\$ 9,024	\$ 15,233
Percentage APC Contributed	98.8%	Pension	98.5%	Pension	68.1%	45.0%
NPO/NOPEBO as of 6/30/07	<u>\$ (909)</u>	Amounts	<u>\$ (1,138)</u>	Amounts	<u>\$ 9,235</u>	<u>\$ 25,949</u>

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Notes to Financial Statements
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Kentucky Employees Retirement System				Kentucky Teachers' Retirement System	
Non-Hazardous		Hazardous		Pension	Insurance
Pension	Insurance	Pension	Insurance		
10.01%		24.35%		11.625%-13.105%	
5.0%-6.0%		8.0%-9.0%		6.16%-9.855%	.75%-1.75%
				0.75%	
\$294,495	\$362,707	\$15,708	\$34,670	\$600,283	\$468,812
\$112,383	\$82,711	\$15,843	\$20,993	\$400,737	\$183,547
June 30, 2009				June 30, 2009	
Entry age normal				Projected unit credit	
Level percent closed				Level percent open	
28 years				30 years	
Five-year smoothed market				Five-year smoothed market	Market value of assets
7.75%		7.75%		7.50%	4.50%
4.50%		4.50%		4.00%	
4.75%-17.0%		4.5% - 21.0%		4.00% - 8.20%	
	5.0%-10.5%		5.0%-10.5%		5.0%-10.5%
\$ 294,495	\$ 362,707	\$ 15,708	\$ 34,670	\$ 600,283	\$ 468,812
28,328	50,134	17,586	4,194	18,763	10,287
(18,313)	(32,410)	(11,369)	(2,712)	(55,186)	(8,188)
304,510	380,431	21,925	36,152	563,860	470,911
112,383	82,711	15,843	20,993	400,737	183,547
192,127	297,720	6,082	15,159	163,123	287,364
365,524	646,901	226,919	54,129	250,170	230,919
\$ 557,651	\$ 944,621	\$ 233,001	\$ 69,288	\$ 413,293	\$ 518,283
38.2%	22.8%	100.9%	60.6%	66.8%	39.2%
\$ 270,222	\$ 562,787	\$ 20,228	\$ 51,881	\$ 539,549	\$ 289,294
39.5%	11.3%	107.8%	43.1%	77.8%	55.1%
\$ 365,524	\$ 646,901	\$ 226,919	\$ 54,129	\$ 250,170	\$ 230,919
\$ 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
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Schedule of Funding Progress - Retirement Funds

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
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
June 30, 2009	4,794,611,365	10,658,549,532	5,863,938,167	45.0	1,754,412,912	334.2
<u>Hazardous</u>						
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
June 30, 2009	502,503,287	674,411,781	171,908,494	74.5	146,043,576	117.7
<u>State Police Retirement System</u>						
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
June 30, 2009	329,966,989	602,328,868	272,361,879	54.8	51,660,396	527.2
<u>Judicial Retirement Plan</u>						
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
June 30, 2009	211,793,059	290,860,147	79,067,088	72.8	29,886,624	264.6
<u>Legislators' Retirement Plan</u>						
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)
June 30, 2009	42,929,075	60,163,091	17,234,016	71.4	4,916,770	350.5
<u>Kentucky Teachers' Retirement System</u>						
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
June 30, 2009	14,885,981,000	23,400,426,000	8,514,445,000	63.6	3,253,077,000	261.7

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)
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
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
June 30, 2009	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
<u>Hazardous</u>						
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
June 30, 2009	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
<u>State Police Retirement System</u>						
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
June 30, 2009	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5
<u>Judicial Retirement Plan</u>						
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
June 30, 2009	43,816,525	39,816,215	(4,000,310)	110.0	29,886,624	(13.4)
<u>Legislators' Retirement Plan</u>						
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)
June 30, 2009	24,413,467	18,481,365	(5,932,102)	132.1	4,916,770	(120.7)
<u>Kentucky Teachers' Retirement System</u>						
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
June 30, 2009	313,806,000	6,545,067,000	6,231,261,000	4.8	3,253,077,000	191.5

*NOTE: Effective July 1, 2007 medical insurance liabilities and allocated assets have been excluded from the retirement funds and included in the insurance funds.

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Membership of the retirement systems, at June 30, 2009, 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	37,883	2,648	39,756	5,808	1,184	306	159	42,050	129,794
Terminated plan members - vested	34,515	3,056	60,275	2,522	332	24	53	5,245	106,022
Active plan members	46,060	4,334	83,724	9,757	946	248	124	75,937	221,130
Total Members	118,458	10,038	183,755	18,087	2,462	578	336	123,232	456,946
Number of participating employers	386		1,398		1	1	1	199	1,986

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
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
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%
2009	294,495	38.2%	362,707	22.8%	657,202	29.7%
<u>Hazardous</u>						
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%
2009	15,708	100.9%	34,670	60.6%	50,378	73.1%
<u>State Police Retirement System</u>						
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%
2009	15,952	51.3%	29,325	26.1%	45,277	34.9%
<u>Judicial Retirement Plan</u>						
2007	\$ 2,835	98.3% *	\$		\$ 2,835	98.3%
2008	2,375	100.0%	460	100.0%	2,835	100.0%
2009	4,512	99.1%	838	99.1%	5,350	99.1%
<u>Legislator's Retirement Plan</u>						
2007	\$ 714	104.9% *	\$		\$ 714	104.9%
2008	428	100.0%	285	100.0%	713	100.0%
2009	375	85.3%	60	100.0%	435	88.0%
<u>Kentucky Teachers' Retirement System</u>						
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%
2009	600,283	66.8%	468,812	39.2%	1,069,095	54.7%

* 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 \$570,859,823 in the 457 Plan at June 30, 2009, \$290,367,866 was applicable to the Commonwealth, while the remaining \$280,491,957 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$841,205,968 at June 30, 2009, of which \$334,087,495 was applicable to the state while the remaining \$507,118,473 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. See accompanying table on the following page.

Changes in leases payable for the year ended June 30, 2009, are summarized in Note 15, Changes in Long-Term Obligations.

COMMONWEALTH OF KENTUCKY

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At June 30, 2009, 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	\$ 463	\$ 459,119
34,606		58,127
		60,336
46,473	463	577,582
(20,302)	(334)	(92,754)
<u>\$ 26,171</u>	<u>\$ 129</u>	<u>\$ 484,828</u>

Future minimum rental commitments for capitalizable leases as of June 30, 2009, are as follows (Expressed in Thousands):

	Primary Government		Component Units-Major	Total
	Governmental Activities	Business-Type Activities	Universities, Colleges, and Related Entities	
2010	\$ 18,916	\$ 97	\$ 58,142	\$ 77,155
2011	15,470	71	60,505	76,046
2012	5,064	48	56,863	61,975
2013	2,638	15	54,440	57,093
2014	2,282		42,525	44,807
2015-2019	10,176		180,186	190,362
2020-2024	3,380		149,820	153,200
2025-2029			98,664	98,664
Total minimum lease payments	57,926	231	701,145	759,302
Less: Amount representing interest (1.50-63.60%)	(31,288)	(20)	(200,414)	(231,722)
Present value of future minimum lease payments	<u>\$ 26,638</u>	<u>\$ 211</u>	<u>\$ 500,731</u>	<u>\$ 527,580</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 \$1,326,874 reported in the Program at June 30, 2009, 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 2009 and 2008 were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 987,830	\$ 311,098
Incurred claims	4,702,032	3,890,001
Changes in estimates		
Claims payments	(4,362,988)	(3,213,269)
Balance at Fiscal Year End	<u>\$ 1,326,874</u>	<u>\$ 987,830</u>

Self-Insured Workers' Compensation:

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

COMMONWEALTH OF KENTUCKY

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The actuarially determined aggregate claims liability of \$130,785,487 reported in the Program at June 30, 2009, 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 2009 and 2008 were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 118,833,138	\$ 117,624,962
Claims and claims adjustments incurred:		
Current year	21,005,861	16,765,404
Increase (Decrease) in Prior year	10,218,377	2,050,500
Total Claims and Claims Adjustments Incurred:	31,224,238	18,815,904
Claims and claims adjustment payments:		
Current year	(4,906,900)	(4,078,063)
Increase (Decrease) in Prior year	(14,364,989)	(13,529,665)
Total Claims and Claims Adjustment Payments	(19,271,889)	(17,607,728)
Balance at Fiscal Year End	<u>\$ 130,785,487</u>	<u>\$ 118,833,138</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 2009 and 2008 were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 24,742,142	\$ 24,542,341
Claims and claims adjustments incurred	3,150,000	1,947,102
Changes in estimates	(1,297,748)	570,534
Claims and claims adjustment payments	(2,540,640)	(2,317,835)
Balance at Fiscal Year End	<u>\$ 24,053,754</u>	<u>\$ 24,742,142</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 \$810,364,000, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,512,355,000, discounted at 6.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$12,943,000, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$21,216,000, discounted at 6.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2009. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 1,815,475,000	\$ 1,896,411,000
Claims and claims adjustments incurred	6,508,500	1,277,000
Changes in estimates	(215,768,500)	(8,472,000)
Claims and claims adjustment payments	(72,644,000)	(73,741,000)
Balance at Fiscal Year End	<u>\$ 1,533,571,000</u>	<u>\$ 1,815,475,000</u>

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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 \$10,266,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$14,148,000, discounted at 6.0 percent. The claims adjustment liability of \$935,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,402,000, discounted at 6.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 16,144,000	\$ 15,055,000
Claims and claims adjustments incurred	3,039,000	2,250,000
Changes in estimates	(2,530,000)	109,000
Claims and claims adjustment payments	(1,103,000)	(1,270,000)
Balance at Fiscal Year End	\$ 15,550,000	\$ 16,144,000

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 \$240,382,101 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 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 285,552,792	\$ 265,423,000
Claims and claims adjustments incurred	(28,983,624)	32,699,000
Changes in estimates		
Claims and claims adjustment payments	(16,187,067)	(12,569,208)
Balance at Fiscal Year End	\$ 240,382,101	\$ 285,552,792

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.

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June 30, 2009

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 2009. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 21,452,273	\$ 21,452,273
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 21,452,273</u>	<u>\$ 21,452,273</u>

Mine Subsidence Insurance:

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

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Mine Subsidence Program had no liabilities reported. Changes in the Program's claims liability amount in Fiscal Years 2009 and 2008 were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 0	\$ 0
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 0</u>

Kentucky Public Employees Health Plan:

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

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

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

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

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

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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 \$92,944,000 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 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 79,838,645	\$ 76,794,408
Claims and claims adjustments incurred	1,399,015,475	1,291,090,628
Changes in estimates	19,793,826	(7,781,095)
Claims and claims adjustment payments	(1,405,703,946)	(1,280,265,296)
Balance at Fiscal Year End	<u>\$ 92,944,000</u>	<u>\$ 79,838,645</u>

Risk Pools - Component Units

Kentucky Access:

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

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

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

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

Changes in the Program's claims liability amount in Fiscal Years 2009 and 2008 were:

	Fiscal Year 2009	Fiscal Year 2008
Beginning of fiscal year liability	\$ 8,890,000	\$ 7,910,980
Claims and claims adjustments incurred		979,020
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 8,890,000</u>	<u>\$ 8,890,000</u>

Grain Insurance:

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

No claims liability was reported in the Program at June 30, 2009, 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 2008 was also zero.

Note 13

DEFEASANCE OF LONG-TERM DEBT

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2009 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated February 1, 2009, were issued for the Adair County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,218,329 maturing September 1, 2009 through September 1, 2020 and carrying interest rates from 2.00% to 3.25%.

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Revenue refunding bonds dated February 1, 2009, were issued for the Ashland Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$939,019 maturing May 1, 2009 through May 1, 2019 and carrying interest rates from 2.10% to 3.40%.

Revenue refunding bonds dated May 1, 2009, were issued for the Bardstown Independent School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$113,849 maturing May 1, 2010 through May 1, 2012 and carrying an interest rate of 1.35%.

Revenue refunding bonds dated February 1, 2009, were issued for the Barren County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$1,351,820 maturing October 1, 2009 through October 1, 2018 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated June 1, 2009, were issued for the Bell County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,777,429 maturing November 1, 2009 through November 1, 2020 and carrying interest rates from 1.00% to 3.40%.

Revenue refunding bonds dated February 1, 2009, were issued for the Boyd County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,490,000 maturing March 1, 2009 through September 1, 2019 and carrying interest rates of 2.00% to 3.00%.

Revenue refunding bonds dated February 20, 2009, were issued for the Breckinridge County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$486,371 maturing May 1, 2010 through May 1, 2019 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated June 1, 2009, were issued for the Carlisle County School District Finance Corporation to refund a 1994 issue, September 1996 issue, and a November 1996 issue. The Commission's portion of the refunding issue was \$291,479 maturing December 1, 2009 through December 1, 2016 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated March 1, 2009, were issued for the Carter County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,900,200 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.20% to 3.75%.

Revenue refunding bonds dated May 1, 2009, were issued for the Casey County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$935,000 maturing December 1, 2009 through December 1, 2018 and carrying interest rates from 1.00% to 3.10%.

Revenue refunding bonds dated March 1, 2009, were issued for the Crittenden County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$209,338 maturing April 1, 2010 through April 1, 2018 and carrying interest rates of 2.00% to 3.50%.

Revenue refunding bonds dated February 18, 2009, were issued for the Danville Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$74,963 maturing June 1, 2009 through June 1, 2019 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated February 1, 2009, were issued for the Dayton Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$599,709 maturing June 1, 2009 through June 1, 2019 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated March 1, 2009, were issued for the Elliott County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$801,527 maturing June 1, 2009 through June 1, 2018 and carrying interest rates of 1.50% to 3.40%.

Revenue refunding bonds dated May 1, 2009, were issued for the Fort Thomas Independent School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,561,879 maturing April 1, 2010 through April 1, 2020 and carrying interest rates from 1.00% to 3.40%.

Revenue refunding bonds dated June 30, 2009, were issued for the Franklin County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,810,000 maturing January 1, 2009 through January 1, 2019 and carrying interest rates from 1.20% to 3.20%.

Revenue refunding bonds dated September 30, 2008 were issued for the Gallatin County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,068,071 maturing February 1, 2009 through February 1, 2019 and carrying interest rates from 2.50% to 3.80%.

Revenue refunding bonds dated March 1, 2009 were issued for the Graves County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,525,000 maturing February 1, 2010 through February 1, 2020 and carrying interest rates from 2.50% to 3.70%.

Revenue refunding bonds dated February 12, 2009, were issued for the Harlan Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$661,116 maturing September 1, 2009 through September 1, 2019 and carrying interest rates from 2.00% to 3.10%.

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Revenue refunding bonds dated March 1, 2009, were issued for the Henderson County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$536,311 maturing June 1, 2009 through June 1, 2018 and carrying interest rates from 2.00% to 3.60%.

Revenue refunding bonds dated May 20, 2009, were issued for the Hopkins County School District Finance Corporation to refund a 1999 issue and a 2000 issue. The Commission's portion of the refunding issue was \$2,705,000 maturing February 1, 2010 through February 1, 2020 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds, dated February 1, 2009, were issued for the Jefferson County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$457,351 maturing February 1, 2010 through February 1, 2018 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated April 1, 2009, were issued for the Johnson County School District Finance Corporation to refund a 1998 issue and a 1999 issue. The Commission's portion of the refunding issue was \$1,380,219 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.00% to 3.625%.

Revenue refunding bonds dated February 1, 2009, were issued for the Kenton County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$3,635,000 maturing June 1, 2009 through December 1, 2019 and carrying interest rates from 1.70% to 3.50%.

Revenue refunding bonds dated March 1, 2009 were issued for the Knox County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$210,009 maturing February 1, 2010 through February 1, 2017 and carrying interest rates from 2.00% to 3.60%.

Revenue refunding bonds dated June 4, 2009, were issued for the LaRue County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$65,809 maturing October 1, 2009 through October 1, 2012 and carrying interest rates from 1.50% to 1.60%.

Revenue refunding bonds dated May 1, 2009, were issued for the Laurel County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,208,769 maturing April 1, 2010 through April 1, 2019 and carrying interest rates from 1.50% to 3.15%.

Revenue refunding bonds dated March 3, 2009, were issued for the Lincoln County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,854,190 maturing June 1, 2009 through December 1, 2019 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated March 4, 2009, were issued for the Livingston County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$324,581 maturing June 1, 2009 through June 1, 2014 and carrying interest rates from 2.00% to 2.40%.

Revenue refunding bonds dated May 1, 2009, were issued for the Madison County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$113,572 maturing December 1, 2009 through December 1, 2015 and carrying interest rates from 1.00% to 2.60%.

Revenue refunding bonds dated April 1, 2009, were issued for the Marion County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$304,464 maturing May 1, 2010 through May 1, 2018 and carrying interest rates from 3.00% to 3.375%.

Revenue refunding bonds dated May 1, 2009, were issued for the Martin County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$1,942,136 maturing September 1, 2009 through September 1, 2020 and carrying interest rates from 1.00% to 3.50%.

Revenue refunding bonds dated February 1, 2009, were issued for the Mason County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$298,116 maturing April 1, 2009 through April 1, 2017 and carrying interest rates from 1.50% to 2.70%.

Revenue refunding bonds dated March 1, 2009, were issued for the McLean County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$661,671 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated March 1, 2009, were issued for the Menifee County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$408,381 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.20% to 3.70%.

Revenue refunding bonds dated April 1, 2009, were issued for the Nicholas County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$781,130 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.00% to 3.60%.

Revenue refunding bonds dated March 1, 2009, were issued for the Owensboro Independent School District Finance Corporation to refund a 1998 issue and a 1999 issue. The Commission's portion of the refunding issue was \$2,271,424 maturing June 1, 2009 through June 1, 2019 and carrying interest rates from 2.00% to 3.65%.

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Revenue refunding bonds dated June 1, 2009, were issued for the Pike County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$8,064,643 maturing September 1, 2009 through September 1, 2020 and carrying interest rates from 1.00% to 3.20%.

Revenue refunding bonds dated April 1, 2009, were issued for the Russell Independent School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$925,000 maturing May 1, 2010 through May 1, 2019 and carrying interest rates from 1.75% to 3.60%.

Revenue refunding bonds dated February 1, 2009, were issued for the Shelby County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$3,052,496 maturing May 1, 2009 through May 1, 2019 and carrying interest rates from 2.25% to 3.25%.

Revenue refunding bonds dated May 1, 2009, were issued for the Todd County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$463,066 maturing October 1, 2009 through October 1, 2018 and carrying interest rates from 1.50% to 3.00%.

Revenue refunding bonds dated February 1, 2009, were issued for the Union County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$842,165 maturing June 1, 2009 through June 1, 2019 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated June 9, 2009, were issued for the Wayne County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$1,134,507 maturing May 1, 2010 through May 1, 2017 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated June 10, 2009, were issued for the Whitley County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$1,432,571 maturing July 1, 2009 through July 1, 2018 and carrying interest rates from 1.00% to 3.00%.

The State Property and Buildings Commission issued the following Revenue and Revenue Refunding Bonds:

The State Property and Buildings Commission issued Revenue Bonds; Project No. 91 dated October 21, 2008, in the amount of \$15,720,000. The issue consisted of: \$5,165,000 Serial Bonds maturing April 1, 2010 through April 1, 2018 and carry interest rates of 3.40% to 5.125%; \$4,955,000 5.75% Term Bonds due April 1, 2024; and \$5,600,000 5.75% Term Bonds due April 1, 2029. \$14,025,000 of the bond proceeds were 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.

Project 90 dated October 21, 2008, in the amount of \$375,000,000. The issue consisted of: \$194,320,000 Serial Bonds maturing November 1, 2009 through November 1, 2020 and carry interest rates of 3.00% to 5.75%; \$68,680,000 5.375% Term Bonds due November 1, 2023; \$12,000,000 5.75% Term Bonds due November 1, 2023; and \$100,000,000 5.50% Term Bonds due November 1, 2028. \$200,000,000 of the bond proceeds were deposited in the Note Repayment Fund, to redeem notes issued by the Kentucky Asset/Liability Commission, as interim financing for the projects being funded by this bond issue. \$43,283,367.27 (\$42,245,000 principle and \$1,038,367.27 interest) was used for the partial refunding of Project 64 bonds maturing May 1, 2009, Project 65 bonds maturing February 1, 2009, Project 74 bonds maturing February 1, 2009, Project 87 bonds maturing March 1, 2009, and Project 88 bonds maturing November 1, 2009. The refunding will result in increased cash flows in future periods of \$29,285,382 and a present value loss of \$716,793 at 5.4234%.

Project 93 dated February 25, 2009, in the amount of \$385,455,000. The bonds mature February 1, 2011 through February 1, 2029 and carry interest rates of 2.50% to 5.25%. \$6,145,000 of the bond proceeds were deposited in the Note Repayment Fund, to redeem notes issued by the Kentucky Asset/Liability Commission, as interim financing for the projects being funded by this bond issue. \$53,665,263 (\$52,050,000 principle and \$1,615,263 interest) was used for the partial refunding of project 60 bonds maturing October 1, 2009, Project 67 bonds maturing September 1, 2009, project 68 bonds maturing October 1, 2009, Series A Project 69 bonds maturing August 1, 2009, Project 71 bonds maturing August 1, 2009, and Project 85 bonds maturing August 1, 2009. The net savings (reduction in cash flow) for the Refunding Bonds will be \$16,316,750 and the present value of the savings is \$3,885,912 at a rate of 4.9657%.

