

COMPREHENSIVE ANNUAL FINANCIAL REPORT

LOUISVILLE-JEFFERSON COUNTY METRO GOVERNMENT LOUISVILLE, KENTUCKY



Fiscal Year Ended June 30, 2006

JERRY E. ABRAMSON
Mayor

Larry Hayes
Deputy Mayor, Cabinet for Finance and Administration

Prepared by:
Department of Finance

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2006**

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
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OFFICE OF THE MAYOR
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON
MAYOR

To Fellow Citizens of Louisville:

I am pleased to present the Comprehensive Annual Financial Report of the Louisville Metro Government for the fiscal year ended June 30, 2006. We have maintained a more streamlined merged government, including a smaller workforce and consolidated departmental functions. We continue making progress on our goals for Metro Government: to bring us together; keep us safe; promote educational attainment; retain, expand and attract better jobs; strengthen neighborhoods; and improve our quality of life.

MetroSafe, our top priority for public safety, continues moving forward and is already improving emergency communications and response times. The first two phases of the emergency communications system are complete, and third phase will begin later this year. Phases I and II enable our emergency dispatchers to manage emergency response more quickly and collaboratively by bringing dispatchers together in a single location and by implementing a state-of-the-art computer-aided dispatch system that shaves seconds off response times. In Phase III, we will replace the outdated mix of former city and county radio systems with a single, modern radio network and create a new secure communications center at the former Federal Reserve Bank building.

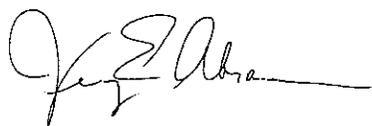
During the past year, Metro Government has delivered quality services, enhanced public amenities and made strides in economic development and job creation, including the announcement made this year by UPS to create more than 5,000 new jobs at its global air hub at Louisville International Airport. The local economy continues to thrive with companies like Humana, Mercer and numerous small and entrepreneurial companies expanding or relocating in Louisville this year.

As a result of prudent fiscal management, the undesignated fund balance at the close of fiscal year 2006 increased to \$65.3 million, or approximately 14 percent of total general fund expenditures.

This is the fourth annual report issued for the consolidated government, since the merger of the City of Louisville and Jefferson County governments on January 6, 2003. The first three years of Metro Government focused on building a strong foundation for our new merged government by consolidating city and county operations and putting in place systems to increase efficiency and effectiveness within our government. To continue that commitment Metro Government in 2006 established a \$33 million Blueprint for our Future capital program to create a long-term approach to planning and funding capital improvements throughout the community.

The annual report reflects a government that is financially strong. In fact, Standard and Poor's recent review of Metro Government reported the financial management assessment of our government to be the highest level attainable. This rating indicates that business and management practices are solid, systematic and sustainable. This year's financial report demonstrates the continuing success of our efforts to better serve the citizens of Louisville Metro

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry E. Abramson". The signature is fluid and cursive, with a long horizontal line extending to the right.

Jerry E. Abramson
Mayor



LOUISVILLE, KENTUCKY

LOUISVILLE METRO FINANCE DEPARTMENT

JERRY E. ABRAMSON
MAYOR

JANE C. DRISKELL
CHIEF FINANCIAL OFFICER

December 12, 2006

To the Citizens of Metro Louisville:

As Chief Financial Officer for the Louisville Metro Government, I have the distinct pleasure of submitting the Comprehensive Annual Financial Report ("CAFR") for the year ended June 30, 2006. This is the fourth CAFR issued for Metro Government under the new merged government. On January 6, 2003 the Jefferson County Fiscal Court and the City of Louisville Governments merged and formed a new entity called the Louisville/Jefferson County Metropolitan Government ("Metro Government").

As Chief Financial Officer for Metro Government I have overseen completion of this CAFR. Responsibility for the accuracy, completeness and fairness of the data, including all disclosures, rests with the management of Metro Government. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to report fairly the financial position and results of operations of Metro Government. All disclosures necessary to enable the reader to gain an understanding of Metro Governments' financial activities are included.

The Metro Government is a public body corporate and politic, duly created and existing as a political subdivision of the Commonwealth of Kentucky under the Constitution and laws of the Commonwealth. The Metro Government is governed by an elected Mayor and the Metro Council composed of twenty-six council members (elected from each of the twenty-six council districts for staggered terms initially commencing on January 6, 2003, and eventually all extending for four years). All executive and administrative power of the consolidated local government is vested in the office of the Mayor. As outlined in the organizational chart included in this report, the administration of Metro Government has divided operations into a seven cabinet structure.

The Metro Government provides some of the following services: public protection and safety, streets and roads, planning and zoning, public improvements and community development, sanitation, public health and social services, parks, and other general administrative services.

Budgets are adopted consistent with generally accepted accounting principles. On or before June 1 of each year, pursuant to state statute, the Mayor proposes an Executive Budget to the Metro Council. On or before June 30 of each year, as required by state statute, the Metro Council

adopts the Executive Budget as it may have been amended, as the approved budget for the fiscal year beginning July 1. An affirmative vote of a majority of the Metro Council is required to change the proposed appropriations, to amend the budget once it has been approved, or to approve any supplemental appropriations. All budget adjustments at the department level must be approved by the Chief Financial Officer consistent with the approved budget.

The 2006 CAFR reflects a government that continues to be financially strong. This letter should be read in conjunction with the MD&A, beginning on page 5 of this report.

FINANCIAL INFORMATION

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes a letter from the Mayor, this letter of transmittal, Metro Government's organization chart, and a list of members of the Metro Council for the time period of the report. The financial section includes Management's Discussion and Analysis ("MD&A"), the financial statements, required supplementary information, as well as the auditor's report on the financial statements. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Metro Government are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the presentation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: a) the cost of a control should not exceed the benefits likely to be derived, and b) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit. As a recipient of federal and state assistance, Metro Government is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

Metro Government is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, is provided in a separate report.

As a part of Metro Government's single audit described above, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that we have complied with applicable laws and regulations. Metro Government believes that the statements and schedules included in the financial section of this report continue to meet its responsibility for sound financial management.

OTHER INFORMATION

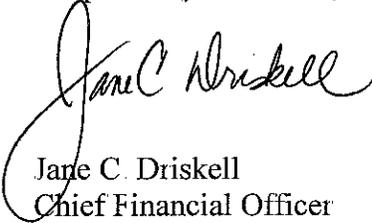
Independent Audit. Kentucky law (KRS 64.810) allows the Auditor of Public Accounts (“APA”) to perform the annual audit of the funds of the Metro Government. The APA has granted permission for the Metro Government to employ a private certified public accounting (“CPA”) firm to conduct the audits of the basic financial statement for fiscal years 2006 and 2007. A copy of the Independent Auditor’s report is included in this report. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act of 1984, Single Audit Amendments of 1996, Government Auditing Standards and the Office of Management and Budget Circular A-133.

Awards. The Government Finance Officers Association of the United States and Canada (“GFOA”) with awarded a Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2005. The Metro Government has achieved this prestigious award for three consecutive years (since inception of the merged government in 2003). In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that Metro Government’s current CAFR continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments. The preparation of the fourth CAFR for Metro Government was made possible by the dedicated service of the staff of the Department of Finance. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report for Metro Louisville.

Respectfully submitted,



Jane C. Driskell
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Louisville-Jefferson
County Metro Government,
Kentucky