The Turnpike Authority of Kentucky issued the following bonds, which refunded notes issued by the Kentucky Asset Liability Commission, as interim financing for Turnpike Authority projects: \$195,665,000 Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A. \$100,000,000 of the proceeds were deposited in a note payment fund to redeem 2007 Road Fund first Series A Project Notes. \$153,305,000 Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (Revitalization Projects), 2009 Series A. \$100,000,000 of the proceeds was deposited in a note payment fund to redeem 2007 Road Fund first Series A Project Notes.

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, World Games 2010 Foundation, Inc. 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, 2009:

Short-term Debt on July 1, 2008	Additions	Repayments	Short-term Debt on June 30, 2009
\$	\$ 400,000,000	\$ 400,000,000	\$
\$	\$ 400,000,000	\$ 400,000,000	\$

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, 2009.

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

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

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

During the fiscal year ended June 30, 2009 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 \$814,900,000 in revenue and revenue refunding bonds as follows:

\$375,000,000 Project 90 Revenue and Revenue Refunding Bonds, dated October 21, 2008. The issue consists of: \$194,320,000 serial bonds maturing November 1, 2009 through November 1, 2014 and carrying interest rates of 4.125% to 5.00%; \$68,680,000 5.375% Term Bonds due November 1, 2023; \$12,000,000 5.75% Term Bonds due November 1, 2023; and \$100,000,000 5.50% Term Bonds due November 1 2028.

\$15,720,000 Project 91 Revenue, dated October 21, 2008. The issue consists of: \$5,165,000 serial bonds maturing April 1, 2010 through April 1, 2014 and carrying interest rates of 3.40% to 4.25%; \$4,955,000 5.75% Term Bonds due April 1, 2024; and \$5,600,000 5.75% Term Bonds due April 1 2029.

\$4,975,000 Project 92 Taxable Agency Revenue Bonds, dated October 22, 2008. 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.

\$385,455,000 Project 93 Revenue and Revenue Refunding Bonds, date February 25, 2009. The bonds mature February 1, 2011 through February 1, 2029 and carry interest rates of 3.00% to 5.25%.

\$33,750,000 Project 94 Road Fund Revenue Bonds, date February 25, 2009. The issue consists of: \$31,880,000 Serial Bonds maturing May 1, 2010 through May 1, 2019 and carrying interest rates of 3.00% to 5.00%; and \$1,870,000 4.25% Term Bonds due May, 1 2021.

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 the following bonds during fiscal year 2009: \$195,665,000 Economic Development Road Revenue Bonds (Revitalization Projects), 2008 Series A, dated August 14, 2008. The bonds mature July 1, 2013 through July 1, 2028, and carry interest of 3.25% to 5.00%.

\$153,305,000 Economic Development Road Revenue Bonds (Revitalization Projects), 2009 Series A, dated April 28, 2009, consisting of: \$130,160,000 Serial Bonds maturing July 1, 2011 through July 1, 2027 and carry interest of 2.50% to 5.00%; and \$23,145,000 Term Bonds due July 1, 2029.

Kentucky Gas Pipeline Authority is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development.

The authority issued no bonds during fiscal year 2009.

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

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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 \$186,865,000 in General Receipts Bonds to finance various new construction projects and renovation of existing facilities as follows:

Eastern Kentucky University issued \$12,095,000 Eastern Kentucky University General Receipt Bonds 2009 Series A, dated April 15, 2009. The issue consists of Serial Bonds maturing May 1, 2010 through May 1, 2028 and carrying interest rates of 2.00% to 4.25%; and \$1,100,000, 3.75% Term Bonds due May 1, 2021.

Murray State University issued \$7,665,000 Murray State University General Receipt Bonds 2009 Series A, dated April 22, 2009, to fund construction of a residential student housing facility. The issue consists of \$7,050,000 Serial Bonds maturing September 1, 2009 through September 1, 2028 and carrying interest rates of 4.00% to 4.50%; and \$615,000 2.50% Term Bonds due September 1, 2012.

University of Kentucky issued \$33,350,000 of University of Kentucky General Receipt Bonds (Commonwealth Library) 2009 Series A, dated March 12, 2009. The bonds mature November 1, 2009 through November 1, 2024 and carry interest rates of 3.00% to 5.00%.

University of Louisville issued \$86,145,000 University of Louisville General Receipts Bonds 2008 Series A, dated July 24, 2008. The bonds mature September 1, 2009 through September 1, 2028 and carry interest rates of 4.00% to 4.50%.

Western Kentucky University issued \$47,610,000 Western Kentucky University General Receipt Bonds, 2009 Series A, dated February 18, 2009. The bonds mature September 1, 2009 through September 1, 2028 and carry interest rates of 2.50% to 5.00%.

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 \$160,000,000 in Housing Revenue Bonds which consisted of the following:

\$50,000,000 Housing Revenue Bonds, dated July 17, 2008. \$14,230,000 2008 Series C (NON-AMT) consisting of: \$1,230,000 Serial Bonds maturing January 1, 2013 through July 1, 2017, and carry interest rates of 3.45% to 3.95%; \$3,505,000 4.90% Term Bonds due July 1, 2028; and \$9,495,000 5.00% Term Bond due July 1, 2033. \$35,770,000 2007 Series D (AMT) consisting of: \$4,775,000 Serial Bonds maturing January 1, 2009 through July 1, 2018 and carry interest rates of 3.20% to 5.10%; \$39,005,000 4.625% Term Bond maturing July 1 2018; \$6,520,000 5.35% Term Bond maturing July 1 2023; \$4,995,000 5.50% Term Bond maturing January 1 2028; and \$16,475,000 5.65% Term Bond maturing July 1 2038.

\$70,000,000 Housing Revenue Bonds, dated October 9, 2008. \$60,000,000 2008 Series E (NON-AMT) consisting of: \$12,370,000 Serial Bonds maturing January 1, 2010 through July 1, 2018 and 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 5.450% Term Bond due July 1, 2038. \$10,000,000 2008 Series F (AMT) Term Bond due July 1, 2037.

\$40,000,000 Housing Revenue Bonds, dated April 28, 2009, 2009 Series A (NON-AMT) consisting of: \$10,495,000 Serial Bonds maturing January 1, 2010 through July 1, 2019 and carry interest rates of 1.60% to 4.20%; 6,180,000 5.00% Term Bond due July 1, 2024; \$10,855,000 5.54% Term Bond due July 1, 2029; and \$12,470,000 Term Bond due July 1, 2039.

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 Authority issued no bonds during the year ended June 30, 2009.

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.

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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 authority issued no bonds during fiscal year 2009.

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 \$50,000,000 in Student Loan Revenue Bonds, which carry variable interest rates that change based on specified indices, as follows: Variable Taxable Series 2008A, dated August 20, 2008 and maturing November 15, 2009. The interest rate is adjusted quarterly based on the commercial paper rate index published by the U.S. Department of Labor.

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 authority issued no bonds during fiscal year 2009.

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

During the fiscal year ended June 30, 2009, the Commission sold \$109,178,516 school building revenue and revenue refunding bond issues having aggregate state participation of \$109,178,516 maturing through June 1, 2029 at interest rates of 1.40% to 5.375%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2009, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009. Copies of this report are available from the Office of Statewide Accounting Services, 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 fiscal year ended June 30, 2009.

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, 2009.

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The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2009, are as follows (Expressed in Thousands):

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 3,173,995	2.00%-7.65%	2029
Turnpike Authority of Kentucky	1,255,525	2.00%-6.60%	2030
Total	<u>\$ 4,429,520</u>		

Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2009, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2010	\$ 365,450	\$ 204,290	\$ 569,740
2011	250,455	195,305	445,760
2012	233,535	184,419	417,954
2013	236,925	172,984	409,909
2014	251,590	160,482	412,072
2015-2019	1,344,545	610,507	1,955,052
2020-2024	1,073,670	292,104	1,365,774
2025-2029	661,495	81,347	742,842
2030-2034	11,855		11,855
Total	<u>\$ 4,429,520</u>	<u>\$ 1,901,438</u>	<u>\$ 6,330,958</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky School Facilities Construction Commission *	\$ 822,489	1.00-6.25%	2029
Kentucky Housing Corporation *	2,172,125	0.30-6.06%	2040
Kentucky Infrastructure Authority	125,935	2.75-6.0%	2024
Kentucky Higher Education Student Loan Corporation	2,205,100	0.61-2.24%	2038
Kentucky Local Correctional Facilities Construction Authority *	13,850	3.00-5.25%	2014
University of Kentucky	167,310	1.0-5.0%	2027
University of Louisville	327,725	0.31-6.46%	2035
Eastern Kentucky University	15,970	3.0-5.00%	2028
Western Kentucky University	199,985	1.50-5.00%	2030
Murray State University *	45,980	1.10-5.4%	2029
Morehead State University	21,275	2.0-4.5%	2027
Kentucky State University*	7,040	2.0-3.2%	2027
Northern Kentucky University	86,680	2.25-7.8%	2029
Total Component Unit Revenue Bonds Payable	<u>\$ 6,211,464</u>		

* Amounts reflect original issue

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2009, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2010	\$ 246,745	\$ 198,205	\$ 444,950
2011	189,978	194,802	384,780
2012	177,704	187,530	365,234
2013	170,234	180,731	350,965
2014	170,401	174,334	344,735
2015-2019	834,972	765,348	1,600,320
2020-2024	806,521	585,752	1,392,273
2025-2029	992,409	409,793	1,402,202
2030-2034	1,314,020	234,531	1,548,551
2035-2039	1,307,860	49,243	1,357,103
2040-2044	620	18	638
Total	<u>\$ 6,211,464</u>	<u>\$ 2,980,287</u>	<u>\$ 9,191,751</u>

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NOTES PAYABLE:

At June 30, 2009, 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 no notes during the fiscal year ended June 30, 2009.

The Component Units of the Commonwealth reported notes payable of \$569,362,000 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 108 and 109.

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.

Pollution Remediation Liabilities - GASB Statement 49 establishes the guidance reporting entities are to use in estimating and reporting potential cost which may be incurred for pollution remediation. GASB 49 requires the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;

The Commonwealth is in violation of a pollution related permit or license;

The Commonwealth is named or has evidence that it will be named as a responsible party by a regulator;

The Commonwealth is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or

The Commonwealth commences or legally obligates itself to conduct remediation activities.

The Commonwealth has remediation activities underway and these are in stages from site investigation, planning and design, clean up, and site monitoring. Several agencies, within state government, have as a part of their mission the responsibility to investigate possible pollution sites, and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to the estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation.

The amounts recorded as obligations are shown in the accompanying chart.

Unemployment Insurance Liability - The downturn in the economy created an increased demand for unemployment insurance payments. The increased demand depleted the funds the Commonwealth had on deposit with Federal government to pay claims. As a result, the Commonwealth has borrowed money from the Federal government to pay unemployment insurance claims. At June 30, 2009 the amount borrowed was \$301.9 million. The loan is interest free, if repaid by January, 2011. The Commonwealth is reviewing ways to repay the loan and replenish the insurance fund.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

***Future debt service requirements for aggregated Notes Payable for the Primary Government
at June 30, 2009, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2010	\$ 59,490	\$ 47,396	\$ 106,886
2011	63,920	44,659	108,579
2012	58,825	41,956	100,781
2013	58,555	39,299	97,854
2014	61,265	36,561	97,826
2015-2019	346,980	137,991	484,971
2020-2024	274,125	60,537	334,662
2025-2029	136,360	11,298	147,658
Total	<u>\$ 1,059,520</u>	<u>\$ 419,697</u>	<u>\$ 1,479,217</u>

***Future debt service requirements for aggregated Notes Payable for the Component Units at
June 30, 2009, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2010	\$ 498,477	\$ 3,885	\$ 502,362
2011	1,986	3,611	5,597
2012	12,174	3,534	15,708
2013	2,333	2,250	4,583
2014	42,331	2,084	44,415
2015-2019	4,837	2,124	6,961
2020-2024	2,095	1,532	3,627
2025-2029	2,580	1,000	3,580
Thereafter	2,550	286	2,836
Total	<u>\$ 569,363</u>	<u>\$ 20,306</u>	<u>\$ 589,669</u>

Changes in long-term liabilities for the fiscal year ended June 30, 2009, are summarized as follows (Expressed in Thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
Governmental Activities						
Compensated absences	\$ 230,302	\$ 2,075	\$ (18,713)	\$ 213,664	\$ 136,628	\$ 77,036
Capital leases	30,968	4,953	(9,283)	26,638	8,696	17,942
Claims liability	144,563	39,076	(27,473)	156,166	16,047	140,119
Notes payable	1,516,350		(456,830)	1,059,520	59,490	1,000,030
Bonds payable	3,617,080	1,163,870	(351,430)	4,429,520	365,450	4,064,070
Unamortized premiums	215,132	35,905	(16,737)	234,300	19,331	214,969
Unamortized discounts	(8,038)	(4,193)	4,808	(7,423)	(612)	(6,811)
Deferred amount on refunding	(19,244)	2,654	2,315	(14,275)	(1,178)	(13,097)
Judgments and contingent liabilities	118,534	106,850	(88,982)	136,402	124,774	11,628
Pollution remediation liabilities	35,283	4,096		39,379	4,855	34,524
Unfunded employer pension contributions	1,853,047	993,174		2,846,221		2,846,221
Total Governmental Activities	<u>7,733,977</u>	<u>2,348,460</u>	<u>(962,325)</u>	<u>9,120,112</u>	<u>733,481</u>	<u>8,386,631</u>
Business-Type Activities						
Compensated absences	9,116	704	(853)	8,967	5,449	3,518
Capital leases	212	113	(114)	211	84	127
Claims and claims adjustment liability	1,312,284	1,418,809	(1,541,807)	1,189,286	214,706	974,580
Prize liability	171,991	9,530	(31,566)	149,955	52,991	96,964
Judgments and contingent liabilities	2	16	(2)	16	16	
Loans payable to the Federal government		301,900		301,900		301,900
Total Business-Type Activities	<u>1,493,605</u>	<u>1,731,072</u>	<u>(1,574,342)</u>	<u>1,650,335</u>	<u>273,246</u>	<u>1,377,089</u>
Total Primary Government	<u>\$ 9,227,582</u>	<u>\$ 4,079,532</u>	<u>\$ (2,536,667)</u>	<u>\$ 10,770,447</u>	<u>\$ 1,006,727</u>	<u>\$ 9,763,720</u>
Component Units (Major)						
Compensated absences	\$ 15,380	\$ 15,182	\$ (12,749)	\$ 17,813	\$ 13,553	\$ 4,260
Capital leases	507,915	58,354	(65,538)	500,731	37,033	463,698
Notes payable	101,913	541,006	(99,294)	543,625	494,027	49,598
Bonds payable	5,604,396	577,931	(482,861)	5,699,466	207,540	5,491,926
Total Component Units	<u>\$ 6,229,604</u>	<u>\$ 1,192,473</u>	<u>\$ (660,442)</u>	<u>\$ 6,761,635</u>	<u>\$ 752,153</u>	<u>\$ 6,009,482</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 counsel 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, 2009 and 2008 amounted to \$113.8 million and \$97.1 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, 2009, the estimated liability for annual and compensatory leave was \$213,664,000 for the governmental activities, and \$8,967,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$17,813,000 at June 30, 2009.

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, 2009. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$297,440,993 and \$11,648,107, respectively.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

Construction Projects - The Transportation Cabinet, at June 30, 2009, had contractual commitments of approximately \$1,098,964,131 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 41 percent State funds, 50 percent Federal funds, and the remaining 9 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, 2009, and prior to December 31, 2009, and reported other subsequent events for the same period, as described below.

The State Property and Buildings Commission issued \$392,465,000 Project No. 95 Revenue and Revenue Refunding Bonds, dated July 9, 2009. These bonds consist of \$138,310,000 Series A (Revenue Refunding) serial bonds maturing February 1, 2010 through August 1, 2020 and carry interest rates of 2.00% to 5.00%; \$44,925,000 Series B (Federally Taxable – Revenue and Revenue Refunding) serial bonds maturing August 1, 2010 through August 1, 2013 and carry interest rates of 2.00% to 4.004%; and \$209,230,000 Series C (Federally Taxable – Build America Bonds) Term Bonds, consisting of: \$71,995,000 6.164% Term Bonds due August 1, 2023, and \$137,235,000 6.573% Term Bonds due August 1, 2029. The net proceeds will be used to restructure current debt, refund prior Bonds, and fund various projects for State agencies and component units.

\$401,345,000 Project No. 96, Revenue Bonds, dated November 17, 2009, was issued. The issue consists of: \$47,980,000 Series A Serial Bonds maturing November 1, 2012 through November 1, 2014 carrying interest rates of 3.00% to 5.00%; \$4,460,000 4.25% Term Bonds due November 1, 2029; \$11,650,000 5.00% Term Bonds due November 1, 2029; Series B (Federally Taxable) \$7,085,000 .720% Term Bonds due November 1, 2010; and \$7,085,000 1.627% Term Bonds due November 1, 2011; Series C (Federally Taxable – Build America Bonds – Direct Payment to the

Commission) \$92,920,000 Serial Bonds maturing November 1, 2015 through November 1, 2019 and carry interest rates of 4.077% to 5.061%; \$63,910,000 5.561% Series C Term Bonds due November 1, 2022; and \$166,255,000 6.155% Series C Term Bonds due November 1, 2029. The bonds will be used to fund various projects for State agencies and component units.

The Kentucky Housing Corporation issued \$60,000,000 2009 Series B (NON-AMT) dated October 1, 2009, consisting of: \$12,080,000 Serial Bonds maturing semi annually July 1 and January 1, 2010 through July 1, 2019 carry interest rates of 1.050% to 3.875%; \$8,265,000 4.625% Term Bond due July 1, 2024; \$3,870,000 4.750% Term Bond due July 1, 2026; \$6,545,000 4.850% Term Bond due July 1, 2029; \$13,075,000 5.000% Term Bond due July 1, 2035; and \$16,165,000 5.150% term Bond due July 1, 2039. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth.

University of Kentucky issued \$100,605,000 General Receipts Bonds, Taxable Build America Bonds, 2009 Series B, dated November 24, 2009. The bonds consist of: \$26,380,000 Serial Bonds maturing November 1, 2017 through November 1, 2024 and carry interest rates of 3.95% to 5.15%; \$20,400,000 5.35% Term Bonds due November 1, 2029 and \$53,825,000 5.70% Term Bonds due November 1, 2039. The proceeds of the bond will be used for the continued expansion of and limited renovation to the existing University Hospital.

Morehead State University issued \$28,930,000 General Receipts Bonds, Taxable Build America Bonds, 2009 Series A, dated July 29, 2009. The bonds consist of: \$21,160,000 Serial Bonds maturing November 1, 2010 through November 1, 2024 and carry interest rates of 2.00% to 5.90%; \$3,735,000 6.00% Term Bonds due November 1, 2026 and \$4,035,000 6.00% Term Bonds due November 1, 2028. The proceeds of the bond will be used to construct a Campus Recreation Center and renovation of Alumni Tower Residence Hall.

Kentucky 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, 2009, and maturing as to principal through 2029 is displayed in the table on page 107.