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

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



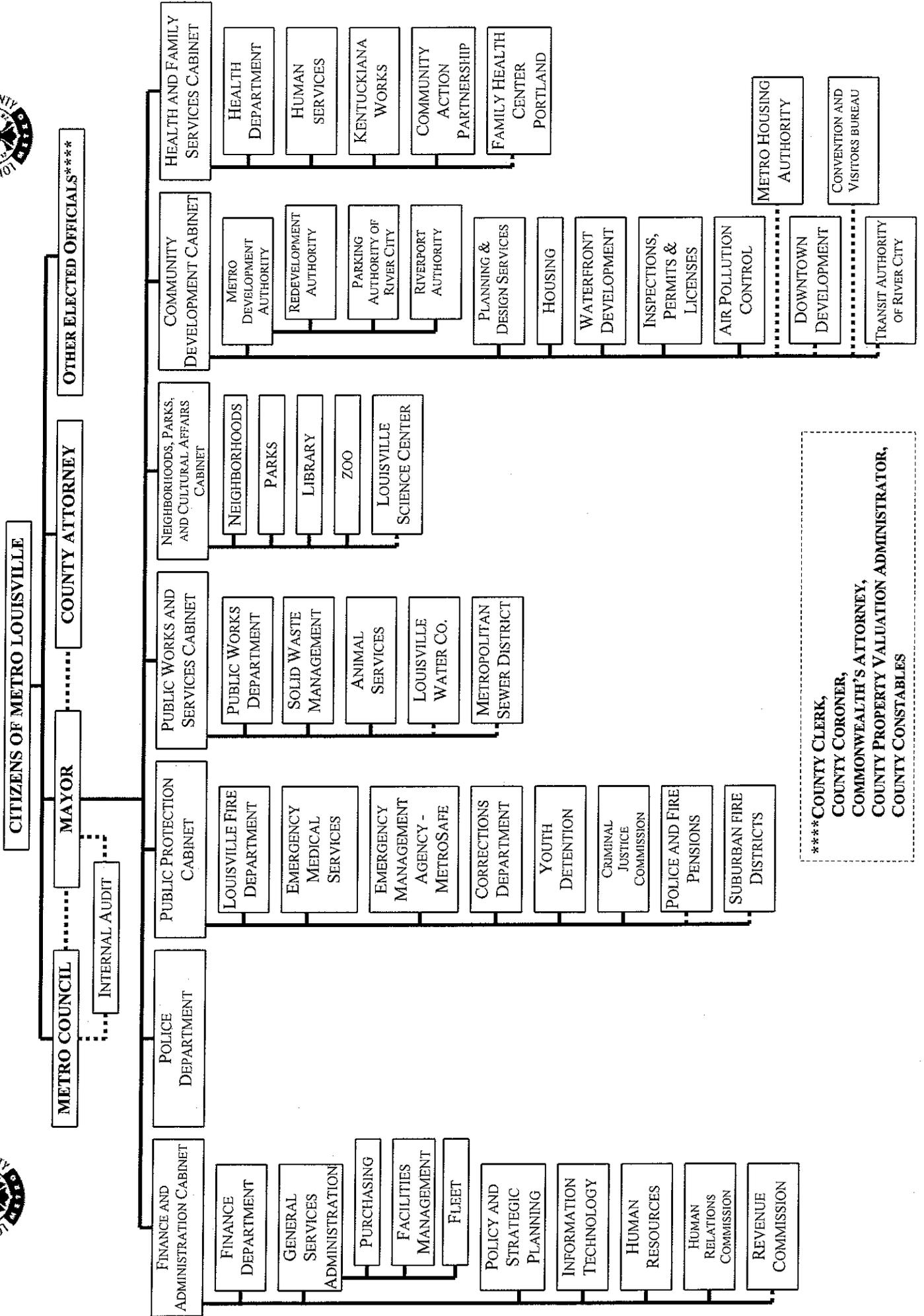
Carla E. Judge

President

Jeffrey R. Emer

Executive Director

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT ORGANIZATIONAL CHART



****COUNTY CLERK,
 COUNTY CORONER,
 COMMONWEALTH'S ATTORNEY,
 COUNTY PROPERTY VALUATION ADMINISTRATOR,
 COUNTY CONSTABLES