Unemployment Insurance Fund

The downturn in the economy has created an increase in demand for unemployment insurance payments. The Commonwealth has depleted the funds on deposit with the Federal government and has received interest free loans from the Federal government to cover payments until the funds are replenished, by employer contributions. As of December 18, 2009, the Commonwealth has a loan balance outstanding of approximately \$563 million.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

Department of Corrections

A riot, which led to structure fires, occurred at the Northpoint Training Center, a Department of Corrections prison facility, on August 22, 2009. These fires destroyed or damaged several buildings, at the facility, causing an estimated minimum loss of \$5.4 million. The amount of the loss which will be mitigated by insurance proceeds has not been determined at this date. The cost of repair, replacement and updating of the buildings damaged and/or destroyed is estimated to exceed \$10.0 million. The source of additional funds needed to accomplish the necessary repair, replacement and updating of the facilities is yet to be determined.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2009

KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Ashland Independent	08/27/09	\$ 4,070,000	\$ 501,159	1.800 - 6.200
Beechwood Independent	08/25/09	6,050,000	843,527	1.700 - 6.300
Bellevue Independent	07/20/09	790,000	133,958	1.400 - 3.400
Bullitt County	09/24/09	48,200,000	218,598	1.300 - 6.000
Carlisle County	07/08/09	325,000	291,479	1.000 - 3.000
Corbin Independent	12/09/09	10,545,000	936,499	1.750-5.625
Crittenden County	08/04/09	1,135,000	1,135,000	2.000 - 4.300
Dawson Springs Independent	07/14/09	3,135,000	274,349	2.250 - 6.400
Dayton Independent	07/16/09	1,990,000	597,197	2.000 - 4.400
Erlanger-Elmerville Independent	11/19/09	1,465,000	1,347,880	1.000-3.400
Fayette County	07/30/09	8,955,000	533,339	1.000 - 3.250
Ft. Thomas Independent	08/11/09	11,750,000	6,165,421	1.900 - 6.500
Graves County	07/14/09	9,080,000	4,916,836	2.100 - 6.200
Green County	08/26/09	1,560,000	204,824	3.200 - 4.250
Jackson County	12/03/09	8,845,000	5,616,637	1.000-5.625
Jefferson County	08/04/09	39,580,000	9,549,211	2.000 - 4.000
Jessamine County	07/15/09	5,395,000	1,278,097	2.000 - 3.700
Jessamine County	07/22/09	7,500,000	1,111,961	2.125 - 6.400
Leslie County	09/01/09	1,200,000	241,378	1.700 - 4.200
Logan County	10/13/09	2,780,000	595,458	2.000-3.250
Marion County	09/16/09	5,995,000	1,728,457	1.500 - 6.000
Marion County	09/16/09	5,995,000	1,470,021	1.500-6.000
Meade County	07/22/09	10,905,000	496,015	2.000 - 6.400
Pike County	11/03/09	1,735,000	1,735,000	1.200-4.125
Pikeville Independent	07/09/09	1,220,000	230,499	2.000 - 4.500
Pulaski County	08/12/09	4,660,000	1,137,295	2.000 - 3.000
Walton-Verona Independent	12/01/09	2,700,000	177,481	2.000-4.000
Warren County	07/07/09	29,625,000	1,242,687	2.250 - 6.250
		<u>\$ 237,185,000</u>	<u>\$ 44,710,263</u>	

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2009

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

Transportation Cabinet's Self Insured Workers' Compensation
Trust Program
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, 2009

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

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

Kentucky Public Employees' Health Insurance Fund
State Office Building, 2nd 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

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

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

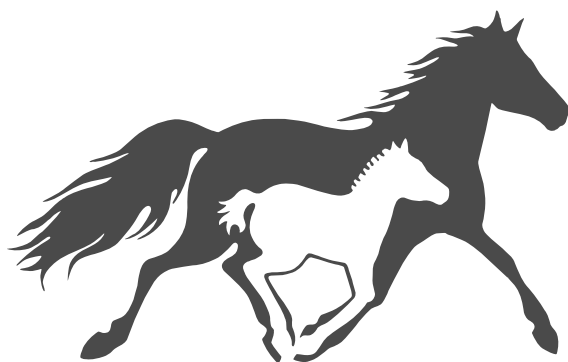
Kentucky Public Employees'
Deferred Compensation Authority
101 Sea Hero Road, Suite 110
Frankfort, KY 40601-5404

State Workers' Compensation Program
State Office Building, 3rd Floor
501 High Street
Frankfort, KY 40601

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

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

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



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

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, 2009
(Expressed in Thousands)

	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 8,484,301	\$ 8,105,924	\$ 8,075,755	\$ (30,169)
Licenses, fees, and permits	32,260	31,490	35,047	3,557
Intergovernmental	13,000	12,950	14,559	1,609
Charges for services	6,136	6,130	12,299	6,169
Fines and forfeits	65,600	65,670	52,055	(13,615)
Interest and other investment income	20,000	9,000	4,184	(4,816)
Lottery proceeds	191,500	198,500	193,500	(5,000)
Other revenues	73,250	52,436	38,952	(13,484)
Tobacco Settlement	119,690	118,490	126,500	8,010
Subtotal of Budgeted Revenues	9,005,737	8,600,590	8,552,851	(47,739)
Other Budgeted Financial Resources:				
Transfers in (interfund)	301,654	361,226	344,533	(16,693)
Total Budgeted Revenues	9,307,391	8,961,816	8,897,384	(64,432)
Expenditures				
General Government:				
Executive Office of the Governor	8,480	8,156	7,765	391
Office of Homeland Security	246	237	226	11
Kentucky Infrastructure Authority	956	919	876	43
Department of Veterans Affairs	17,623	16,950	16,157	793
Office of State Budget Director	3,792	3,647	3,122	525
State Planning Fund	220	212	202	10
Unified Prosecutorial System:				
Commonwealth Attorneys	33,148	31,909	31,909	
County Attorneys	28,153	27,043	27,043	
Department of Agriculture	20,415	19,641	18,476	1,165
Office of the Attorney General	12,874	12,532	11,953	579
Auditor of Public Accounts	5,370	5,165	4,923	242
Registry of Election Finance	1,347	1,296	1,235	61
Military Affairs	10,631	32,024	28,832	3,192
Governor's Office of Agriculture Policy				
Governor's Office for Local Development	9,742	9,361	9,143	218
Local Government:				
Economic Assistance Fund	55,093	74,771	74,771	
Economic Development Fund	51,396	72,116	72,116	
Area Development Fund	691	664	634	30
Secretary of State	2,050	1,971	1,879	92
Secretary of Treasury	1,928	1,854	1,766	88
Board of Elections	4,211	4,236	4,186	50
School Facilities Construction Commission	109,623	105,023	104,281	742
Executive Branch Ethics Commission	448	448	448	
Commission on Human Rights	2,002	1,925	1,849	76
Commission on Women	240	230	220	10
Council on Postsecondary Education	53,952	51,849	50,480	1,369
Budget Reserve Trust Fund	214,775	7,125		7,125
Personnel:				
General Operations				
State Salary Compensation Fund	13,994	10,438		10,438
State Group Health Insurance	2,081	2,001	1,883	118

	Original	Final	Actual	Variance
Universities:				
Eastern Kentucky University	\$ 77,245	\$ 75,740	\$ 75,740	\$
Kentucky State University	26,927	26,407	26,407	
Morehead State University	46,682	45,771	45,771	
Murray State University	52,943	51,884	51,884	
Northern Kentucky University	54,922	53,876	53,876	
University of Kentucky	321,253	314,921	314,921	
University of Louisville	185,423	182,270	182,270	
Western Kentucky University	82,296	80,684	80,684	
Kentucky Community and Technical College System	219,318	214,931	214,931	
Finance and Administration:				
General Administration & Support	8,309	8,346	7,970	376
Special Accounts - Capital Construction		800	800	
Debt Service	412,196	354,027	221,909	132,118
Office of the Controller	9,197	7,426	6,654	772
Department for Facilities Management	6,193	5,957	5,677	280
Kentucky Higher Education Assistance Authority	184,699	184,699	180,447	4,252
Special Accounts - Tobacco Settlement		126,500	126,500	
Finance - County Costs	16,581	16,581	15,793	788
Department of Revenue:				
General Operations	69,397	67,687	66,594	1,093
Office of Property Valuation Administrators	35,345	33,931	33,931	
Appropriations Not Otherwise Classified:				
Judgements	292	422	421	1
Board of Claims Awards	1,000	600	415	185
Guardian Ad Litem	1,600	9,900	9,417	483
Prior Year Claims	400	1,000	838	162
Unredeemed Checks Refunded	1,500	1,049	717	332
Involuntary Commitments	60	60	35	25
Blanket Employee Bonds	100	100	66	34
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	1,000	870	408	462
Attorney General Expense	225	355	351	4
Medical Malpractice Liability Insurance Reimbursements	185	185	144	41
Total General Government	2,480,967	2,370,920	2,202,144	168,776
Legislative and Judicial:				
General Assembly	22,047	22,048	14,684	7,364
Legislative Research Commission	36,563	36,563	32,159	4,404
Judicial Retirement System	5,765	5,765	5,765	
Court of Justice - Court Facility Use	260	260	11	249
Court of Justice - Operation and Administration	184,762	184,762	184,762	
Court of Justice - Local Facility Support	99,558	99,557	78,832	20,725
Total Legislative and Judicial	348,955	348,955	316,213	32,742

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, 2009
(Expressed in Thousands)

	Original	Final	Actual	Variance
Commerce:				
Economic Development:				
Office of the Secretary	\$ 16,025	\$ 15,161	\$ 14,068	\$ 1,093
Financial Incentives	31,165	31,165	10,440	20,725
Existing Business Development	3,344	2,854	2,655	199
New Business Development	1,322	1,685	1,662	23
Commerce Cabinet: Office of the Secretary	3,778	4,069	3,882	187
Kentucky State Fair Board				
Kentucky Horse Park	1,448	1,393	1,328	65
Department of Parks	30,046	29,985	29,684	301
Office of Energy Policy	1,869			
Department of Travel	4,368	3,825	3,645	180
Berea Artisans Center	358	345	328	17
Total Commerce	<u>93,723</u>	<u>90,482</u>	<u>67,692</u>	<u>22,790</u>
Education:				
General Administration and Program Support	3,249	3,125	2,979	146
Commission on the Deaf and Hard of Hearing	929	894	852	42
Kentucky Heritage Council	908	873	832	41
Kentucky Arts Council	3,719	3,577	3,410	167
Department of Education:				
Support Education Excellence In KY (SEEK)	2,958,306	2,958,306	2,944,082	14,224
Executive Policy and Management	703	675	663	12
Bureau of Support Services	46,275	45,938	45,392	546
Learning Results Services	843,388	779,536	737,447	42,089
Kentucky Educational Television	13,243	12,737	12,141	596
Kentucky Historical Society	7,154	6,881	6,559	322
Kentucky Center for the Arts	1,113	1,070	1,020	50
Education Professional Standards Board	8,973	8,630	8,188	442
Libraries and Archives -				
Direct Local Aid	6,175	6,012	5,831	181
General Operations	6,755	6,497	6,190	307
Teachers' Retirement System	177,360	177,360	177,360	
Workforce Investment:				
Office of the Blind	1,328	1,275	1,275	
Technical Education	26,628	26,096	26,096	
Vocational Rehabilitation	12,795	12,283	12,283	
Total Education and Humanities	<u>4,119,001</u>	<u>4,051,765</u>	<u>3,992,600</u>	<u>59,165</u>
Human Resources:				
Health and Family Services:				
Administrative Services	33,077	28,213	28,213	
Department for Community Based Services	346,147	335,280	323,387	11,893
Governor's Office of Wellness and Physical Activity				
Office of the Inspector General		5,716	5,716	
Office of Health Policy	553	532	507	25
Department for Aging and Independent Living	32,878	34,882	33,440	1,442
Department of Income Support		3,192	2,920	272
Department for Public Health	71,409	68,198	65,063	3,135
Department for Mental Health and Mental Retardation	199,831	265,892	257,295	8,597
Department for Human Support Services	7,535	57,572	57,406	166
Office of the Ombudsman	3,287			
Department for Medicaid Services	36,489	36,779	36,771	8
Medicaid Services Benefits	1,187,212	1,057,730	1,051,161	6,569
Commission for Children With Special Health Care Needs	5,719	5,426	5,426	
Total Human Resources	<u>1,924,137</u>	<u>1,899,412</u>	<u>1,867,305</u>	<u>32,107</u>

	Original	Final	Actual	Variance
Justice:				
Office of the Secretary	\$ 11,747	\$ 11,278	\$ 11,250	\$ 28
Department of State Police	68,592	67,640	65,153	2,487
Kentucky Vehicle Enforcement				
Department of Juvenile Justice	85,249	83,581	82,195	1,386
Department for Public Advocacy	31,741	32,472	32,472	
Department of Corrections:				
Management	6,469	6,210	6,210	
Adult Institutions	256,091	259,081	259,081	
Local Jail Allotment	16,151	15,542	14,800	742
Community Services and Local Facilities	146,077	150,879	150,588	291
Total Justice	622,117	626,683	621,749	4,934
Natural Resources and Environmental Protection:				
General Administration & Support	7,517	3,766	3,766	
Energy Development & Independence		2,363	2,231	132
Kentucky River Authority	305	293	276	17
Kentucky Nature Preserves Commission	1,181	1,136	1,083	53
Environmental Protection	22,284	21,392	21,392	
Petroleum Storage Tank				
Department for Natural Resources	11,761	14,767	14,277	490
Mine Safety and Licensing	13,464	11,616	11,616	
Surface Mining Reclamation and Enforcement	9,531	10,038	10,038	
Total Natural Resources and Environmental Protection	66,043	65,371	64,679	692
Public Protection and Regulation:				
General Administration & Support		364	364	
Board of Claims and Crime Victims Compensation	740	712	678	34
Board of Tax Appeals	440	423	403	20
Kentucky Racing Commission	444	427	407	20
Public Service Commission	13,631	13,249	8,972	4,277
Mine Safety Review Commission	184	177	177	
Department of: Alcoholic Beverage Control	965	928	885	43
Housing, Buildings, and Construction	2,321	2,228	2,228	
Insurance				
Labor:				
Workplace Standards	2,121	2,052	1,957	95
General Administration & Support		3,244	2,906	338
Total Public Protection and Regulation	20,846	23,804	18,977	4,827
Transportation:				
Air Transportation				
Public Transportation	5,310	5,106	4,875	231
Total Transportation	5,310	5,106	4,875	231
Total Expenditures	9,681,099	9,482,498	9,156,234	326,264
Excess of Revenues Over (Under) Expenditures	(373,708)	(520,682)	(258,850)	261,832
Fund Balance at July 1, as Restated		(998,013)	365,877	
Non-Budgeted Items			(1,301)	(1,301)
Fund Balance at June 30	\$ (373,708)	\$ (1,518,695)	\$ 105,726	\$ 1,624,421

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, 2009
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 1,161,076	\$ 1,071,266	\$ 1,036,004	\$ (35,262)
Licenses, fees, and permits	144,254	131,904	131,119	(785)
Charges for services	10,405	10,320	9,432	(888)
Fines and forfeits	3	3	66	63
Interest and other investment income	5,800	10,900	10,662	(238)
Other revenues	3,268	4,408	4,891	483
Total Budgeted Revenues	1,324,806	1,228,801	1,192,174	(36,627)
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Transfers in (interfund)			1,624	1,624
Transfers in (intrafund)				
Total Non-Budgeted Revenue			1,624	1,624
Total Revenues	1,324,806	1,228,801	1,193,798	(35,003)
Expenditures				
General Government:				
Executive Office of the Governor				
Office of Homeland Security	250	250	250	
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	250	
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, 2009
(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				
Personnel:				
General Operations				
Public Employee Deferred Compensation Authority				
Universities:				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
Finance and Administration:				
General Administration and Support	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	2,325	1,923	1,923	
Office of Property Valuation Administrators		402	402	
Department for Facilities Management				
Total General Government	<u>3,225</u>	<u>3,225</u>	<u>3,225</u>	

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	178	157	21
				1,117	1,117	1,056	61
				53	53	46	7
				173	192	191	1
				47	47	37	10
				2,545	2,545	2,507	38
				4,929	4,954	4,544	410
				49	49	37	12
				173	183	183	
				11	11	6	5
				86	86	68	18
				181	181	171	10
				83	83	55	28
				135	135	81	54
				741	756	756	
				1,066	1,183	1,113	70
				329	343	340	3
				23	23	23	
				1,411	1,411	1,151	260
				112	112	107	5
				238	238	182	56
				80	80	65	15
				92	91	91	
				2,541	2,542	1,961	581
				616	616	559	57
278	442	308	134	2	2		2
19,099	19,099	12,516	6,583	8,753	8,979	7,786	1,193
				10	10	10	
				21,640	21,610	20,664	946
				6,930	6,930	6,656	274
				218,817	218,817	35,290	183,527
				35,740	35,740	30,576	5,164
				134,263	134,263	81,048	53,215
				101,132	101,132	98,272	2,860
				161,351	161,351	138,199	23,152
				1,812,862	1,812,862	1,230,457	582,405
				700,799	700,799	117,000	583,799
				245,188	245,188	186,586	58,602
				460,100	460,100	164,248	295,852
				4,054	3,606	2,596	1,010
1,000	2,900	1,495	1,405	7,326	7,950	5,488	2,462
400	400	375	25	306	306	301	5
1,568	2,588	2,402	186	31,313	31,313	29,206	2,107
				1,932	1,932	1,491	441
				25,905	25,906	23,225	2,681
				7,216	7,327	4,757	2,570
				3,500	4,793	4,404	389
				1,016	1,017	899	118
217,374	280,129	188,784	91,345	4,099,419	4,107,913	2,291,414	1,816,499

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, 2009
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Legislative and Judicial:				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operation and Administration				
Total Legislative and Judicial				
Commerce:				
Economic Development:				
Office of the Secretary				
Financial Incentives				
Existing Business Development				
New Business Development				
Commerce: Office of the Secretary				
Office of Energy Policy				
Department of Travel				
Berea Artisans Center	350	350	350	
Department of Fish and Wildlife Resources				
Total Commerce	350	350	350	
Education:				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
General Administration and Program Support				
Department of Education:				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Education Professional Standards Board				
Libraries and Archives:				
Direct Local Aid				
General Operations				
Kentucky Teachers' Retirement System				
Workforce Investment:				
Office of the Blind				
Employment and Training				
Technical Education				
Vocational Rehabilitation				
Total Education and Humanities				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	804	804	324	480
				1,786	1,786		1,786
				189	425	157	268
1,613	3,014	1,754	1,260	63,865	63,865	41,469	22,396
1,614	3,015	1,754	1,261	66,644	66,880	41,950	24,930
				1,211	1,211	2	1,209
				1,744	2,560	2,385	175
200	200	144	56				
				300	300	151	149
				1,017	13,815	9,831	3,984
755				4,198			
				9,711	112	63	49
				1,785	1,785	1,627	158
13,486	16,575	14,762	1,813	31,402	32,343	31,596	747
14,441	16,775	14,906	1,869	51,368	52,126	45,655	6,471
				457	457	445	12
				530	530	502	28
752	895	615	280	320	1,460	565	895
739	964	654	310	333	583	412	171
190	190	125	65	6,040	6,040	4,729	1,311
718,019	718,019	702,746	15,273	2,621	3,521	2,612	909
8,528	8,528	3,642	4,886	2,210	2,210	1,591	619
700	700	666	34	1,527	4,658	2,939	1,719
	442	190	252	757	940	937	3
122	453	274	179	1,297	1,297	638	659
724	724	503	221	1,262	1,262	789	473
2,125	2,315	1,718	597	1,400	1,700	1,454	246
				10,102	10,103	8,204	1,899
7,852	9,252	8,359	893	1,487	1,487	1,468	19
118,384	148,384	113,418	34,966	2,666	2,666	1,361	1,305
15,154	15,154	14,761	393	21,132	21,532	21,043	489
42,978	46,868	44,382	2,486	2,577	2,577	2,577	
916,267	952,888	892,053	60,835	56,718	63,023	52,266	10,757

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, 2009
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Human Resources:				
Health and Family Services:				
Administrative Support	\$	\$	\$	\$
Department for Disability Determination Services				
Department for Community Based Services				
Governor's Office of Wellness and Physical Activity				
Office of Inspector General				
Office of Health Policy				
Department for Aging and Independent Living				
Department of Income Support				
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				
Total Human Resources				
Justice:				
Office of the Secretary				
Department of State Police	60,000	71,488	71,488	
Kentucky Vehicle Enforcement	13,882	2,393	2,393	
Department for Public Advocacy				
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Correctional Institutions				
Community Service and Local Facilities				
Total Justice	73,882	73,881	73,881	
Natural Resources and Environmental Protection:				
General Administration & Support				
Energy Development and Independence				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	300	300	300	
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
Total Natural Resources and				
Environmental Protection	300	300	300	
Public Protection and Regulation:				
Office of the Commissioner				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
Mine Safety Review Commission				
Department - of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
Labor: Workplace Standards				
General Administration & Support				
Total Public Protection and Regulation				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 24,655	\$ 24,971	\$ 23,876	\$ 1,095	\$ 8,547	\$ 10,250	\$ 8,921	\$ 1,329
50,433	47,548	37,911	9,637	66	116	97	19
533,312	584,379	526,521	57,858	141,312	122,741	122,011	730
902							
12,392	12,031	11,212	819	1,764	1,764	1,195	569
				579	804	796	8
20,337	21,270	21,238	32	2,516	2,858	2,582	276
	36,448	35,698			19,385	15,386	3,999
184,333	212,556	196,939	15,617	85,039	105,039	100,424	4,615
43,121	45,576	42,627	2,949	227,845	227,845	163,422	64,423
2,126		(46)	46	17			
48,572	76,765	61,964	14,801	13,080	21,840	19,914	1,926
3,528,485	4,174,381	4,152,419	21,962	386,665	386,665	339,560	47,105
4,179	4,705	3,320	1,385	6,205	6,205	6,205	
3,903	3,451	3,203	248	626	626	141	485
4,456,750	5,244,081	5,116,882	127,199	874,261	906,138	780,654	125,484
8,999	9,999	9,751	248	5,751	4,899	4,540	359
8,670	13,755	9,176	4,579	17,032	18,214	16,569	1,645
6,071	986	971	15	1,462	280	280	
1,783	2,998	1,872	1,126	4,302	4,302	4,292	10
13,696	13,696	11,566	2,130	15,880	15,880	13,779	2,101
1,957	1,957	204	1,753	50,514	50,514	48,130	2,384
	479	144	335	135	135	1	134
1,904	1,904	528	1,376	4,235	7,008	6,128	880
65	274	193	81	2,800	3,581	3,227	354
43,145	46,048	34,405	11,643	102,111	104,813	96,946	7,867
1,555	1,235	1,039	196	6,561	1,143	875	268
	1,094	1,030	64		5,048	3,379	1,669
				4,442	4,442	1,621	2,821
				232	241	229	12
100	125	68	57	355	888	410	478
20,802	23,133	21,805	1,328	34,924	35,271	29,464	5,807
7,253	7,253	4,482	2,771	7,145	6,901	5,660	1,241
631	686	592	94	1,948	1,982	1,694	288
19,204	11,388	7,753	3,635		406	307	99
22,000	29,760	22,872	6,888	7,237	6,905	4,496	2,409
71,545	74,674	59,641	15,033	62,844	63,227	48,135	15,092
				884	4,457	4,049	408
540	540	511	29	1,684	1,684	1,295	389
				28,010	32,710	28,756	3,954
				100	125	121	4
218	218	175	43	841	841	5	836
				5	5		5
				4,197	4,356	4,348	8
				3,058	3,058	2,877	181
				9,213	9,213	8,298	915
				15,826	15,826	13,259	2,567
				19,251	19,251	16,022	3,229
	725	725					
3,239	3,239	2,938	301				
	319	143	176		2,484	2,317	167
3,997	5,041	4,492	549	83,069	94,010	81,347	12,496

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, 2009
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Transportation:				
Administration & Support	\$ 74,390	\$ 68,759	\$ 65,220	\$ 3,539
Revenue Sharing	381,261	364,926	292,363	72,563
Air Transportation	13,768	16,571	8,520	8,051
Highways	949,636	909,636	703,135	206,501
Public Transportation				
Vehicle Regulation	26,418	23,634	16,742	6,892
Debt Service	148,513	129,013	118,863	10,150
Transfers to Capital Projects	17,992	17,992	13,927	4,065
BRAC Economic Development Road Bonds				
2005 GARVEE Bond Series				
2005 Ed Bond Series				
Total Transportation	<u>1,611,978</u>	<u>1,530,531</u>	<u>1,218,770</u>	<u>311,761</u>
Total Expenditures	<u>1,689,735</u>	<u>1,608,287</u>	<u>1,296,526</u>	<u>311,761</u>
Excess of Revenues over (under)				
Expenditures	<u>(364,929)</u>	<u>(379,486)</u>	<u>(102,728)</u>	<u>276,758</u>
Other Financing Sources (Uses)				
Proceeds from Issuance of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(364,929)	(379,486)	(102,728)	276,758
Fund Balances at July 1		(809,713)	392,493	
Non-Budgeted Items			(5,001)	(5,001)
Fund Balances at June 30	<u>\$ (364,929)</u>	<u>\$ (1,189,199)</u>	<u>\$ 284,764</u>	<u>\$ 1,473,963</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 7,808	\$	\$	\$	\$ 49	\$ 47	\$ 15	\$ 32
					16,617	6,994	9,623
346	346	249	97	64,826	64,826	7,039	57,787
1,481,847	1,489,655	504,880	984,775	79,213	140,999	120,012	20,987
30,908	59,702	24,823	34,879	506	506	440	66
642	10,661	2,384	8,277	11,715	11,765	8,712	3,053
					50,000	1,132	48,868
				442,106	442,106	97,247	344,859
				56,175	564,706	83,397	481,309
1,521,551	1,560,364	532,336	1,028,028	654,590	1,291,572	324,988	966,584
7,246,684	8,183,015	6,845,253	1,337,762	6,051,024	6,749,702	3,763,355	2,986,180
		14,329				2,235,068	
						159,589	
						159,589	
		14,329				2,394,657	
		110,236				1,242,260	
		(7,476)				(2,397,252)	
\$	\$	\$ 117,089	\$	\$	\$	\$ 1,239,665	\$

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 General Assembly 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.

Budgetary control is maintained at the budget unit level as designated by the budget bill enacted by the General Assembly (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 budget bill or for expenditure for any other purpose not contemplated in a budget bill. However, appropriations for budgetary funds other than the General Fund and the Transportation Fund may be amended upon approval by the State Budget Director and the Secretary of the Finance and Administration Cabinet.

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, 2009

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, 2009, 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, 2009:				
Budgetary basis	\$ 105,726	\$ 284,764	\$ 117,089	\$ 1,239,665
Adjustments:				
Accrued revenues	366,796	105,048	687,823	71,206
Accrued expenditures	(368,227)	(70,754)	(688,470)	(34,587)
Accrued transfers (net)	(18,033)		(48,665)	48,640
Total Accruals (1)	<u>(19,464)</u>	<u>34,294</u>	<u>(49,312)</u>	<u>85,259</u>
Reclassifications and other adjustments:				
Inventory balances (1)	6,825	43,607	87	3,106
To reclassify financial and other resources into financial statement fund types (2)	(8,650)	1,998	(147,802)	(849,182)
To record financial resources available as non-budgeted funds (3)	<u>(54,000)</u>			<u>17,072</u>
Fund Balance				
Fund balance June 30, 2009:				
GAAP Basis	<u>\$ 30,437</u>	<u>\$ 364,663</u>	<u>\$ (79,938)</u>	<u>\$ 495,920</u>
(1) Basis differences				
(2) Perspective differences				
(3) Entity differences				

COMMONWEALTH OF KENTUCKY
Notes To Required Supplementary Information
June 30, 2009

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 63,000 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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Good	60.7%	58.9%	51.9%	50.4%	45.3%
Fair	24.8%	26.1%	32.9%	35.7%	39.5%
Poor	14.5%	15.0%	15.2%	13.9%	15.2%

Bridges

Measurement Scale

KYTC maintains information on its 8,870 bridges in compliance with the National Bridge Inspection guidelines established by the Federal Highway Administration. KYTC inspects all bridges at least once every two years and the condition assessment results are coded on a 0-9 scale with 9 being the most desirable. The condition ratings are based on the following scale:

<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, 2009

Assessed Conditions

A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic. The following table reports the percentage of bridges whose condition was assessed as "structurally deficient" in the corresponding year:

<u>Calendar Year</u>	<u>Structurally Deficient</u>
2008	7.6%*
2007	6.1%
2006	6.1%
2005	6.2%
2004	5.7%

Fiscal Year 2008:

Estimated	\$ 707.8	\$ 181.5	\$ 889.3
Actual	\$ 840.1	\$ 155.0	\$ 995.1

Fiscal Year 2007:

Estimated	\$ 700.0	\$ 120.0	\$ 820.0
Actual	\$ 817.4	\$ 114.1	\$ 931.5

Fiscal Year 2006:

Estimated	\$ 690.0	\$ 110.0	\$ 800.0
Actual	\$ 734.5	\$ 64.5	\$ 799.0

Fiscal Year 2005:

Estimated	\$ 665.0	\$ 100.0	\$ 765.0
Actual	\$ 542.2	\$ 89.9	\$ 632.1

Fiscal Year 2004:

Estimated	\$ 645.0	\$ 100.0	\$ 745.0
Actual	\$ 642.8	\$ 100.3	\$ 743.1

* Please note that the calendar year 2008 bridge condition data indicates the percentage of state-maintained, structurally deficient bridges is 7.58% which is above the 7% threshold set as an established minimum condition level. The 7.58% includes state-maintained bridges regardless of their "sufficiency rating." The sufficiency rating is a general condition number that is well defined and calculated in accordance with National Bridge Inspection Standards (NBIS). Federal-aid Highway Bridge program funds cannot be used to replace a structurally deficient bridge when the bridge's sufficiency rating is equal to or greater than 50 on a 0-100 scale. The calendar year 2008 bridge condition data indicates that 4.43% of the state-maintained bridges are structurally deficient and have a sufficiency rating less than 50. KYTC plans to establish a better methodology to evaluate and report bridge assessments for FY10 that will be more distinct and complete portrayal of bridge conditions in the Commonwealth.

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):

	Roadways	Bridges	Total
<u>Fiscal Year 2010:</u>			
Estimated	\$809.4	\$103.1	\$912.5
<u>Fiscal Year 2009:</u>			
Estimated	\$ 929.0	\$ 150.0	\$ 1,079.0
Actual	\$ 846.4	\$ 64.1	\$ 910.5

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

State Workers' Compensation Program

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Earned Premiums	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812	\$ 23,395	\$ 24,293	\$ 21,764
Administrative Expense	526	533	545	777	480	385	1,149	1,127	1,070	1,094
Incurred Claims as Originally Estimated	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,128	3,790	3,846	3,733	3,656	4,520	4,131	4,898	4,078	4,907
One Year Later	6,332	7,216	7,320	7,449	7,225	7,233	7,862	8,716	7,585	
Two Years Later	7,811	8,987	9,260	9,330	8,596	9,347	9,632	10,947		
Three Years Later	8,678	10,252	10,414	10,627	10,008	10,424	10,873			
Four Years Later	9,441	11,254	11,236	11,432	10,921	11,209				
Five Years Later	9,976	11,945	11,990	12,182	11,842					
Six Years Later	10,320	12,886	12,717	12,883						
Seven Years Later	10,661	13,711	13,247							
Eight Years Later	11,020	14,525								
Nine Years Later	11,318									
Re-estimation of Incurred Claims:										
End of Fiscal Year	15,324	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006
One Year Later	16,584	19,315	20,172	20,514	19,209	18,824	17,769	19,152	17,770	
Two Years Later	16,033	19,186	18,805	19,888	18,694	17,659	17,758	20,192		
Three Years Later	16,189	19,067	19,198	19,894	18,682	17,753	18,338			
Four Years Later	15,449	19,382	19,546	19,442	18,446	18,502				
Five Years Later	15,626	19,532	19,233	19,685	18,946					
Six Years Later	15,720	20,002	19,450	20,487						
Seven Years Later	15,871	20,315	20,004							
Eight Years Later	15,995	21,166								
Nine Years Later	16,013									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	689	2,069	503	(855)	(1,374)	(2,397)	(1,156)	2,031	1,004	

SOURCE: Compilation Report

Kentucky Public Employees Health Plan

	2006	2007	2008	2009
Earned Premiums	\$ 578,263	\$ 1,091,702	\$ 1,191,248	\$ 1,310,553
Administrative Expense	28,998	57,782	68,883	72,836
Incurred Claims as Originally Estimated	467,315	1,042,931	1,164,712	1,292,059
Claims Paid (Cumulative) as of:				
End of Fiscal Year	398,456	970,764	1,089,989	1,264,866
One Year Later	473,766	1,035,700	1,173,449	
Two Years Later	473,046	1,043,837		
Three Years Later	475,709			
Re-estimation of Incurred Claims:				
End of Fiscal Year	467,315	1,042,931	1,164,712	1,292,059
One Year Later	473,872	1,035,976	1,173,890	
Two Years Later	473,046	1,043,923		
Three Years Later	475,715			
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	8,400	992	9,178	

SOURCE: Audited Financial Statements

OTHER SUPPLEMENTARY INFORMATION

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

NON-MAJOR GOVERNMENTAL FUNDS

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, 2009
(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
Assets					
Cash and cash equivalents	\$ 114,377	\$ 3,504	\$ 636	\$ 16,403	\$ 134,920
Investments, net of amortization	189,882	236,922	81,670	121,799	630,273
Invested security collateral		61,671		45,297	106,968
Receivables, net	2,802	38,703	8,118	8,761	58,384
Notes receivable		451			451
Interfund receivables	102,183	17,560	95,123	18,485	233,351
Interfund loan receivable				49,243	49,243
Inventories		9			9
Other assets	1,104				1,104
Total Assets	<u>\$ 410,348</u>	<u>\$ 358,820</u>	<u>\$ 185,547</u>	<u>\$ 259,988</u>	<u>\$ 1,214,703</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 8,245	\$ 1,978	\$ 112	\$ 5,751	\$ 16,086
Interfund payables	95,123	38,457	102,183	4,751	240,514
Obligations under securities lending		61,671		45,297	106,968
Deferred revenue		13,839		239	14,078
Total Liabilities	<u>103,368</u>	<u>115,945</u>	<u>102,295</u>	<u>56,038</u>	<u>377,646</u>
Fund Balances:					
Reserved for:					
Inventories		9			9
Long-term receivables		451			451
Unreserved, reported in:					
Special revenue funds		242,415	83,252	203,950	529,617
Debt service fund	306,980				306,980
Total Fund Balances	<u>306,980</u>	<u>242,875</u>	<u>83,252</u>	<u>203,950</u>	<u>837,057</u>
Total Liabilities and Fund Balances	<u>\$ 410,348</u>	<u>\$ 358,820</u>	<u>\$ 185,547</u>	<u>\$ 259,988</u>	<u>\$ 1,214,703</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(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
Revenues					
Taxes	\$	\$ 105,687	\$	\$ 90	\$ 105,777
Licenses, fees, and permits		970		582	1,552
Intergovernmental		1,342		13,681	15,023
Charges for services		54,703		100,026	154,729
Fines and forfeits		25,706		3,855	29,561
Interest and other investment income	9,889	381	3,000	5,171	18,441
Increase (decrease) in fair value of investments		461		(655)	(194)
Securities lending income		1,859		1,366	3,225
Other revenues	2,209	34,328	63	12,667	49,267
Total Revenues	12,098	225,437	3,063	136,783	377,381
Expenditures					
Current:					
General government		135,271	92,955	65,231	293,457
Legislative and judicial		31		1	32
Commerce		463		1,470	1,933
Education and humanities		40,339		13,993	54,332
Human resources		4,089		27,614	31,703
Justice				2,065	2,065
Natural resources and environmental protection		2,034		10,144	12,178
Public protection and regulation				23,020	23,020
Transportation		1		62,274	62,275
Debt service:					
Principal retirement	138,965				138,965
Interest and fiscal charges	53,455				53,455
Other expenditures	529				529
Securities lending expense		1,022		751	1,773
Total Expenditures	192,949	183,250	92,955	206,563	675,717
Excess (Deficiency) of Revenues over (under) Expenditures	(180,851)	42,187	(89,892)	(69,780)	(298,336)
Other Financing Sources (Uses)					
Transfers in	133,907	382,182	123,879	209,338	849,306
Transfers out	(846)	(407,672)	(133,907)	(171,481)	(713,906)
Capitalized leases				4	4
Issuance of bonds:					
New issues			148,970		148,970
Refunding issues			200,000		200,000
Premiums			12,182		12,182
Payments to refunded bond escrow agent			(200,000)		(200,000)
Total Other Financing Sources (Uses)	133,061	(25,490)	151,124	37,861	296,556
Net Change in Fund Balances	(47,790)	16,697	61,232	(31,919)	(1,780)
Fund Balances at July 1	354,770	226,183	22,020	235,869	838,842
Increase (Decrease) in Inventory		(5)			(5)
Fund Balances at June 30	\$ 306,980	\$ 242,875	\$ 83,252	\$ 203,950	\$ 837,057

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES BY SOURCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed In Thousands)

Revenues by Source	June 30, 2009
Taxes:	
Sales and gross receipts	\$ 3,494,418
Income:	
Individual	3,334,460
Corporations	276,343
Property	585,437
Coal severance	354,861
Licenses and privileges	10,610
Inheritance and estate	40,519
Miscellaneous	2,490
Total Taxes	<u>8,099,138</u>
Licenses, fees, and permits	35,100
Intergovernmental	81,909
Charges for services	35,381
Fines and forfeits	52,061
Interest and other investment income	2,311
Securities lending income	579
Increase (decrease) in fair value of investments	(412)
Other revenues	158,708
Total Revenues by Source	<u>\$ 8,464,775</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed In Thousands)

	June 30, 2009
General Government:	
Personal services	\$ 234,598
Utilities, rentals, and other services	39,930
Commodities and supplies	23,848
Grants and subsidies	1,613,281
Capital outlay	575
Travel	4,924
Judgments and contingent liabilities	4,550
Other	934
Total General Government	1,922,640
Legislative and Judicial:	
Personal services	197,059
Utilities, rentals, and other services	91,255
Commodities and supplies	15,464
Grants and subsidies	6,346
Capital outlay	1,082
Travel	4,218
Total Legislative and Judicial	315,424
Commerce:	
Personal services	13,170
Utilities, rentals, and other services	1,594
Commodities and supplies	2,016
Grants and subsidies	19,633
Capital Outlay	22
Travel	200
Total Commerce	36,635
Education and Humanities:	
Personal services	90,874
Utilities, rentals, and other services	23,618
Commodities and supplies	6,534
Grants and subsidies	3,722,148
Capital outlay	73
Travel	42,019
Judgments and contingent liabilities	19
Total Education and Humanities	3,885,285
Human Resources:	
Personal services	184,445
Utilities, rentals, and other services	39,938
Commodities and supplies	5,214
Grants and subsidies	1,587,800
Capital Outlay	513
Travel	4,577
Judgments and contingent liabilities	15,862
Total Human Resources	1,838,349
Justice:	
Personal services	357,633
Utilities, rentals, and other services	41,937
Commodities and supplies	23,317
Grants and subsidies	184,366
Capital outlay	1,897
Claims	1
Travel	2,034
Judgments and contingent liabilities	228
Total Justice	611,413

	June 30, 2009
Natural Resources and Environmental Protection:	
Personal services	\$ 54,556
Utilities, rentals, and other services	6,125
Commodities and supplies	2,627
Grants and subsidies	2,339
Capital outlay	528
Travel	302
Total Natural Resources and Environmental Protection	66,477
Public Protection and Regulation:	
Personal services	13,378
Utilities, rentals, and other services	1,256
Commodities and supplies	157
Grants and subsidies	199
Capital outlay	18
Travel	122
Total Public Protection and Regulation	15,130
Transportation:	
Personal services	451
Commodities and supplies	161
Grants and subsidies	4,438
Total Transportation	5,050
Securities Lending Expense	318
Total Expenditures	\$ 8,696,721

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE
TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed In Thousands)

	June 30, 2009
Revenues:	
Taxes	\$ 1,027,282
Licenses, fees and permits	130,597
Charges for services	9,432
Fines and forfeits	66
Interest and other investment income	9,478
Increase (decrease) in fair value of investments	(535)
Securities lending income	2,158
Other revenues	4,892
Total Revenues	<u>1,183,370</u>
Expenditures:	
Transportation:	
General administration and support	56,938
Motor vehicle regulation	19,412
Justice - state police	72,192
Highways	1,005,753
Aviation	5,065
Securities lending expense	1,186
Other	510
Total Expenditures	<u>\$ 1,161,056</u>

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies. 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, 2009
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Assets			
Current assets:			
Cash and cash equivalents	\$ 5,524	\$ 3,567	\$ 203
Receivables, net	136	272	441
Interfunds receivable	13	2,902	434
Inventories	16	391	2,164
Prepaid expenses	1	1,681	
Total Current Assets	<u>5,690</u>	<u>8,813</u>	<u>3,242</u>
Noncurrent assets:			
Investments, net	8,531	15,626	267
Land			723
Improvements other than buildings			
Buildings		7,604	7,254
Machinery and equipment	74,560	41,692	4,185
Less: Accumulated depreciation	(54,148)	(35,044)	(5,615)
Construction in progress			186
Total Capital Assets	<u>20,412</u>	<u>14,252</u>	<u>6,733</u>
Total Noncurrent Assets, Net	<u>28,943</u>	<u>29,878</u>	<u>7,000</u>
Total Assets	<u>34,633</u>	<u>38,691</u>	<u>10,242</u>
Liabilities			
Current liabilities:			
Accounts payable	324	3,117	975
Interfund payables	3	350	
Claims liability			
Claims adjustment liability			
Capital lease obligations	3,055	247	14
Compensated absences	114	1,745	277
Deferred revenue	198	436	
Total Current Liabilities	<u>3,694</u>	<u>5,895</u>	<u>1,266</u>
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations	3,463	372	22
Compensated absences	43	1,029	264
Total Noncurrent Liabilities	<u>3,506</u>	<u>1,401</u>	<u>286</u>
Total Liabilities	<u>7,200</u>	<u>7,296</u>	<u>1,552</u>
Net Assets			
Invested in capital assets, net of related debt	13,894	13,633	6,697
Unrestricted	13,539	17,762	1,993
Total Net Assets	<u>\$ 27,433</u>	<u>\$ 31,395</u>	<u>\$ 8,690</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2009
\$ 41	\$ 3,415	\$ 7,442	\$ 20,192
28	19	1,672	2,568
65	710	3	4,127
68			2,639
		4,159	5,841
202	4,144	13,276	35,367
63	13,103	11,133	48,723
	14,940		15,663
	3,144		3,144
	251,908		266,766
1,318	1,659		123,414
(810)	(142,581)		(238,198)
	82,053		82,239
508	211,123		253,028
571	224,226	11,133	301,751
773	228,370	24,409	337,118
95	1215	536	6,262
	434	68	855
		15,130	15,130
		917	917
152	378		3,846
55	696	102	2,989
	148		782
302	2,871	16,753	30,781
		134,773	134,773
		5,346	5,346
248	3,934		8,039
26	293	42	1,697
274	4,227	140,161	149,855
576	7,098	156,914	180,636
108	206,811		241,143
89	14,461	(132,505)	(84,661)
\$ 197	\$ 221,272	\$ (132,505)	\$ 156,482