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT



Fiscal Year Ended June 30, 2006

HONORABLE JERRY E. ABRAMSON MAYOR

METRO COUNCIL MEMBERS

LEONARD WATKINS	DISTRICT 1
BARBARA SHANKLIN	DISTRICT 2
MARY C. WOOLRIDGE	DISTRICT 3
DAVID TANDY	DISTRICT 4
CHERI BRYANT HAMILTON	DISTRICT 5
GEORGE UNSELD	DISTRICT 6
KENNETH C. FLEMING	DISTRICT 7
TOM OWEN	DISTRICT 8
TINA WARD-PUGH	DISTRICT 9
JIM KING	DISTRICT 10
KEVIN KRAMER	DISTRICT 11
RICK BLACKWELL	DISTRICT 12
VICKI WELCH	DISTRICT 13
ROBERT HENDERSON	DISTRICT 14
GEORGE MELTON	DISTRICT 15
KELLY DOWNARD	DISTRICT 16
GLEN STUCKEL	DISTRICT 17
JULIE RAQUE ADAMS	DISTRICT 18
HAL HEINER	DISTRICT 19
STUART BENSON	DISTRICT 20
DAN JOHNSON	DISTRICT 21
ROBIN ENGEL	DISTRICT 22
JAMES PEDEN	DISTRICT 23
MADONNA FLOOD	DISTRICT 24
DOUG HAWKINS	DISTRICT 25
ELLEN CALL	DISTRICT 26

DEPARTMENT OF FINANCE

JANE C. DRISKELL	CHIEF FINANCIAL OFFICER
KIMBALL LIVESAY STATTS	DIRECTOR OF ACCOUNTING
JOHN K. JOHNSON	ACCOUNTING MANAGER

Independent Auditors' Report



Honorable Jerry Abramson, Mayor and
The Louisville Metro Council

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Louisville/Jefferson County Metro Government ("Metro Government") as of and for the year ended June 30, 2006, which collectively comprise Metro Government's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Metro Government's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of some of the entities that comprise Metro Government. 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 entities, is based on the reports of the other auditors. Those entities were:

- Governmental Funds – Capital Projects Corporation (included within the Debt Service Funds)
- Fiduciary Funds – Mass Transit (included within Agency Funds)
- Component Units – Parking Authority of River City, Inc., Transit Authority of River City, Inc., Louisville and Jefferson County Riverport Authority, and the Louisville Science Center

Those financial statements reflect total assets and revenues as follows:

	Percent of <u>Assets</u>	Percent of <u>Revenues</u>
Government-Wide Financial Statements:		
Primary Government - Governmental Activities		1%
Component Units	8%	24%
Fund Financial Statements		1%
Fiduciary Funds (Agency Funds)	32%	24%
Component Units	8%	24%

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.

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Metro Government, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 12, the budgetary comparison information on page 75, and the pension information related to funding progress on pages 77 and 78 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 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 Metro Government's basic financial statements. The introductory section, the combining and individual nonmajor fund financial statements, and the statistical section, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based upon our audit and the reports of other auditors, are fairly presented in all material respects in relation to the Metro Government's basic financial statements taken as a whole. The information presented in the introductory and statistical sections 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 have also issued a report dated December 12, 2006 on our consideration of the Metro Government's internal control over financial reporting and 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 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.

STROTHMAN & COMPANY PSC

Louisville, Kentucky
December 12, 2006

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Year Ended June 30, 2006**

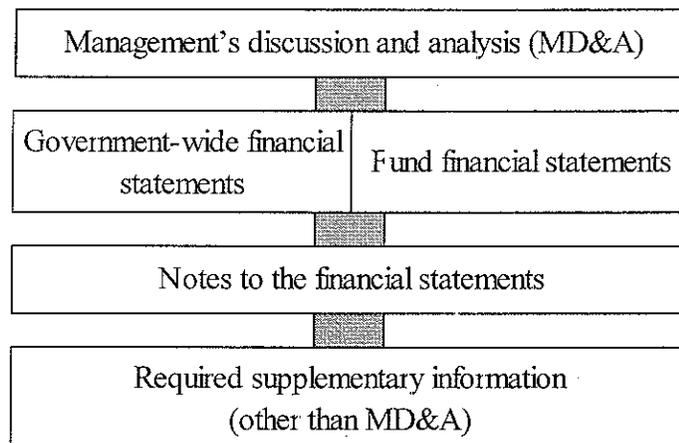
Our discussion and analysis of Louisville/Jefferson County Metro Government's financial performance provides an overview of Metro Government's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Metro Government's financial statements, which begin on page 15.