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Operating Revenues:			
Charges for services	\$ 30,428	\$ 57,720	\$ 10,573
Other revenues	844	2	54
Total Operating Revenues	31,272	57,722	10,627
Operating Expenses:			
Personal services	1,472	31,606	4,364
Utilities, rentals, and other services	2,761	15,806	788
Commodities and supplies	11,202	3,291	6,247
Depreciation and amortization	7,427	6,352	1,068
Travel		54	19
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Total Operating Expenses	22,862	57,109	12,486
Operating Income (Loss)	8,410	613	(1,859)
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of fixed assets	(1,891)	(440)	(50)
Interest and other investment income			
Increase (decrease) in fair value of investments	(73)	(12)	(2)
Interest expense	(355)	(26)	(3)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	(2,319)	(478)	(55)
Income (Loss) before Transfers	6,091	135	(1,914)
Transfers in			
Transfers out	(4,272)	(2,000)	
Change in Net Assets	1,819	(1,865)	(1,914)
Net Assets at July 1, as restated	25,614	33,260	10,604
Net Assets at June 30	\$ 27,433	\$ 31,395	\$ 8,690

Central Printing	Property Management	Risk Management	Totals June 30, 2009
\$ 1,633	\$ 34,484	\$ 34,317	\$ 169,155
	4		904
1,633	34,488	34,317	170,059
991	15,898	3,018	57,349
640	14,574	3,798	38,367
266	2,173	34	23,213
276	5,798		20,921
	5	9	87
		916	916
		38,237	38,237
		(333)	(333)
2,173	38,448	45,679	178,757
(540)	(3,960)	(11,362)	(8,698)
	(726)		(3,107)
	4	7	11
(1)	(13)		(101)
(34)	(209)		(627)
		55	55
(35)	(944)	62	(3,769)
(575)	(4,904)	(11,300)	(12,467)
	2,159		2,159
	(1,399)	(861)	(8,532)
(575)	(4,144)	(12,161)	(18,840)
772	225,416	(120,344)	175,322
\$ 197	\$ 221,272	\$ (132,505)	\$ 156,482

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Cash Flows from Operating Activities			
Cash received from customers - public	\$	\$ 58,085	\$ 3,539
Cash received from customers - state	31,929	751	7,185
Cash payments to suppliers for goods and services	(15,281)	(22,148)	(5,153)
Cash payments for employee salaries and benefits	(1,458)	(32,343)	(4,472)
Cash payments for claims expense			
Cash payments from other sources	844	2	54
Cash payments to other sources			
Net Cash Provided (Used) by Operating Activities	<u>16,034</u>	<u>4,347</u>	<u>1,153</u>
Cash Flows from Noncapital Financing Activities			
Transfers from other funds			
Transfers to other funds	(4,272)	(2,000)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(4,272)</u>	<u>(2,000)</u>	
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(714)	(6,702)	(1,009)
Principal paid on revenue bond maturities and equipment contracts	(2,922)	(181)	(17)
Interest paid on revenue bonds and equipment contracts	(355)	(26)	(3)
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(3,991)</u>	<u>(6,909)</u>	<u>(1,029)</u>
Cash Flows from Investing Activities			
Purchase of investment securities	(4,867)		(79)
Proceeds from the sale of investment securities		489	
Interest and dividends on investments	(73)	(12)	
Net Cash Provided (Used) in Investing Activities	<u>(4,940)</u>	<u>477</u>	<u>(79)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,831	(4,085)	45
Cash and Cash Equivalents at July 1	2,693	7,652	158
Cash and Cash Equivalents at June 30	<u>\$ 5,524</u>	<u>\$ 3,567</u>	<u>\$ 203</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 8,410	\$ 613	\$ (1,859)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,427	6,352	1,068
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(119)	(39)	(92)
Interfund receivables	1,420	817	244
Inventories	4	(29)	2,543
Prepaid expenses	(1)	(564)	
Increase (decrease) in liabilities:			
Accounts payable	(1,323)	(2,169)	(529)
Interfund payables	2	(290)	(133)
Claims liability			
Claims adjustment liability			
Compensated absences	15	(683)	(89)
Deferred revenue	199	339	
Other liabilities			
Net Cash Provided by Operating Activities	<u>\$ 16,034</u>	<u>\$ 4,347</u>	<u>\$ 1,153</u>
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	\$ (73)	\$ (12)	\$ (2)
Capital assets acquired through leases		484	
Total Noncash Investing, Capital, and Financing Activities	<u>\$ (73)</u>	<u>\$ 472</u>	<u>\$ (2)</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2009
\$	\$	\$	\$
1,584	34,231	32,676	61,624
(875)	(16,433)	(4,371)	108,356
(1,027)	(15,970)	(2,837)	(64,261)
	4	(26,127)	(58,107)
		56	(26,127)
		(1,228)	960
(318)	1,832	(1,831)	(1,228)
			21,217
	2,159		2,159
	(1,399)	(861)	(8,532)
	760	(861)	(6,373)
	(3,953)		(12,378)
(164)	(362)		(3,646)
(34)	(209)		(627)
(198)	(4,524)		(16,651)
	2,909	(17)	(2,054)
276	(9)	1,294	2,059
	2,900	81	(13)
276		1,358	(8)
(240)	968	(1,334)	(1,815)
281	2,447	8,776	22,007
\$ 41	\$ 3,415	\$ 7,442	\$ 20,192
\$	\$	\$	\$
(540)	(3,960)	(11,362)	(8,698)
276	5,798		20,921
		55	55
(27)	(13)	(1,620)	(1,910)
(22)	(249)	5	2,215
30		(573)	2,548
			(1,138)
1	(109)	90	(4,039)
	423	(43)	(41)
		11,936	11,936
(36)	(66)	(333)	(333)
	8	(5)	(864)
			546
		19	19
\$ (318)	\$ 1,832	\$ (1,831)	\$ 21,217
\$	\$	\$	\$
(1)	(13)		(101)
	13		497
\$ (1)			\$ 396

CAPITAL ASSETS

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE
JUNE 30, 2009
(Expressed In Thousands)

	June 30, 2009
Governmental Funds Capital Assets	
Land	\$ 141,672
Improvements other than buildings	12,121
Buildings	865,573
Machinery and equipment	447,335
Other intangibles	3,775
Easements	112,223
Construction in progress	2,353,848
Infrastructure	17,372,469
Total Governmental Funds Capital Assets	\$ 21,309,016
 Investments in Governmental Funds Capital Assets by Source	
General Fund	\$ 106,964
Special Revenue Funds	2,718,923
Donations	126,908
Other	44,659
Capital Projects Fund:	
State appropriations	53,842
Revenue bonds	458,568
Federal grants	154,458
Other	40,989
Infrastructure (A)	17,372,469
Capital assets acquired prior to July 1, 1984 (A)	152,087
Capital assets acquired after July 1, 1984 (A)	79,149
Total Governmental Funds Capital Assets	\$ 21,309,016

(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, 2009
(Expressed in Thousands)

FUNCTION	Improvements Other Than		
	Land	Buildings	Buildings
General Government	\$ 27,762	\$ 3,471	\$ 169,695
Legislative & Judicial	42		
Commerce	60,290	2,373	26,329
Education & Humanities	1,285	664	41,277
Human Resources	1,766	696	74,566
Justice	7,172	4,917	369,402
Natural Resources and Environmental Protection	26,676		1,128
Public Protection and Regulation			
Transportation	16,679		183,176
Total Governmental Funds Capital Assets	<u>\$ 141,672</u>	<u>\$ 12,121</u>	<u>\$ 865,573</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.

Machinery and Equipment	Software / Other Intangibles	Easements	Construction in Progress	Infrastructure	Totals June 30, 2009
\$ 36,987	\$ 3,775	\$ 49,446	\$ 78,730	\$	\$ 369,866
10,576					10,618
24,508			1,024		114,524
40,302		11,515	1,222		96,265
18,662			6,395		102,085
84,572			122,477		588,540
34,686		10,030	214		72,734
3,678					3,678
193,364		41,232	2,143,786	17,372,469	19,950,706
<u>\$ 447,335</u>	<u>\$ 3,775</u>	<u>\$ 112,223</u>	<u>\$ 2,353,848</u>	<u>\$ 17,372,469</u>	<u>\$ 21,309,016</u>

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Balance, as Restated June 30, 2008	Additions	Deductions	Balance June 30, 2009
General Government	\$ 333,161	\$ 39,078	\$ 2,373	\$ 369,866
Legislative & Judicial	10,604	324	310	10,618
Commerce	112,586	5,860	3,922	114,524
Education & Humanities	96,088	2,979	2,802	96,265
Human Resources	103,787	1,754	3,456	102,085
Justice	581,163	13,385	6,008	588,540
Natural Resources and Environmental Protection	73,197	2,501	2,964	72,734
Public Protection and Regulation	3,985	189	496	3,678
Transportation	19,410,391	2,029,441	1,489,126	19,950,706
Total Governmental Funds Capital Assets	<u>\$ 20,724,962</u>	<u>\$ 2,095,511</u>	<u>\$ 1,511,457</u>	<u>\$ 21,309,016</u>

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

PENSION (AND OTHER POST EMPLOYMENT BENEFIT) TRUST FUNDS

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 that 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, 2009
(Expressed in Thousands)

	Pension Funds	Insurance Funds	Totals June 30, 2009
Assets			
Cash and Short-Term Investments:			
Cash	\$ 6,694	\$ 1,966	\$ 8,660
Medicare drug deposit		100	100
Short-term investments	1,087,672	734,218	1,821,890
Total Cash and Short-Term Investments	<u>1,094,366</u>	<u>736,284</u>	<u>1,830,650</u>
Receivables:			
Investments - accounts receivable	80,623	7,567	88,190
Interest receivable	19,136	388	19,524
Accounts receivable	134,838	38,949	173,787
Total Receivables	<u>234,597</u>	<u>46,904</u>	<u>281,501</u>
Investments at Fair Value:			
Corporate and government bonds	5,395,465	296,470	5,691,935
Common stocks	12,751,201	1,364,094	14,115,295
Mortgages	1,612,959		1,612,959
Mutual funds	1,519,740	135	1,519,875
Real estate	440,692	600	441,292
Total Investments at Fair Value	<u>21,720,057</u>	<u>1,661,299</u>	<u>23,381,356</u>
Invested security collateral	2,006,051	428,831	2,434,882
Capital assets, net	11,288		11,288
Prepaid expenses	149	121	270
Total Assets	<u>25,066,508</u>	<u>2,873,439</u>	<u>27,939,947</u>
Liabilities			
Accounts payable	14,771	12,972	27,743
Obligations under securities lending	2,006,051	428,831	2,434,882
Impairment	39,279	8,984	48,263
Total Liabilities	<u>2,060,101</u>	<u>450,787</u>	<u>2,510,888</u>
Net assets held in trust for pension and other post employment benefits	<u>\$ 23,006,407</u>	<u>\$ 2,422,652</u>	<u>\$ 25,429,059</u>

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, 2009
(Expressed in Thousands)

	Pension Funds	Insurance Funds	Totals June 30, 2009
Additions			
Contributions:			
Employer	\$ 846,054	\$ 468,250	\$ 1,314,304
Member	745,145	59,262	804,407
Total Contributions	1,591,199	527,512	2,118,711
Other Contributions:			
Recovery Income		27,401	27,401
Medicare D Receipts		30,447	30,447
Participant fees	5,918		5,918
Total Other Contributions	5,918	57,848	63,766
Investment Income:			
Net increase (decrease) in fair value of investments	(5,233,044)	(665,249)	(5,898,293)
Interest	569,854	60,194	630,048
Dividends	153,592	769	154,361
Real estate operating income, net	29,794		29,794
Securities lending income, net	43,284	7,945	51,229
Total Investment Income	(4,436,520)	(596,341)	(5,032,861)
Less: Investment expense	40,864	2,358	43,222
Less: Securities lending expense	24,088	4,646	28,734
Net Investment Income	(4,501,472)	(603,345)	(5,104,817)
Total Additions	(2,904,355)	(17,985)	(2,922,340)
Deductions			
Benefit payments	2,853,574	210,891	3,064,465
Refunds	38,853	5	38,858
Administrative expenses	39,152	8,964	48,116
Self funding insurance cost		114,555	114,555
Healthcare premium subsidies		198,273	198,273
Total Deductions	2,931,579	532,688	3,464,267
Change in Net Assets	(5,835,934)	(550,673)	(6,386,607)
Net Assets Held in Trust			
Net Assets at July 1	28,842,341	2,973,325	31,815,666
Net Assets at June 30	\$ 23,006,407	\$ 2,422,652	\$ 25,429,059

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Assets				
Cash and Short-Term Investments:				
Cash	\$ 264	\$ 106	\$ 268	\$ 111
Short-term investments	199,920	86,443	495,768	203,131
Total Cash and Short-Term Investments	200,184	86,549	496,036	203,242
Receivables:				
Investments - accounts receivable			18,383	5,207
Interest receivable	16,690	1,415		
Accounts receivable	20,802	1,494	35,939	11,880
Total Receivables	37,492	2,909	54,322	17,087
Investments at Fair Value:				
Corporate and government bonds	895,494	75,234	1,011,886	282,141
Common stocks	2,119,414	194,094	2,387,299	711,815
Mortgages	331,383	31,063	398,781	112,451
Mutual funds				
Real estate	4,349	2,150	4,703	3,121
Total Investments at Fair Value	3,350,640	302,541	3,802,669	1,109,528
Invested security collateral	667,843	72,600	804,609	245,246
Capital assets, net	2,723	232	4,660	405
Prepaid expenses				
Total Assets	4,258,882	464,831	5,162,296	1,575,508
Liabilities				
Accounts payable	3,335	334	3,895	668
Obligations under securities lending	667,843	72,600	804,609	245,246
Impairment	3,103	2,946	22,782	9,034
Total Liabilities	674,281	75,880	831,286	254,948
Net assets held in trust for employee retirement benefits	\$ 3,584,601	\$ 388,951	\$ 4,331,010	\$ 1,320,560

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2009
\$ 103	\$ 4,927	\$ 101	\$ 51	\$ 763	\$ 6,694
32,171	19,633	5,893	1,072	43,641	1,087,672
32,274	24,560	5,994	1,123	44,404	1,094,366
1,147	55,886				80,623
		876	155		19,136
1,040	38,367	52	12	25,252	134,838
2,187	94,253	928	167	25,252	234,597
64,905	2,996,405	58,573	10,827		5,395,465
133,347	7,086,247	98,209	20,776		12,751,201
24,739	714,542				1,612,959
	177,330			1,342,410	1,519,740
623	425,746				440,692
223,614	11,400,270	156,782	31,603	1,342,410	21,720,057
47,879	167,874				2,006,051
48	3,220				11,288
	149				149
306,002	11,690,326	163,704	32,893	1,412,066	25,066,508
134	6,094			311	14,771
47,879	167,874				2,006,051
1,414					39,279
49,427	173,968			311	2,060,101
\$ 256,575	\$ 11,516,358	\$ 163,704	\$ 32,893	\$ 1,411,755	\$ 23,006,407

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, 2009
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Additions				
Contributions:				
Employer	\$ 112,383	\$ 15,843	\$ 179,286	\$ 78,151
Member	108,766	12,480	122,933	42,619
Total Contributions	221,149	28,323	302,219	120,770
Other Contributions:				
Participant fees				
Total Other Contributions				
Investment Income:				
Net increase (decrease) in fair value of investments	(981,576)	(95,459)	(1,060,080)	(342,163)
Interest	116,332	11,334	134,548	39,736
Dividends				
Real estate operating income, net				
Securities lending income, net	14,479	1,583	17,778	5,350
Total Investment Income	(850,765)	(82,542)	(907,754)	(297,077)
Less: Investment expense	8,488	805	9,188	2,579
Less: Securities lending expense	8,422	915	10,148	3,092
Net Investment Income	(867,675)	(84,262)	(927,090)	(302,748)
Total Additions	(646,526)	(55,939)	(624,871)	(181,978)
Deductions				
Benefit payments	808,513	37,556	451,304	138,810
Refunds	9,127	1,277	10,719	2,436
Administrative expenses	8,102	715	13,831	1,198
Total Deductions	825,742	39,548	475,854	142,444
Change in Net Assets	(1,472,268)	(95,487)	(1,100,725)	(324,422)
Net Assets Held in Trust				
Net Assets at July 1	5,056,869	484,438	5,431,735	1,644,982
Net Assets at June 30	\$ 3,584,601	\$ 388,951	\$ 4,331,010	\$ 1,320,560

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2009
\$ 8,186	\$ 442,550	\$ 5,297	\$ 336	\$ 4,022	\$ 846,054
4,943	293,679	2,295	163	157,267	745,145
13,129	736,229	7,592	499	161,289	1,591,199
				5,918	5,918
				5,918	5,918
(59,319)	(2,393,825)	(31,343)	(6,515)	(262,764)	(5,233,044)
8,290	206,699	3,597	590	48,728	569,854
	150,828	2,271	493		153,592
	29,794				29,794
1,041	3,053				43,284
(49,988)	(2,003,451)	(25,475)	(5,432)	(214,036)	(4,436,520)
583	16,322	225		2,674	40,864
604	907				24,088
(51,175)	(2,020,680)	(25,700)	(5,432)	(216,710)	(4,501,472)
(38,046)	(1,284,451)	(18,108)	(4,933)	(49,503)	(2,904,355)
42,547	1,253,008	20,090	2,672	99,074	2,853,574
69	15,208	11	6		38,853
122	8,166	158	98	6,762	39,152
42,738	1,276,382	20,259	2,776	105,836	2,931,579
(80,784)	(2,560,833)	(38,367)	(7,709)	(155,339)	(5,835,934)
337,359	14,077,191	202,071	40,602	1,567,094	28,842,341
\$ 256,575	\$ 11,516,358	\$ 163,704	\$ 32,893	\$ 1,411,755	\$ 23,006,407

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS
JUNE 30, 2009
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Assets				
Cash and Short-Term Investments:				
Cash	\$ 57	\$ 23	\$ 79	\$ 17
Medicare drug deposit	20	11	41	23
Short-term investments	85,346	47,414	213,453	131,383
Total Cash and Short-Term Investments	85,423	47,448	213,573	131,423
Receivables:				
Investments - accounts receivable	1,317	753	2,936	1,549
Interest receivable	13	13	54	33
Accounts receivable	7,778	1,059	16,346	6,126
Total Receivables	9,108	1,825	19,336	7,708
Investments at Fair Value:				
Corporate and government bonds	34,291	19,688	90,515	48,985
Common stocks	240,585	151,587	576,137	297,692
Mutual funds	15	15	61	37
Real estate	113	64	256	139
Total Investments at Fair Value	275,004	171,354	666,969	346,853
Invested security collateral	76,048	46,177	186,022	100,868
Prepaid expenses				
Total Assets	445,583	266,804	1,085,900	586,852
Liabilities				
Accounts payable	2,326	94	2,198	227
Obligations under securities lending	76,048	46,177	186,022	100,868
Impairment	1,842	1,033	3,190	2,524
Total Liabilities	80,216	47,304	191,410	103,619
Net assets held in trust for other post employment benefits	\$ 365,367	\$ 219,500	\$ 894,490	\$ 483,233

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Totals June 30, 2009
\$ 4	\$ 1,736	\$ 21	\$ 29	\$ 1,966
5				100
17,526	237,267	1,219	610	734,218
17,535	239,003	1,240	639	736,284
338	674			7,567
6		181	88	388
454	7,168	11	7	38,949
798	7,842	192	95	46,904
9,825	74,890	12,118	6,158	296,470
65,960		20,318	11,815	1,364,094
7				135
28				600
75,820	74,890	32,436	17,973	1,661,299
19,716				428,831
	121			121
113,869	321,856	33,868	18,707	2,873,439
76	8,051			12,972
19,716				428,831
395				8,984
20,187	8,051			450,787
\$ 93,682	\$ 313,805	\$ 33,868	\$ 18,707	\$ 2,422,652

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, 2009
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Additions				
Contributions:				
Employer	\$ 74,434	\$ 20,803	\$ 123,761	\$ 70,783
Member				
Total Contributions	74,434	20,803	123,761	70,783
Other Contributions:				
Recovery Income	12,320	300	14,356	330
Medicare D Receipts	8,168	186	7,624	628
Total Other Contributions	20,488	486	21,980	958
Investment Income:				
Net increase (decrease) in fair value of investments	(163,532)	(65,502)	(263,645)	(133,716)
Interest	8,664	4,735	18,937	9,970
Dividends				
Securities lending income, net	1,373	849	3,506	1,857
Total Investment Income	(153,495)	(59,918)	(241,202)	(121,889)
Less: Investment expense	575	223	930	479
Less: Securities lending expense	824	500	2,016	1,093
Net Investment Income	(154,894)	(60,641)	(244,148)	(123,461)
Total Additions	(59,972)	(39,352)	(98,407)	(51,720)
Deductions				
Benefit payments				
Refunds				
Administrative expenses	4,104	144	4,053	444
Self funding insurance cost	55,494	1,117	52,640	3,833
Healthcare Premiums Subsidies	89,542	9,187	56,355	37,184
Total Deductions	149,140	10,448	113,048	41,461
Change in Net Assets	(209,112)	(49,800)	(211,455)	(93,181)
Net Assets Held in Trust				
Net Assets at July 1	574,479	269,300	1,105,945	576,414
Net Assets at June 30	\$ 365,367	\$ 219,500	\$ 894,490	\$ 483,233