Financial Highlights

Metro Government first implemented Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the fiscal year 2002.

- Total net assets decreased by \$21.5 million.
- Total assets of the primary government exceeded total liabilities by \$615.5 million at the close of fiscal year 2006.
- At fiscal year-end, Metro Governmental funds reported a combined ending fund balance of \$185.9 million.

Using This Annual Report



This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 15-17) provide information about the activities of Metro Government as a whole and present a longer-term view of the Metro Government's finances.

Fund financial statements begin on page 18. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Metro Government's operations in more detail than the government-wide statements by providing information about the Metro Government's most significant funds.

The remaining statements provide financial information about activities for which the Metro Government acts solely as a trustee or agent for the benefit of those outside of the government.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

Reporting the Metro Government as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the Metro Government as a whole begins on page 15 with the Government-Wide Financial Statements. One of the most important questions raised about the Metro Government's finances is whether the Metro Government as a whole is better off or worse off as a result of the year's activities. The Statement of Net Assets and the Statement of Activities report information about the Metro Government as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Metro Government's net assets and changes in them. Metro Government's net assets, the difference between assets, what the citizens own, and liabilities, what the citizens owe, as one way to measure the Metro Government's financial health, or financial position. Over time, increases or decreases in the Metro Government's net assets are one indicator of whether its financial health is improving or deteriorating. Additional non-financial factors should be considered, such as changes in the Metro Government's property tax base and the condition of the Metro Government's capital assets (roads, buildings, etc.) to assess the overall health of the Metro Government.

The Government-Wide Financial Statements of the Metro Government can be divided into three categories:

- **Governmental activities:** Most of the Metro Government's basic services are reported here, including the police, fire, general administration, streets, and parks. Occupational taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities:** If a fee is charged to customers to help the Metro Government cover all or most of the cost of certain services it provides, those activities are considered to be business-type activities in most cases. The primary government did not report any business-type activities in fiscal year 2006.
- **Discretely Presented Component units:** The Metro Government includes the Louisville Water Company, the Parking Authority of River City, Inc., the Transit Authority of River City, Inc., the Louisville/Jefferson County Riverport Authority, the Louisville/Jefferson County Metropolitan Sewer District, and the Louisville Science Center in its report. These legally separate component units are important because the Metro Government is financially accountable for them, and in the case of the Louisville Water Company, 100% of its stock is owned by the Metro Government. All of the component units separately issue their own respective financial statements, including MD&A, which should be read in conjunction with these statements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

This is a summary of the Metro Government's net assets:

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NET ASSETS**
(amounts in thousands)

	Governmental Activities		Total Percentage Change
	2005	2006	2005-2006
Current and other assets	\$ 331,559	\$ 309,383	-6.7%
Capital assets	835,535	818,123	-2.1%
Total assets	1,167,094	1,127,506	-3.4%
Long-term liabilities	434,200	414,940	-4.4%
Other liabilities	95,896	97,033	1.2%
Total liabilities	530,096	511,973	-3.4%
Net assets			
Invested in capital assets, net of related debt	401,335	403,183	0.5%
Restricted	74,553	62,355	-16.4%
Unrestricted	161,110	149,994	-6.9%
Total net assets	\$ 636,998	\$ 615,532	-3.4%

This is a summary of the Metro Government's changes in net assets:

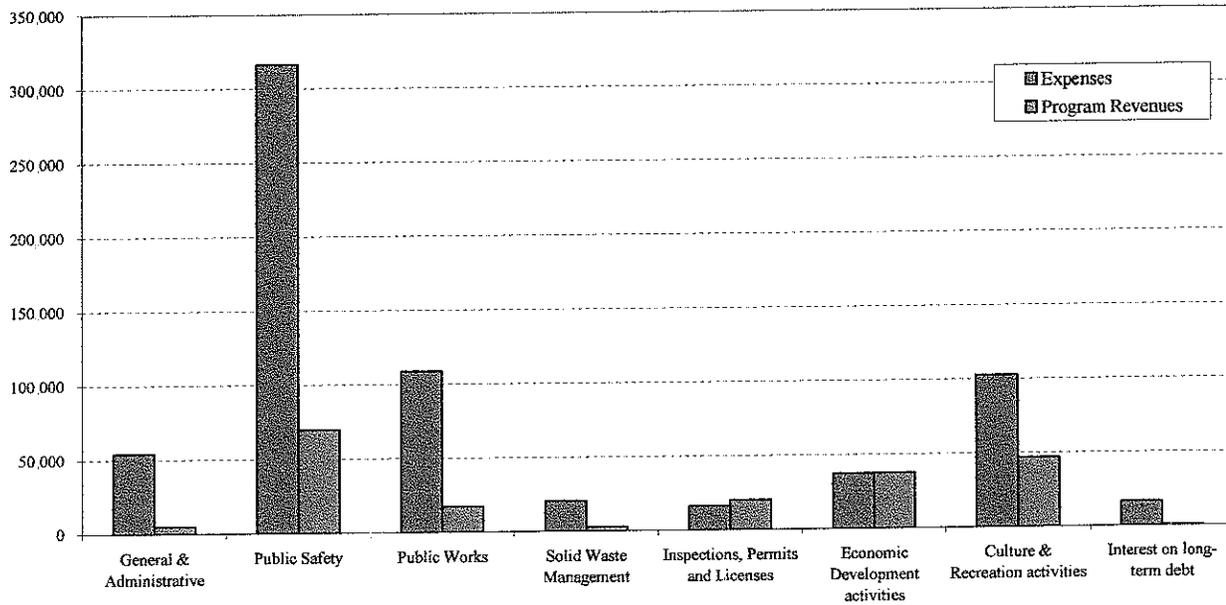
**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CHANGES IN NET ASSETS
For the Year Ended June 30**
(amounts in thousands)

	Governmental Activities	
	2005	2006
Revenues		
Program revenues:		
Charges for services	\$ 72,184	\$ 69,752
Operating grants and contributions	75,099	72,212
Capital grants and contributions	29,168	56,128
General revenues:		
Property taxes	120,576	120,751
Other taxes	275,767	285,559
Other	36,491	44,745
Total revenues	609,285	649,147
Expenses		
General & Administrative	52,280	53,923
Public Safety	299,264	316,348
Public Works	109,058	108,688
Solid Waste Management	20,316	20,163
Inspections, Permits and Licenses	14,621	15,927
Economic Development activities	41,515	36,986
Culture & Recreation activities	98,413	102,719
Interest on long-term debt	17,078	16,302
Total expenses	652,545	671,056
Increase (decrease) in net assets	(43,260)	(21,909)
Net assets--beginning	680,841	636,998
Prior period adjustment	(583)	
Increase due to acquired agency		444
Net assets--ending	\$ 636,998	\$ 615,533

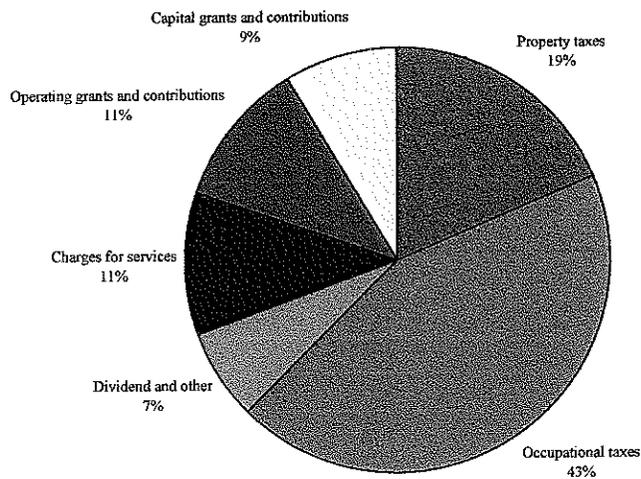
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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

The cost of all governmental activities, this year was \$671 million.