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Totals June 30, 2009
\$ 7,414	\$ 169,863	\$ 988	\$ 204	\$ 468,250
	58,689	474	99	59,262
<u>7,414</u>	<u>228,552</u>	<u>1,462</u>	<u>303</u>	<u>527,512</u>
23	72			27,401
229	13,612			30,447
<u>252</u>	<u>13,684</u>			<u>57,848</u>
(30,304)	1,888	(6,485)	(3,953)	(665,249)
2,096	14,691	743	358	60,194
		470	299	769
<u>360</u>				<u>7,945</u>
<u>(27,848)</u>	<u>16,579</u>	<u>(5,272)</u>	<u>(3,296)</u>	<u>(596,341)</u>
105		46		2,358
213				4,646
<u>(28,166)</u>	<u>16,579</u>	<u>(5,318)</u>	<u>(3,296)</u>	<u>(603,345)</u>
<u>(20,500)</u>	<u>258,815</u>	<u>(3,856)</u>	<u>(2,993)</u>	<u>(17,985)</u>
	208,551	1,727	613	210,891
		2	3	5
124		36	59	8,964
1,471				114,555
6,005				198,273
<u>7,600</u>	<u>208,551</u>	<u>1,765</u>	<u>675</u>	<u>532,688</u>
(28,100)	50,264	(5,621)	(3,668)	(550,673)
121,782	263,541	39,489	22,375	2,973,325
<u>\$ 93,682</u>	<u>\$ 313,805</u>	<u>\$ 33,868</u>	<u>\$ 18,707</u>	<u>\$ 2,422,652</u>

AGENCY FUNDS

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, 2009
(Expressed in Thousands)

	Commonwealth Choice Program	County Fees Trust Fund	Special Deposit Trust Fund	Totals June 30, 2009
Assets				
Cash and cash equivalents	\$ 1,993	\$ 201	\$ 38,597	\$ 40,791
Investments, net of amortization			136,664	136,664
Invested security collateral			289,381	289,381
Interfund loan receivable			154,395	154,395
Receivables, net		9,694	9,537	19,231
Total Assets	<u>\$ 1,993</u>	<u>\$ 9,895</u>	<u>\$ 628,574</u>	<u>\$ 640,462</u>
Liabilities				
Accounts payable	\$	\$	\$ 256,733	\$ 256,733
Amounts held in custody for others	1,993	9,895	82,460	94,348
Obligations under securities lending			289,381	289,381
Total Liabilities	<u>\$ 1,993</u>	<u>\$ 9,895</u>	<u>\$ 628,574</u>	<u>\$ 640,462</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Balances June 30, 2008	Additions	Deductions	Balances June 30, 2009
<u>COMMONWEALTH CHOICE PROGRAM</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 3,530	\$ 5,459	\$ 6,996	\$ 1,993
Total assets	<u>\$ 3,530</u>	<u>\$ 5,459</u>	<u>\$ 6,996</u>	<u>\$ 1,993</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 3,530	\$ 5,459	\$ 6,996	\$ 1,993
Total liabilities	<u>\$ 3,530</u>	<u>\$ 5,459</u>	<u>\$ 6,996</u>	<u>\$ 1,993</u>
<u>COUNTY FEES TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 201	\$	\$	\$ 201
Accounts Receivable	7,687	118,443	116,436	9,694
Total assets	<u>\$ 7,888</u>	<u>\$ 118,443</u>	<u>\$ 116,436</u>	<u>\$ 9,895</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 7,888	\$ 118,443	\$ 116,436	\$ 9,895
Total liabilities	<u>\$ 7,888</u>	<u>\$ 118,443</u>	<u>\$ 116,436</u>	<u>\$ 9,895</u>
<u>SPECIAL DEPOSIT TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 184,365	\$ 716,133	\$ 861,901	\$ 38,597
Investments	129,099	7,565		136,664
Invested security collateral	389,997		100,616	289,381
Interfund loans receivable		154,395		154,395
Accounts receivable	9,214	323		9,537
Total assets	<u>\$ 712,675</u>	<u>\$ 878,416</u>	<u>\$ 962,517</u>	<u>\$ 628,574</u>
<u>Liabilities</u>				
Accounts payable	\$ 188,205	\$ 68,528	\$	\$ 256,733
Amounts held in custody for others	134,473	5,283	57,296	82,460
Obligations under securities lending	389,997		100,616	289,381
Total liabilities	<u>\$ 712,675</u>	<u>\$ 73,811</u>	<u>\$ 157,912</u>	<u>\$ 628,574</u>
<u>ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 188,096	\$ 721,592	\$ 868,897	\$ 40,791
Investments	129,099	7,565		136,664
Invested security collateral	389,997		100,616	289,381
Interfund loan receivable		154,395		154,395
Accounts receivable	16,901	118,766	116,436	19,231
Total assets	<u>\$ 724,093</u>	<u>\$ 1,002,318</u>	<u>\$ 1,085,949</u>	<u>\$ 640,462</u>
<u>Liabilities</u>				
Accounts payable	\$ 188,205	\$ 68,528	\$	\$ 256,733
Amounts held in custody for others	145,891	129,185	180,728	94,348
Obligations under securities lending	389,997		100,616	289,381
Total liabilities	<u>\$ 724,093</u>	<u>\$ 197,713</u>	<u>\$ 281,344</u>	<u>\$ 640,462</u>

NON-MAJOR COMPONENT UNITS - COMBINING

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
JUNE 30, 2009
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2009
Assets			
Current assets:			
Cash and cash equivalents	\$ 115,301	\$ 260,589	\$ 375,890
Restricted cash	5,577	20,662	26,239
Investments, net of amortization	184,159	12,314	196,473
Accounts receivable, net	113,985	109,333	223,318
Interest receivable	2,573	4,060	6,633
Inventories	988	6,380	7,368
Prepaid expenses	213	5,512	5,725
Other current assets	6,887	8,056	14,943
Total Current Assets	429,683	426,906	856,589
Noncurrent assets:			
Restricted cash	3,529	85,259	88,788
Long-term investments	135,984	168,359	304,343
Restricted long-term investments	18,054	124,237	142,291
Long-term receivables, net	521,013	37,103	558,116
Deferred charges	1,377		1,377
Land	26,952	57,880	84,832
Improvements other than buildings	1,592	84,709	86,301
Buildings	432,314	1,541,469	1,973,783
Machinery and equipment	65,665	300,348	366,013
Other capital assets	21,853	80,276	102,129
Less: Accumulated depreciation and amortization	(230,538)	(894,138)	(1,124,676)
Construction in progress	28,489	171,429	199,918
Total Capital Assets	346,327	1,341,973	1,688,300
Other assets	13,802	5,497	19,299
Total Noncurrent Assets	1,040,086	1,762,428	2,802,514
Total Assets	1,469,769	2,189,334	3,659,103
Liabilities			
Current liabilities:			
Accounts payable and accruals	34,360	49,721	84,081
Current portion of long-term debt:			
Notes payable		4,450	4,450
Bonds payable	15,944	23,032	38,976
Capital lease obligations	3,950	8,461	12,411
Compensated absences	1,647	20,572	22,219
Claims liability	8,890	1,947	10,837
Deferred revenues	4,765	33,261	38,026
Payable from restricted assets		11,154	11,154
Other current liabilities	5,014	17,822	22,836
Total Current Liabilities	74,570	170,420	244,990
Noncurrent liabilities:			
Notes payable	705	21,287	21,992
Bonds payable	124,492	353,859	478,351
Capital lease obligations	73,656	95,292	168,948
Compensated absences	767	291	1,058
Other long-term liabilities	3,600	69,117	72,717
Total Noncurrent Liabilities	203,220	539,846	743,066
Total Liabilities	277,790	710,266	988,056
Net Assets			
Invested in capital assets, net of related debt	262,301	813,787	1,076,088
Restricted for:			
Debt service		19,824	19,824
Capital projects	28,853	96,347	125,200
Other purposes	769,603	315,405	1,085,008
Unrestricted	131,222	233,705	364,927
Total Net Assets	\$ 1,191,979	\$ 1,479,068	\$ 2,671,047

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2009
Expenses:			
Operating and other expenses	\$ 622,111	\$ 1,179,693	\$ 1,801,804
Depreciation	2,673		2,673
Total expenses	624,784	1,179,693	1,804,477
Program Revenues:			
Charges for services	127,308	503,943	631,251
Operating grants and contributions	242,534	155,417	397,951
Capital grants and contributions	39,805	10,704	50,509
Total Program Revenues	409,647	670,064	1,079,711
Net Program (Expense) Revenue	(215,137)	(509,629)	(724,766)
General Revenues:			
Unrestricted grants and contributions	417	154,418	154,835
Unrestricted investment earnings	4,884	(37,963)	(33,079)
Miscellaneous general	209,598	441,374	650,972
Total General Revenues	214,899	557,829	772,728
Change in Net Assets	(238)	48,200	47,962
Net Assets at July 1, as Restated	1,192,217	1,430,868	2,623,085
Net Assets at June 30	\$ 1,191,979	\$ 1,479,068	\$ 2,671,047



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NON-MAJOR COMPONENT UNITS - AUTHORITIES

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, 2009
(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
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,318	\$ 17,838	\$	\$ 8,182	\$ 2,088
Restricted cash	5,577				
Investments, net of amortization		133			3,682
Accounts receivable, net	18,137	6,485	9	2,442	233
Interest receivable	346	62			22
Inventories					19
Prepaid expenses					187
Other current assets		450	1,769	671	
Total Current Assets	25,378	24,968	1,778	11,295	6,231
Noncurrent assets:					
Restricted cash		1,515		1,169	
Long-term investments		11,579			12,396
Restricted long-term investments				4,673	
Long-term receivables, net		16,483			
Deferred charges		97			
Land	532			25,020	129
Improvements other than buildings				1,170	
Buildings	408	11,921		366,248	31,571
Machinery and equipment	429	5,501		5,650	19,390
Other capital assets	15,000				4,334
Less: Accumulated depreciation and amortization	(3,686)	(7,569)		(139,705)	(40,961)
Construction in progress	15,233			826	
Total Capital Assets	27,916	9,853		259,209	14,463
Other assets		13,014		788	
Total Noncurrent Assets	27,916	52,541		265,839	26,859
Total Assets	53,294	77,509	1,778	277,134	33,090
Liabilities					
Current liabilities:					
Accounts payable and accruals	315	1,350	1,705	3,010	768
Current portion of long-term debt:					
Bonds payable					
Capital lease obligations	479	440		3,031	
Compensated absences	26	529	40		158
Claims liability					
Deferred revenues		608			179
Other current liabilities		49		4,940	
Total Current Liabilities	820	2,976	1,745	10,981	1,105
Noncurrent liabilities:					
Notes payable					
Bonds payable					
Capital lease obligations	13,428	5,730		54,498	
Compensated absences	54		8		
Other long-term liabilities					
Total Noncurrent Liabilities	13,482	5,730	8	54,498	
Total Liabilities	14,302	8,706	1,753	65,479	1,105
Net Assets					
Invested in capital assets, net of related debt	14,010			207,141	9,407
Restricted for:					
Capital projects	23,077				
Other purposes		39,310		1,169	4,136
Unrestricted	1,905	29,493	25	3,345	18,442
Total Net Assets	\$ 38,992	\$ 68,803	\$ 25	\$ 211,655	\$ 31,985

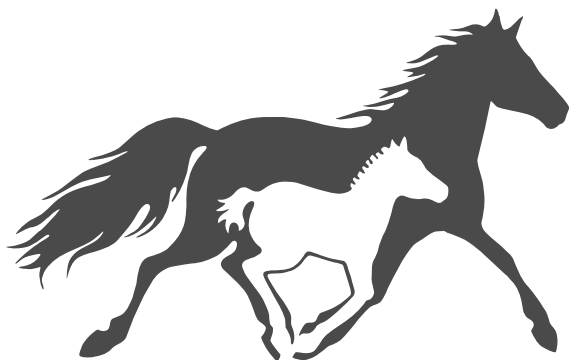
Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 2,355	\$ 21,021	\$ 10	\$ 43,756	\$ 4,090	\$ 1,925
6,113			168,793		
2,058		1	58,781	22,986	
49	42		1,843		
627		342			
460	3,269				
11,662	24,332	353	273,173	27,076	1,925
807					
	503	235	102,129	6,168	2,974
3,950			6,096		
266	26,097		475,442		
3			1,105		
76		1,167		28	
13,887		6,706		422	
33,529		1,001	96		
2,519					
(36,646)		(879)	(81)	(45)	
9,963					
23,328		7,995	15	405	
28,354	26,600	8,230	584,787	6,573	2,974
40,016	50,932	8,583	857,960	33,649	4,899
759	42	99	23,816	16	
			13,839		
813	67			14	
1,461					
	25				
3,033	134	99	37,655	30	
			112,468		
562	77	65		1	
3,600					
4,162	77	65	112,468	1	
7,195	211	164	150,123	31	
23,328		7,995	15	405	
689					
5,278	10,626		707,822		
3,526	40,095	424		33,213	4,899
\$ 32,821	\$ 50,721	\$ 8,419	\$ 707,837	\$ 33,618	\$ 4,899

Continued

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2009

(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2009
Assets				
Current assets:				
Cash and cash equivalents	\$ 4,629	\$ 6,556	\$ 1,533	\$ 115,301
Restricted cash				5,577
Investments, net of amortization		4,031	1,407	184,159
Accounts receivable, net	351	1,773	729	113,985
Interest receivable	43	166		2,573
Inventories				988
Prepaid expenses			26	213
Other current assets	268			6,887
Total Current Assets	5,291	12,526	3,695	429,683
Noncurrent assets:				
Restricted cash	38			3,529
Long-term investments				135,984
Restricted long-term investments	2,335		1,000	18,054
Long-term receivables, net	1,336		1,389	521,013
Deferred charges	172			1,377
Land				26,952
Improvements other than buildings			422	1,592
Buildings			1,151	432,314
Machinery and equipment			69	65,665
Other capital assets				21,853
Less: Accumulated depreciation and amortization			(966)	(230,538)
Construction in progress			2,467	28,489
Total Capital Assets			3,143	346,327
Other assets				13,802
Total Noncurrent Assets	3,881		5,532	1,040,086
Total Assets	9,172	12,526	9,227	1,469,769
Liabilities				
Current liabilities:				
Accounts payable and accruals	113	861	1,506	34,360
Current portion of long-term debt:				
Bonds payable	2,105			15,944
Capital lease obligations				3,950
Compensated absences				1,647
Claims liability		8,890		8,890
Deferred revenues		2,513	4	4,765
Other current liabilities				5,014
Total Current Liabilities	2,218	12,264	1,510	74,570
Noncurrent liabilities:				
Notes payable			705	705
Bonds payable	12,024			124,492
Capital lease obligations				73,656
Compensated absences				767
Other long-term liabilities				3,600
Total Noncurrent Liabilities	12,024		705	203,220
Total Liabilities	14,242	12,264	2,215	277,790
Net Assets				
Invested in capital assets, net of related debt				262,301
Restricted for:				
Capital projects			5,087	28,853
Other purposes		262	1,000	769,603
Unrestricted	(5,070)		925	131,222
Total Net Assets	\$ (5,070)	\$ 262	\$ 7,012	\$ 1,191,979



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COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2009
(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
Expenses:					
Operating and other expenses	\$ 2,449	\$ 221,356	\$ 6,535	\$ 47,414	\$ 10,560
Depreciation					2,643
Total expenses	<u>2,449</u>	<u>221,356</u>	<u>6,535</u>	<u>47,414</u>	<u>13,203</u>
Program Revenues:					
Charges for services	2,618	28,148		41,100	5,234
Operating grants and contributions		193,665			1,396
Capital grants and contributions					204
Total Program Revenues	<u>2,618</u>	<u>221,813</u>		<u>41,100</u>	<u>6,834</u>
Net Program (Expense) Revenue	<u>169</u>	<u>457</u>	<u>(6,535)</u>	<u>(6,314)</u>	<u>(6,369)</u>
General Revenues:					
Unrestricted grants and contributions					417
Unrestricted investment earnings	312			(2,114)	(2,965)
Miscellaneous general	17,777		6,585	1,901	7,248
Total General Revenues	<u>18,089</u>		<u>6,585</u>	<u>(213)</u>	<u>4,700</u>
Change in Net Assets	<u>18,258</u>	<u>457</u>	<u>50</u>	<u>(6,527)</u>	<u>(1,669)</u>
Net Assets at July 1	20,734	68,346	(25)	218,182	33,654
Net Assets at June 30	<u>\$ 38,992</u>	<u>\$ 68,803</u>	<u>\$ 25</u>	<u>\$ 211,655</u>	<u>\$ 31,985</u>

Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 27,636	\$ 27,115	\$ 2,451	\$ 144,898	\$ 108 30	\$
27,636	27,115	2,451	144,898	138	
2,538 9,800	776	1,613 678	12,313		144
12,338	776	2,291	39,601 51,914		144
(15,298)	(26,339)	(160)	(92,984)	(138)	144
(907)	361		9,216	538	40
24,955			143,069	8,063	
24,048	361		152,285	8,601	40
8,750	(25,978)	(160)	59,301	8,463	184
24,071	76,699	8,579	648,536	25,155	4,715
\$ 32,821	\$ 50,721	\$ 8,419	\$ 707,837	\$ 33,618	\$ 4,899

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2009

(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2009
Expenses:				
Operating and other expenses	\$ 3,146	\$ 126,208	\$ 2,235	\$ 622,111
Depreciation				2,673
Total expenses	3,146	126,208	2,235	624,784
Program Revenues:				
Charges for services	4,436	27,979	409	127,308
Operating grants and contributions	104	33,620	3,271	242,534
Capital grants and contributions				39,805
Total Program Revenues	4,540	61,599	3,680	409,647
Net Program (Expense) Revenue	1,394	(64,609)	1,445	(215,137)
General Revenues:				
Unrestricted grants and contributions				417
Unrestricted investment earnings		930	(527)	4,884
Miscellaneous general				209,598
Total General Revenues		930	(527)	214,899
Change in Net Assets	1,394	(63,679)	918	(238)
Net Assets at July 1	(6,464)	63,941	6,094	1,192,217
Net Assets at June 30	<u>\$ (5,070)</u>	<u>\$ 262</u>	<u>\$ 7,012</u>	<u>\$ 1,191,979</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
COMPONENT UNITS-AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2009
(Expressed in Thousands)

	Non-major		
	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Totals June 30, 2009
Cash Flows from Operating Activities			
Cash received from customers - public	\$	\$ 144	\$ 144
Cash payments to suppliers for goods and services	(7)		(7)
Cash payments for employee salaries and benefits	(97)		(97)
Cash payments from other sources	3,508		3,508
Net Cash Provided (Used) by Operating Activities	3,404	144	3,548
Cash Flows from Investing Activities			
Purchase of investment securities	(2,608)	(514)	(3,122)
Interest and dividends on investments		39	39
Net Cash Provided (Used) in Investing Activities	(2,608)	(475)	(3,083)
Net Increase (Decrease) in Cash and Cash Equivalents	796	(331)	465
Cash and Cash Equivalents at July 1	3,294	2,256	5,550
Cash and Cash Equivalents at June 30	\$ 4,090	\$ 1,925	\$ 6,015
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 8,463	\$ 144	\$ 8,607
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization	30		30
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(5,092)		(5,092)
Increase (decrease) in liabilities:			
Accounts payable	6		6
Compensated absences	(3)		(3)
Net Cash Provided (Used) by Operating Activities	\$ 3,404	\$ 144	\$ 3,548



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

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, 2009
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	\$ 41,798	\$ 96,179	\$ 8,129
Restricted cash			2,479
Investments, net of amortization	4,705	1,468	
Accounts receivable, net	25,997	6,074	18,314
Interest receivable	367	1,525	14
Inventories	317	2,441	1,352
Prepaid expenses	986	1,390	
Other current assets		5,540	439
Total Current Assets	<u>74,170</u>	<u>114,617</u>	<u>30,727</u>
Noncurrent assets:			
Restricted cash	10,373	34,970	
Long-term investments	52,302	89,581	24,879
Restricted long-term investments			
Long-term receivables, net	5,492	20,687	3,687
Land	7,840	10,287	18,518
Improvements other than buildings	21,009	31,925	
Buildings	261,288	404,411	191,496
Machinery and equipment	28,217	90,499	17,475
Other capital assets	39,479		28,980
Less: Accumulated depreciation and amortization	(172,221)	(194,509)	(118,562)
Construction in progress	36,613	74,137	13,620
Total Capital Assets	<u>222,225</u>	<u>416,750</u>	<u>151,527</u>
Other assets		2,645	895
Total Noncurrent Assets, Net	<u>290,392</u>	<u>564,633</u>	<u>180,988</u>
Total Assets	<u>364,562</u>	<u>679,250</u>	<u>211,715</u>
Liabilities			
Current liabilities:			
Accounts payable and accruals	16,671	8,477	1,417
Current portion of long-term debt:			
Notes payable		2,939	
Bonds payable	3,655	8,336	2,620
Capital lease obligations	3,750	103	550
Compensated absences	4,843	2,673	2,207
Claims liability		1,111	
Deferred revenues	8,291	9,665	3,874
Payable from restricted assets	349	553	4,775
Other current liabilities	446	4,638	1,048
Total Current Liabilities	<u>38,005</u>	<u>38,495</u>	<u>16,491</u>
Noncurrent liabilities:			
Notes payable		1,429	
Bonds payable	14,085	190,614	18,655
Capital lease obligations	67,248	20	3,327
Compensated absences			
Other long-term liabilities	275	46,517	4,294
Total Noncurrent Liabilities	<u>81,608</u>	<u>238,580</u>	<u>26,276</u>
Total Liabilities	<u>119,613</u>	<u>277,075</u>	<u>42,767</u>
Net Assets			
Invested in capital assets, net of related debt	130,779	184,720	125,431
Restricted for:			
Debt service	4,001	4,013	
Capital projects	20,508	46,932	
Other purposes	38,711	97,812	28,874
Unrestricted	50,950	68,698	14,643
Total Net Assets	<u>\$ 244,949</u>	<u>\$ 402,175</u>	<u>\$ 168,948</u>

Murray State University	Northern Kentucky University	Kentucky State University	Kentucky Council on Postsecondary Education	Totals June 30, 2009
\$ 38,505	\$ 57,833	\$ 18,145	\$ 3,028	\$ 260,589
	15,155			20,662
		6,141		12,314
7,815	33,243	5,771	12,119	109,333
1,235	919			4,060
1,960	255	55		6,380
915	1,580	225	416	5,512
1,931	95	51		8,056
<u>52,361</u>	<u>109,080</u>	<u>30,388</u>	<u>15,563</u>	<u>426,906</u>
33,469	6,447			85,259
	1,520		77	168,359
63,002	47,047	8,048	6,140	124,237
3,796	2,107	874	460	37,103
10,922	8,562	1,751		57,880
11,298	16,579	3,898		84,709
233,106	336,691	114,477		1,541,469
54,869	82,843	25,776	669	300,348
2,448		9,369		80,276
(156,112)	(151,574)	(100,798)	(362)	(894,138)
15,147	5,663	26,249		171,429
<u>171,678</u>	<u>298,764</u>	<u>80,722</u>	<u>307</u>	<u>1,341,973</u>
675	1,282			5,497
<u>272,620</u>	<u>357,167</u>	<u>89,644</u>	<u>6,984</u>	<u>1,762,428</u>
<u>324,981</u>	<u>466,247</u>	<u>120,032</u>	<u>22,547</u>	<u>2,189,334</u>
7,119	8,425	2,077	5,535	49,721
864	647			4,450
1,856	5,335	1,230		23,032
263	3,270	525		8,461
5,658	3,082	1,513	596	20,572
805		31		1,947
3,327	6,371	1,733		33,261
	5,477			11,154
2,554	83	377	8,676	17,822
<u>22,446</u>	<u>32,690</u>	<u>7,486</u>	<u>14,807</u>	<u>170,420</u>
13,968	5,878	12		21,287
43,421	81,345	5,739		353,859
1,039	18,256	5,402		95,292
			291	291
<u>3,411</u>	<u>13,432</u>	<u>1,188</u>		<u>69,117</u>
<u>61,839</u>	<u>118,911</u>	<u>12,341</u>	<u>291</u>	<u>539,846</u>
<u>84,285</u>	<u>151,601</u>	<u>19,827</u>	<u>15,098</u>	<u>710,266</u>
116,167	188,692	67,691	307	813,787
6,410	5,400			19,824
18,226	10,681			96,347
57,499	66,633	18,262	7,614	315,405
42,394	43,240	14,252	(472)	233,705
<u>\$ 240,696</u>	<u>\$ 314,646</u>	<u>\$ 100,205</u>	<u>\$ 7,449</u>	<u>\$ 1,479,068</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES
JUNE 30, 2009
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Expenses:			
Operating and other expenses	\$ 264,133	\$ 282,483	\$ 140,749
Total Expenses	264,133	282,483	140,749
Program Revenues:			
Charges for services	84,553	151,648	51,172
Operating grants and contributions	63,211	9,836	16,221
Capital grants and contributions	6,758		
Total Program Revenues	154,522	161,484	67,393
Net Program (Expense) Revenue	(109,611)	(120,999)	(73,356)
General Revenues:			
Unrestricted grants and contributions	32,079	60,042	18,531
Unrestricted investment earnings	(9,370)	(17,551)	540
Miscellaneous general	79,519	104,567	63,722
Total General Revenues	102,228	147,058	82,793
Change in Net Assets	(7,383)	26,059	9,437
Net Assets at July 1, as Restated	252,332	376,116	159,511
Net Assets at June 30	\$ 244,949	\$ 402,175	\$ 168,948

Murray State University	Northern Kentucky University	Kentucky State University	Kentucky Council on Postsecondary Education	Totals June 30, 2009
\$ 158,044	\$ 199,428	\$ 66,050	\$ 68,806	\$ 1,179,693
158,044	199,428	66,050	68,806	1,179,693
82,134	113,710	19,684	1,042	503,943
6,947	30,139	15,368	13,695	155,417
	3,567		379	10,704
89,081	147,416	35,052	15,116	670,064
(68,963)	(52,012)	(30,998)	(53,690)	(509,629)
19,167	18,811	5,788		154,418
(10,630)	403	(1,355)		(37,963)
62,808	51,792	27,518	51,448	441,374
71,345	71,006	31,951	51,448	557,829
2,382	18,994	953	(2,242)	48,200
238,314	295,652	99,252	9,691	1,430,868
\$ 240,696	\$ 314,646	\$ 100,205	\$ 7,449	\$ 1,479,068



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STATISTICAL SECTION

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

Financial Trends

The schedules presented 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 Fiscal Year 2002 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)**

	2009	2008	2007	2006
General Fund:				
Reserved	\$ 80,135	\$ 290,108	\$ 295,917	\$ 183,555
Unreserved	(49,698)	(1,937)	517,277	713,339
Total General Fund	<u>\$ 30,437</u>	<u>\$ 288,171</u>	<u>\$ 813,194</u>	<u>\$ 896,894</u>
All Other Governmental Funds:				
Reserved	\$ 882,654	\$ 919,085	\$ 704,496	\$ 597,827
Unreserved, reported in:				
Debt Service Fund	309,234	369,603	381,313	377,202
Special Revenue Funds	719,767	786,125	1,031,387	1,394,633
Capital Projects Funds	45,585	72,094	(66,785)	(129,103)
Total All Other Governmental Funds	<u>\$ 1,957,240</u>	<u>\$ 2,146,907</u>	<u>\$ 2,050,411</u>	<u>\$ 2,240,559</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.

2005	2004	2003	2002	2001	2000
\$ 76,505	\$ 85,834	\$ 114,415	\$ 123,502	\$ 404,057	\$ 431,571
593,472	303,623	183,922	(36,033)	(8,870)	206,795
<u>\$ 669,977</u>	<u>\$ 389,457</u>	<u>\$ 298,337</u>	<u>\$ 87,469</u>	<u>\$ 395,187</u>	<u>\$ 638,366</u>
\$ 664,265	\$ 941,891	\$ 575,983	\$ 1,064,829	\$ 947,481	\$ 1,027,135
292,406	293,654	354,836	316,560	282,653	22,147
1,112,499	603,323	969,767	1,219,937	1,111,739	1,313,600
(120,098)	(201,248)	(36,012)	(265,510)	(300,205)	(102,863)
<u>\$ 1,949,072</u>	<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>

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

	2009	2008	2007	2006
Revenues				
Taxes	\$ 9,560,283	\$ 9,871,590	\$ 9,668,573	\$ 9,465,785
Licenses, fees, and permits	323,012	309,413	303,849	294,575
Intergovernmental	7,055,624	6,169,116	5,810,270	5,662,112
Charges for services	774,553	758,805	752,532	781,105
Fines and forfeits	90,812	97,898	80,741	90,118
Interest and other investment income	67,076	149,833	163,833	111,894
Increase (decrease) in fair value of investments	(4)	6,529	11,241	(5,799)
Securities lending income	11,060	31,576	36,673	39,918
Other revenues	461,824	474,555	517,266	597,088
Total Revenues	<u>18,344,240</u>	<u>17,869,315</u>	<u>17,344,978</u>	<u>17,036,796</u>
Expenditures				
Current:				
General government	2,472,452	2,702,730	2,591,176	2,444,023
Legislative and judicial	359,666	338,839	303,799	302,303
Commerce	94,989	100,535	96,572	81,037
Education and humanities	4,860,442	4,800,460	4,554,565	4,395,948
Human resources	7,919,632	7,301,114	6,764,174	6,602,797
Justice	737,997	767,270	727,178	710,142
Natural resources and environmental protection	188,039	192,957	195,980	171,407
Public protection and regulation	120,406	97,482	98,517	67,329
Transportation	1,977,924	2,090,584	1,825,318	1,661,585
Debt Service:				
Principal retirement	299,940	341,733	285,809	246,404
Interest and fiscal charges	252,466	210,331	200,297	174,972
Other expenditures	25,036	21,025	15,960	26,649
Securities lending expense	6,080	26,774	35,318	38,144
Capital outlay:				
Buildings	442,315	582,550	583,302	446,855
Total Expenditures	<u>19,757,384</u>	<u>19,574,384</u>	<u>18,277,965</u>	<u>17,369,595</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,413,144)</u>	<u>(1,705,069)</u>	<u>(932,987)</u>	<u>(332,799)</u>
Other Financing Sources (Uses)				
Transfers in	2,157,662	2,357,766	2,216,889	2,124,893
Transfers from component units				
Transfers out	(1,880,360)	(2,258,283)	(2,041,824)	(1,969,206)
Transfers to component units				
Capitalized leases	4,456	3,280	7,364	6,079
Proceeds from the sale of bonds:				
New issues	655,350	372,135	159,140	445,350
Refunding issues	508,520	100,000	105,085	
Premiums	35,905	46,322	16,610	21,416
Discounts	(4,193)			
Proceeds from notes		750,085	520,354	(58)
Other financing sources				
Payments to refunded bond escrow agent	(508,320)	(100,000)	(330,193)	
Total Other Financing Sources (Uses)	<u>969,020</u>	<u>1,271,305</u>	<u>653,425</u>	<u>628,474</u>
Net Change in Fund Balances	<u>\$ (444,124)</u>	<u>\$ (433,764)</u>	<u>\$ (279,562)</u>	<u>\$ 295,675</u>
Debt service as a percentage of noncapital expenditures	<u>2.71%</u>	<u>2.72%</u>	<u>2.75%</u>	<u>2.49%</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.

2005	2004	2003	2002	2001	2000
\$ 8,745,358	\$ 7,933,198	\$ 7,777,612	\$ 7,474,709	\$ 7,534,101	\$ 7,385,286
287,045	265,699	252,123	308,209	200,239	203,608
5,351,830	5,150,705	5,093,078	4,821,756	4,208,631	4,602,881
728,998	616,638	548,226	506,924	426,173	359,782
86,771	95,745	73,691	54,169	54,297	49,986
84,006	75,980	133,532	188,385	213,523	175,062
9,408	(40,558)	15,614	13,548	18,577	(11,169)
16,831	15,549				
611,966	625,008	506,272	406,869	616,361	230,325
15,922,213	14,737,964	14,400,148	13,774,569	13,271,902	12,995,761
2,131,008	1,933,909	1,889,243	2,036,798	672,605	541,008
277,792	265,847	246,838	239,515	216,608	212,978
66,609	65,518	62,486	58,741	51,283	52,941
4,091,135	3,823,798	3,752,918	3,584,412	3,442,741	3,351,422
6,188,350	5,984,514	5,650,039	5,563,087	5,110,365	5,109,752
633,662	563,890	575,237	564,427	553,499	511,106
161,899	149,401	135,349	143,924	127,048	125,724
73,868	112,587	139,299	120,764	124,725	131,350
1,520,371	1,724,342	1,695,652	1,724,061	1,588,052	1,502,356
247,290	286,166	260,977	227,648	265,689	133,153
190,225	181,424	195,126	124,625	181,006	191,429
26,574	78,052	4,153	(14,727)	(36,637)	(21,874)
15,619	13,123				
279,953	293,761	244,419	483,145	309,011	225,409
15,904,355	15,476,332	14,851,736	14,856,420	12,605,995	12,066,754
17,858	(738,368)	(451,588)	(1,081,851)	665,907	929,007
1,791,143	1,781,871	1,926,260	1,698,673	1,268,907	1,650,318
(1,645,143)	(1,563,679)	(1,676,970)	(1,523,710)	942	(1,524,032)
18,905	5,359	7,592	6,414	(1,552,020)	(1,048,810)
213,750	508,991			(1,428,957)	987
257,685	601,879			941	
53,484	103,316				
			653,696	516,697	91,658
			322,659	410,706	288,667
			44,824		
			(4,798)		
232,760	171,260		19,135	100,400	99,618
(258,550)	(944,495)	(1,567)	(321,565)	(463,429)	(271,985)
664,034	664,502	255,315	895,328	(1,145,813)	(713,579)
\$ 681,892	\$ (73,866)	\$ (196,273)	\$ (186,523)	\$ (479,906)	\$ 215,428
2.82%	3.18%	3.24%	2.48%	3.33%	2.56%

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

	2009	2008	2007
Governmental Activities:			
Invested in capital assets, net of related debt	\$ 19,547,435	\$ 19,911,942	\$ 17,947,656
Restricted	1,094,433	1,139,727	1,237,151
Unrestricted	(5,861,735)	(4,816,142)	(1,807,615)
Total Governmental Activities Net Assets	14,780,133	16,235,527	17,377,192
Business-type Activities:			
Invested in Capital Assets, net of related debt	330,078	290,365	267,144
Restricted	5,615	310,216	359,605
Unrestricted	(859,772)	(553,995)	(634,297)
Total Business-Type Activities Net Assets	(524,079)	46,586	(7,548)
Primary Government:			
Invested in capital assets, net of related debt	19,877,513	20,202,307	18,214,800
Restricted	1,100,048	1,449,943	1,596,756
Unrestricted	(6,721,507)	(5,370,137)	(2,441,912)
Total Primary Government Net Assets	\$ 14,256,054	\$ 16,282,113	\$ 17,369,644

NOTE: This schedule is presented on the accrual basis of accounting.

2006	2005	2004	2003	2002
\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
1,376,301	1,081,388	994,827	1,189,894	1,524,926
(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
17,818,983	17,449,838	16,670,564	16,270,378	15,626,084
254,623	249,728	257,794	249,023	220,996
392,318	375,488	382,173	464,354	451,761
(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
34,159	(7,830)	(81,911)	(60,742)	(242,808)
17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
\$ 17,853,142	\$ 17,442,008	\$ 16,588,653	\$ 16,209,636	\$ 15,383,276

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

	2009	2008	2007
Function/Program Revenues			
Primary Government:			
Governmental Activities:			
Charges for Services:			
General government	\$ 366,634	\$ 494,587	\$ 375,662
Legislative and judicial	28,561	15,225	14,558
Commerce	47,770	41,821	42,267
Education and humanities	50,988	68,609	85,538
Human Resources	121,752	200,913	197,556
Justice	20,611	24,096	22,189
Natural resources and environmental protection	35,959	42,511	39,412
Public protection and regulation	71,078	66,495	64,260
Transportation	238,110	16,849	215,869
Operating Grants and Contributions	6,575,144	5,554,089	5,261,989
Capital Grants and Contributions	550,416	750,184	658,132
Total Governmental Activities	8,107,023	7,275,379	6,977,432
Business-Type Activities:			
Charges for Services:			
State Parks	52,439	57,605	56,208
Kentucky Lottery Corporation	810,544	778,211	744,222
Kentucky Horse Park	6,423	6,763	6,632
Insurance Administration	93,438	129,870	130,994
Kentucky Public Employees' Health Plan	1,392,971	1,270,899	1,158,078
Unemployment Compensation	412,430	381,410	357,396
Operating Grants and Contributions	363,028	53,838	46,798
Capital Grants and Contributions	4,633	1,735	476
Total Business-Type Activities	3,135,906	2,680,331	2,500,804
Total Primary Government	\$ 11,242,929	\$ 9,955,710	\$ 9,478,236
Expenses			
Primary Government:			
Governmental Activities:			
General government	\$ 3,837,639	\$ 4,370,883	\$ 3,708,700
Legislative and judicial	360,872	335,635	313,010
Commerce	112,825	107,774	96,486
Education and humanities	4,887,919	4,852,742	4,608,914
Human Resources	7,611,725	6,904,568	6,468,225
Justice	822,301	845,153	803,120
Natural resources and environmental protection	197,086	197,265	191,052
Public protection and regulation	121,952	97,360	116,770
Transportation	1,331,764	1,170,102	1,123,493
Interest expense	265,984	254,488	266,388
Total Governmental Activities	19,550,067	19,135,970	17,696,158
Business-Type Activities:			
State Parks	98,795	104,672	111,973
Kentucky Lottery Corporation	619,902	599,490	563,549
Kentucky Horse Park	11,411	12,799	10,624
Insurance Administration	(18,953)	117,817	176,338
Kentucky Public Employees' Health Plan	1,434,951	1,288,981	1,152,794
Unemployment Compensation	1,317,067	493,397	450,629
Total Business-Type Activities	3,463,173	2,617,156	2,465,907
Total Primary Government	\$ 23,013,240	\$ 21,753,126	\$ 20,162,065
Net (Expense)/Revenue			
Governmental Activities	\$ (11,443,044)	\$ (11,860,591)	\$ (10,718,726)
Business-Type Activities	(327,267)	63,175	34,897
Total Primary Government Net Expense	\$ (11,770,311)	\$ (11,797,416)	\$ (10,683,829)

2006	2005	2004	2003	2002
\$ 374,655	\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
13,667	11,314	11,111	9,755	8,752
34,390	35,002	34,689	32,247	27,918
102,783	106,059	14,185	8,789	9,298
106,238	181,921	138,487	418,444	419,916
33,185	22,790	23,011	18,631	32,730
33,205	31,094	39,311	19,961	21,547
63,341	53,629	69,194	71,829	55,609
202,569	227,700	207,151	235,700	247,265
5,139,428	4,915,115	4,528,038	4,583,434	4,366,372
597,282	520,194	524,936	547,363	646,847
<u>6,700,743</u>	<u>6,460,708</u>	<u>5,902,120</u>	<u>6,222,945</u>	<u>6,085,597</u>
52,751	50,655	50,925	49,368	47,640
742,312	707,260	725,252	673,485	638,728
6,010	5,791	5,896	5,840	5,379
178,305	133,380	129,084	157,109	133,749
595,435				
377,265	371,099	332,047	354,432	226,762
45,573	49,509	130,212	210,488	220,812
112	33	586	1,046	
<u>1,997,763</u>	<u>1,317,727</u>	<u>1,374,002</u>	<u>1,451,768</u>	<u>1,273,070</u>
<u>\$ 8,698,506</u>	<u>\$ 7,778,435</u>	<u>\$ 7,276,122</u>	<u>\$ 7,674,713</u>	<u>\$ 7,358,667</u>
\$ 2,714,165	\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
305,466	282,389	268,001	247,503	243,571
103,996	81,639	128,548	80,459	88,229
4,421,812	4,092,896	3,824,742	3,752,426	3,639,130
6,259,383	5,897,619	5,630,683	5,646,075	5,576,596
794,698	702,796	564,202	616,236	611,350
207,369	164,498	150,380	136,057	114,496
68,108	68,956	111,928	139,518	50,798
1,263,891	1,191,512	1,020,786	1,062,576	1,093,070
250,622	201,564	200,315	227,926	335,499
<u>16,389,510</u>	<u>14,917,980</u>	<u>14,221,628</u>	<u>13,857,843</u>	<u>13,670,028</u>
90,283	92,193	92,287	88,423	97,706
558,435	552,410	554,880	515,629	475,944
9,690	9,387	11,732	8,562	6,715
70,683	101,312	77,241	83,536	156,851
507,282				
396,052	429,007	556,870	490,348	612,112
1,632,425	1,184,309	1,293,010	1,186,498	1,349,328
<u>\$ 18,021,935</u>	<u>\$ 16,102,289</u>	<u>\$ 15,514,638</u>	<u>\$ 15,044,341</u>	<u>\$ 15,019,356</u>
\$ (9,688,767)	\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
365,338	133,418	80,992	265,270	(76,258)
<u>\$ (9,323,429)</u>	<u>\$ (8,323,854)</u>	<u>\$ (8,238,516)</u>	<u>\$ (7,369,628)</u>	<u>\$ (7,660,689)</u>

Continued

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

	2009	2008	2007
General Revenues and			
Other Changes in Net Assets			
Governmental Activities:			
Taxes:			
Sales and gross receipt	\$ 4,777,321	\$ 4,828,223	\$ 4,623,126
Individual income	3,359,471	3,512,908	2,975,875
Corporate income	278,103	397,842	961,204
Property	534,441	497,326	503,853
License and privilege	37,442	33,049	42,738
Severance	362,965	310,294	279,924
Inheritance and estate	43,237	51,423	49,574
Miscellaneous taxes	146,977	163,842	164,715
Unrestricted grants and contributions	10,263	11,923	731
Unrestricted investment earnings	(9,977)	31,335	57,070
Gain on sale of capital assets	12,730	10,123	3,288
Miscellaneous general	319,408	596,079	421,772
Transfers	264,032	126,716	169,150
Total General Revenues and Transfers	10,136,413	10,571,083	10,253,020
Change in Net Assets	(1,306,631)	(1,289,508)	(465,706)
Net Assets at July 1, as Restated	16,086,764	17,525,035	17,842,898
Net Assets at June 30	\$ 14,780,133	\$ 16,235,527	\$ 17,377,192
 Business-Type Activities:			
Unrestricted grants and contributions	\$	\$	\$
Unrestricted investment earnings	(28,261)	16,531	83,846
Gain on sale of capital assets	38	59	72
Miscellaneous general	48,894	18,746	8,628
Transfers	(264,032)	(126,716)	(169,150)
Total General Revenues and Transfers	(243,361)	(91,380)	(76,604)
Change in Net Assets	(570,628)	(28,205)	(41,707)
Net Assets at July 1, as Restated	46,549	74,791	34,159
Net Assets at June 30	\$ (524,079)	\$ 46,586	\$ (7,548)
 Change in Net Assets			
Governmental Activities	\$ (1,306,631)	\$ (1,289,508)	\$ (465,706)
Business-Type Activities	(570,628)	(28,205)	(41,707)
Total Primary Government Changes			
in Net Assets	\$ (1,877,259)	\$ (1,317,713)	\$ (507,413)

2006	2005	2004	2003	2002
\$ 4,433,893	\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
2,863,269	3,060,274	2,790,732	2,764,133	2,564,182
1,013,768	476,524	311,284	290,403	607,213
492,532	479,815	462,062	439,129	450,134
73,679	142,962	142,048	162,929	92,953
290,203	237,512	194,369	176,300	158,354
40,498	66,766	66,287	93,553	94,609
161,663	180,045	152,921	149,089	147,126
723	1,836	69,037	68,721	2
58,428	31,858	24,368	10,184	49,259
4,637			(73,096)	(3,768)
499,657	456,736	468,056	392,330	344,484
187,101	141,338	201,712	231,828	184,084
10,120,051	9,307,118	8,663,080	8,359,038	8,031,714
431,284	849,846	343,572	724,140	447,283
17,387,699	16,599,992	16,326,992	15,546,140	15,178,801
\$ 17,818,983	\$ 17,449,838	\$ 16,670,564	\$ 16,270,280	\$ 15,626,084
\$	\$	\$	\$	\$
26,793	36,782	20	(5,015)	(370)
30	61	21,259	19,251	7,178
25,900	47,820	75	437	
(187,101)	(141,338)	66,689	(1,987)	
(134,378)	(56,675)	(201,712)	(231,828)	(184,084)
230,960	76,743	(113,669)	(219,142)	(177,276)
(196,801)	(84,573)	(32,677)	46,128	(253,534)
\$ 34,159	\$ (7,830)	(49,234)	(106,870)	10,726
		\$ (81,911)	\$ (60,742)	\$ (242,808)
\$ 431,284	\$ 849,846	\$ 343,572	\$ 724,140	\$ 447,283
230,960	76,743	(32,677)	46,128	(253,534)
\$ 662,244	\$ 926,589	\$ 310,895	\$ 770,268	\$ 193,749

**COMMONWEALTH OF KENTUCKY
PERSONAL INCOME TAX INFORMATION
CALENDAR YEARS 2000 and 2007**

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

Ky Federal AGI (from Ky form 740) Income Level	Calendar Year 2007			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Resident Taxpayer				
less than \$25,001	794,134	44.99%	\$ 233,085,648	7.18%
\$25,001-\$50,000	427,762	24.23%	546,160,648	16.82%
\$50,001-\$100,000	385,436	21.84%	1,000,072,984	30.80%
\$100,001-\$200,000	124,060	7.03%	654,058,212	20.14%
\$200,001-\$500,000	26,742	1.51%	366,610,886	11.29%
Greater than \$500,000	7,082	0.40%	447,454,964	13.78%
Total Resident	1,765,216	100.00%	3,247,443,342	100.00%
Non-Resident Taxpayer				
less than \$25,001	48,545	36.19%	5,696,168	3.60%
\$25,001-\$50,000	23,654	17.63%	12,361,179	7.81%
\$50,001-\$100,000	24,523	18.28%	22,044,739	13.93%
\$100,001-\$200,000	15,307	11.41%	22,499,976	14.21%
\$200,001-\$500,000	9,705	7.23%	20,708,532	13.08%
Greater than \$500,000	12,421	9.26%	74,979,516	47.37%
Total Non-Resident	134,155	100.00%	158,290,110	100.00%
Totals	1,899,371		\$ 3,405,733,452	

Personal Income Tax Rates

Tax Years 2000 - 2007

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
	2007		2000		
Personal Income Tax Revenue	\$ 3,405,733,452	(A)	\$ 2,618,135,253		
Personal Income	99,204,750	(B)	68,851,883		
Average Effective Rate	2.9%		2.6%		

Source of Tax Information:

(A) Kentucky Department of Revenue

NOTE: Calendar year 2007 is the most current year for which data is available and calendar year 2000 was the first year for which comparable data was available.

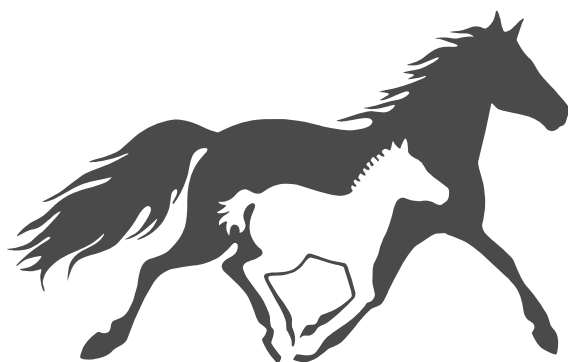
(B) See Schedule of Personal Income

(C) This information is presented on a cash basis.

Calendar Year 2000

		Personal Income Tax	
Number of Filers	Percentage of Total	Liability	Percentage of Total
805,957	50.05%	\$ 218,426,319	8.68%
408,903	25.39%	551,103,310	21.91%
306,597	19.04%	843,345,292	33.53%
68,021	4.22%	394,353,831	15.68%
16,749	1.04%	243,645,359	9.69%
4,228	0.26%	264,123,850	10.50%
1,610,455	100.00%	2,514,997,961	100.00%

		Personal Income Tax	
Number of Filers	Percentage of Total	Liability	Percentage of Total
49,232	43.32%	5,390,760	5.23%
23,750	20.90%	12,641,801	12.26%
19,663	17.30%	20,389,476	19.77%
9,465	8.33%	17,063,873	16.54%
5,583	4.91%	12,843,514	12.45%
5,953	5.24%	34,807,868	33.75%
113,646	100.00%	103,137,292	100.00%
1,724,101.00		\$ 2,618,135,253	



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COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 1999-2008
(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	
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%
2008	219,881,174	233,916,143	160,465,814	160,465,814	380,346,988	394,681,957	96.4%

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 1999-2008
(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
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%
2008	527,149	490,176	93.0%	22,946	513,122	97.3%

SOURCE: Kentucky Department of Revenue

NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two different assessment years.

COMMONWEALTH OF KENTUCKY
RATIOS OF OUTSTANDING DEBT BY TYPE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Governmental Activities Debt				
Revenue Bonds (2)	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634	\$ 3,546,468
Notes (2)	1,059,520	1,516,350	910,310	554,790
Capital Leases (2)	<u>26,638</u>	<u>30,968</u>	<u>39,079</u>	<u>28,450</u>
Total Government Activities Debt	<u>5,515,678</u>	<u>5,164,398</u>	<u>4,392,023</u>	<u>4,129,708</u>
Business-Type Activities Debt				
Notes (2)				
Capital Leases (2)	<u>211</u>	<u>212</u>	<u>197</u>	<u>307</u>
Total Business-Type Activities Debt	<u>211</u>	<u>212</u>	<u>197</u>	<u>307</u>
Total Primary Government Debt	<u>\$ 5,515,889</u>	<u>\$ 5,164,610</u>	<u>\$ 4,392,220</u>	<u>\$ 4,130,015</u>
Total Debt Ratios				
Ratio of Total Debt to Personal Income	<u>5.45%</u>	<u>5.21%</u>	<u>4.64%</u>	<u>4.54%</u>
Total Debt Per Capita (1)	<u>\$ 1,292.01</u>	<u>\$ 1,217.65</u>	<u>\$ 1,044.26</u>	<u>\$ 989.60</u>
Net Bonded Debt				
Gross Bonded Debt	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634	\$ 3,546,468
Less: Debt Service Funds	<u>353,391</u>	<u>405,028</u>	<u>415,386</u>	<u>403,002</u>
Net Bonded Debt	<u>\$ 4,076,129</u>	<u>\$ 3,212,052</u>	<u>\$ 3,027,248</u>	<u>\$ 3,143,466</u>
Net Bonded Debt Ratios				
Ratio of Net Bonded Debt to				
Governmental Funds Revenues	<u>22.22%</u>	<u>17.97%</u>	<u>17.77%</u>	<u>18.45%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 954.77</u>	<u>\$ 757.30</u>	<u>\$ 719.73</u>	<u>\$ 753.21</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

2005	2004	2003	2002	2001	2000
\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533
373,990	186,970	31,475	81,535	73,875	218,680
32,518	17,252	8,565	24,712	2,153	1,882
3,643,274	3,429,653	3,205,263	3,511,293	3,020,867	2,536,095
	451		339	1,697	3,055
275	245	77	183	4,630	2,213
275	696	77	522	6,327	5,268
\$ 3,643,549	\$ 3,430,349	\$ 3,205,340	\$ 3,511,815	\$ 3,027,194	\$ 2,541,363
4.26%	4.28%	4.42%	4.98%	4.40%	3.93%
\$ 878.83	\$ 833.05	\$ 783.15	\$ 863.10	\$ 747.67	\$ 632.49
\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839	\$ 2,315,533
314,554	317,665	354,836	329,267	529,164	301,432
\$ 2,922,212	\$ 2,907,766	\$ 2,810,387	\$ 3,075,779	\$ 2,415,675	\$ 2,014,101
18.35%	18.26%	17.65%	19.32%	15.17%	12.65%
\$ 704.84	\$ 706.14	\$ 686.65	\$ 755.94	\$ 596.64	\$ 501.26

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

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
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
2009	231,058	55,549	4.16

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

TOP 10 MANUFACTURERS
(Ranked by Number of Employees)
June 30, 2009

Company	Number of Locations	Number of Employees
Toyota Motor Corp.	8	9,879
Humana Inc.	16	9,342
United Parcel Service, Inc.	20	7,584
General Electric Co.	9	6,816
Ford Motor Co.	2	5,600
FMR LLC	1	4,673
Citigroup	5	4,257
Johnson Controls, Inc.	12	3,718
Affiliated Computer Services Inc.	10	3,360
Delta Air Lines, Inc.	1	3,290

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

**DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 1999-2008**

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
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%
2008	4,269,245	31,826	6.4%

SOURCE: Website Addresses: <http://www.bea.gov/regional/spi/drill.cfm>
<http://www.bls.gov/lau/lastrk08.htm>

COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 1999-2008
(Expressed in Thousands, Except Percent Data)

Source	1999		2000		2001		2002*		2003**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 730,192	1.1%	\$ 1,361,530	2.0%	\$ 973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%
Agriculture services, forestry, fisheries and others	462,975	0.7%	502,305	0.7%	521,571	0.7%	521,000	0.7%	383,250	0.5%
Mining	1,350,661	2.1%	1,197,845	1.7%	1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%
Manufacturing	13,373,527	20.7%	13,945,732	20.3%	13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%
Construction	3,922,877	6.1%	4,196,268	6.1%	4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%
Wholesale and retail trade	10,032,800	15.5%	10,537,792	15.3%	10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%
Finance, insurance and real estate	3,296,512	5.1%	3,690,749	5.4%	3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%
Transportation and public utilities	5,005,048	7.7%	5,337,433	7.8%	5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%
Services	14,716,433	22.8%	15,629,585	22.7%	16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%
Government and government enterprises	11,770,589	18.2%	12,452,644	18.1%	13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%
Earnings by Place of Work	<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>	<u>\$ 80,127,750</u>	<u>100.0%</u>

Source	2004**		2005**		2006**		2007**		2008**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 580,000	0.7%	\$ 1,520,500	1.7%	\$ 532,750	0.6%	\$ 1,040,750	1.0%	\$ 932,500	0.9%
Agriculture services, forestry, fisheries and others	359,250	0.4%	369,750	0.4%	422,500	0.4%	407,250	0.4%	421,500	0.4%
Mining	1,495,250	1.7%	1,879,750	2.1%	2,128,750	2.3%	2,227,000	2.2%	2,475,000	2.4%
Manufacturing	16,142,000	18.9%	16,364,000	18.0%	17,033,000	18.0%	17,069,000	17.2%	16,305,750	16.1%
Construction	4,819,750	5.6%	5,133,750	5.6%	5,225,750	5.5%	5,292,750	5.3%	5,356,750	5.3%
Wholesale and retail trade	10,475,250	12.3%	10,857,250	11.9%	11,430,750	12.1%	11,726,500	11.8%	11,870,500	11.7%
Finance, insurance and real estate	5,274,250	6.2%	5,487,250	6.0%	5,922,750	6.3%	6,345,250	6.4%	6,390,750	6.3%
Transportation and public utilities	5,386,750	6.3%	5,452,500	6.0%	5,653,750	6.0%	6,237,000	6.3%	6,008,000	5.9%
Services	24,756,000	29.0%	26,222,250	28.9%	27,810,500	29.4%	29,033,250	29.3%	30,718,250	30.3%
Government and government enterprises	16,196,000	18.9%	17,594,750	19.4%	18,420,500	19.5%	19,826,000	20.0%	20,809,250	20.5%
Earnings by Place of Work	<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>	<u>\$ 101,288,250</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 FOUR FISCAL YEARS**

	2009	2008	2007	2006
Personnel				
Number of Full Time Employees-				
Executive Branch	32,747	33,608	33,204	34,947
Health Insurance Expenditures -				
Percentage Increase/(decrease)	(1.3%)	6.10%	(1.8%)	29%
Education				
K-12 Enrollment	671,147	671,542	668,337	664,606
K-12 Attendance Rate	94.17%	94.18%	94.60%	94.31%
K-12 Graduation Rate	84.52%	83.72%	83.26%	82.84%
Statewide Academic Index	*	82.20%	81.80%	78.30%
Average ACT Score	19.4**	20.9	20.7	20.6
GED Graduates	9,382	10,307	9,757	9,054
College Going Rate for 9th Graders	44%	38%	38%	37%
Postsecondary Education Enrollment	211,179	212,994	206,419	202,197
Bachelor's and Higher Degrees Awarded	27,983	27,246	27,042	26,544
Justice and Public Safety				
Incarcerated Population-Daily Average	21,470	22,219	20,772	19,943
Probation and Parole Population - Daily Average	38,933	39,206	33,642	33,643
Health and Family Services				
Medicaid Enrollment-Average	748,296	722,559	710,000	699,595
Food Stamp Recipients-Monthly Average	680,087	623,997	595,366	598,486
Temporary Assistance for Needy				
Families (TANF)-Monthly Average	48,368	48,743	68,260	69,696
Children with substantiated incidences	14,475	15,196	15,500	15,526
Environmental and Public Protection				
Air Pollution Source Inspections	3,085	4,310	4,000	4,600
Waste Management Inspections	5,910	6,443	7,500	7,200
Acres of Land Reforested	5,580	5,105	2,000	1,600
Mine Permits Issued	688	848	954	1,025
Mine Reclamation and Enforcement				
Inspections	24,890	26,062	22,898	22,001
Mine Safety-Completed Inspections	2,888	2,718	2,364	2,500
Transportation				
Percentage of Total Road System				
Needing Improvement	14%	15%	15%	14%
Statewide Road Maintainance				
Rating (Top Score = 80)	80.9	81.7	80.1	79.1
Daily Miles Traveled-Percentage				
Changed (as compared to 2005 Data)	0.0%	(0.5%)	0.1%	(0.3%)
State-Maintained Lane Miles-				
Annual Percent Change	1.6%	0.6%	0.2%	0.2%
Kentucky Road Construction Cost				
Index-Percent Increase (1987 Base Year)	22.69%	27.95%	32.0%	19.5%

* The Statewide Academic Index is no longer generated.

** First graduating class in which all students were required to take the ACT. A reduction was expected.

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

	2009	2008	2007	2006
<u>General Government</u>				
Number of Buildings	309	558	566	297
Number of Vehicles	356	411	487	258
Land (Acres)	14,293	13,352	14,108	13,294
<u>Commerce</u>				
Number of Resort Parks	17	17	17	17
Number of Recreation Parks	24	24	24	24
Number of Historic Sites	11	11	11	10
Area of State Parks (Acres)	42,597	42,428	42,428	45,137
<u>Education and Humanities</u>				
Number of Buildings	72	70	69	70
Number of Vehicles	113	123	134	209
Land (Acres)	388.4	372	388.4	388
<u>Human Resources</u>				
Number of Buildings	196	196	193	190
Number of Vehicles	40	150	165	215
Land (Acres)	1,206	1,007	1,206	1,206
<u>Justice</u>				
Number of Buildings	479	482	449	440
Number of Vehicles	1,861	1,696	1,668	3,911
Land (Acres)	8,903	6,166	5,314	9,044
<u>Natural Resources and Environmental Protection</u>				
Number of Buildings	26	26	27	25
Number of Vehicles	815	847	1,319	2,622
Land (Acres)	58,325	51,175	50,983	64,134
<u>Public Protection and Regulation</u>				
Number of Vehicles	90	76	86	44
<u>Transportation</u>				
Number of Lane Miles -State Maintained Highways	62,823	62,419	62,071	62,193
Number of State maintained Bridges	8,870	8,842	8,974	8,974
Land (Acres)	1,981	1,977	1,977	1,961

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

	2009	2008	2007	2006
<u>FULL-TIME EMPLOYEES</u>				
FUNCTION				
General government	4,706	4,855	4,984	5,004
Legislative and judicial	3,759	3,730	3,626	3,445
Commerce	2,038	2,141	2,155	2,212
Education and humanities	2,760	2,967	2,984	2,906
Human resources	7,182	7,387	7,751	8,411
Justice	7,955	8,090	7,967	7,932
Natural resources and environmental protection	1,649	1,601	1,673	1,659
Public protection and regulation	1,102	1,208	1,194	1,199
Transportation	4,467	4,549	4,711	4,715
Total full-time employees	35,618	36,528	37,045	37,483
<u>PART-TIME and TEMPORARY EMPLOYEES</u>				
FUNCTION				
General government	659	649	757	781
Legislative and judicial	539	574	554	583
Commerce	1,496	1,506	1,548	1,516
Education and humanities	219	228	281	306
Human resources	91	71	165	114
Justice	27	58	33	50
Natural resources and environmental protection	31	27	67	54
Public protection and regulation	14	15	54	34
Transportation	129	156	202	165
Total part-time and temporary employees	3,205	3,284	3,661	3,603
Total Employees	38,823	39,812	40,706	41,086

2005	2004	2003	2002	2001	2000
5,150	5,062	5,317	5,514	5,160	5,154
3,332	3,138	3,177	2,861	3,047	2,957
2,206	2,188	2,348	2,357	2,412	2,398
2,923	3,158	2,026	3,184	3,218	3,402
8,861	9,015	9,395	9,607	9,489	9,068
7,693	7,488	7,139	7,121	7,002	6,663
1,681	1,692	1,575	1,564	1,580	1,601
1,164	1,112	1,819	1,815	1,821	1,778
5,082	5,251	5,860	6,057	6,123	6,061
38,092	38,104	38,656	40,080	39,852	39,082
787	665	684	707	746	729
751	747	720	516	696	706
1,522	1,525	1,587	1,468	1,431	1,522
265	347	408	468	507	415
97	69	112	289	215	225
49	27	33	66	93	89
51	38	26	31	35	35
35	23	33	33	48	58
126	80	88	117	257	261
3,683	3,521	3,691	3,695	4,028	4,040
41,775	41,625	42,347	43,775	43,880	43,122

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*Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2009*