This chart shows revenues by source:



**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

Reporting the Metro Government's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 18 and provide detailed information about the most significant funds – not the Metro Government as a whole. Some funds are required to be established by State law and by bond covenants. However, other funds are established, as needed, to help it control and manage money for particular purposes (such as the Special Purpose Funds) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (for example, grants received from the U.S. Department of Housing and Urban Development).

The Metro Government's two kinds of funds, governmental and proprietary, use different accounting approaches (as discussed further in footnote 1). The Metro Government also uses fiduciary funds, which are separate funds from the governmental and proprietary funds described below. These funds are not included in the Metro Government's government-wide financial statements.

Governmental funds Most of the Metro Government's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using accounting methods called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the Metro Government's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Metro Government's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following the fund financial statements.

Proprietary funds Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and Statement of Activities. Metro Government uses internal service funds, such as the Metro Government's Insurance and Risk Management Fund, to report activities that provide supplies and services to the Metro Government's other programs and activities.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Metro Government's own activities or programs. The basis of accounting for fiduciary funds is similar to that of proprietary funds.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

Revenues in the General, Special Revenue and Debt Service funds increased by approximately \$46.7 million. Tax revenue continued its trend of a modest increase over the preceding year, with the increase divided between property taxes and occupational taxes. Expenditures in these same funds increased overall by about \$47.9 million. Increases in expenditures occurred in many departments primarily, due to annual cost of living adjustments paid to most employees. Total fund balances for governmental funds decreased \$22.2 million, primarily due to reductions of fund balances for the special revenue and major capital funds despite an offsetting increase in the fund balance of the general fund.

Component Unit Activities

The Louisville Water Company's operating income increased 16.2% from last year. The Parking Authority of River City, Inc. reported a 11.8% increase in operating income from last year with an increase in operating revenues. The Transit Authority of River City, Inc.'s operating income decreased 8.9% as a result of increased cost of operations in fiscal year 2006. The Louisville and Jefferson County Riverport Authority reported a 67.4% decrease in operating income. The Metropolitan Sewer District's operating income decreased 32.9% due to an increase in operating expenses. The Louisville Science Center reported a decrease of \$1,060,480 in operating income as a result of decreased admission receipts.

General Fund Budgetary Highlights

Actual expenditures were \$75.8 million below the final budget amounts, and these funds will be carried forward to the fiscal year 2007 to offset future related expenditures. On the other hand, resources available for appropriation were \$31.4 million below the final budget amounts, which resulted in reduced expenditures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

Capital Asset And Debt Administration

Capital Assets

At the end of June 30, 2006, the Metro Government and its component units have a broad range of capital assets, as shown in the following table:

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT			
CAPITAL ASSETS			
(net of depreciation)			
	<u>2005</u>	<u>2006</u>	<u>Total Percentage Change 2005-2006</u>
Land	\$ 282,646,899	\$ 287,445,282	1.7%
Land improvements	51,366,914	50,060,718	-2.5%
Buildings	227,185,390	221,627,583	-2.4%
Machinery and equipment	15,824,889	16,540,089	4.5%
Vehicles	21,692,612	21,258,087	-2.0%
Works of art	9,632,309	11,046,315	14.7%
Infrastructure	201,208,255	174,036,601	-13.5%
Construction in progress	25,978,184	36,108,691	39.0%
Total Metro	<u>835,535,452</u>	<u>818,123,366</u>	-2.1%
Component Units	<u>2,506,622,114</u>	<u>2,578,456,997</u>	2.9%
Grand Total	<u>\$ 3,342,157,566</u>	<u>\$ 3,396,580,363</u>	1.6%

As of June 30, 2006, the primary government and its component units had various commitments for future capital expenditures; see the notes to the financial statements and component unit reports for additional detail.

Debt Administration

At year-end, the Metro Government and its component units have outstanding debt as shown in the following table:

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT			
OUTSTANDING DEBT ADMINISTRATION			
(amounts in thousands)			
	<u>2005</u>	<u>2006</u>	<u>Total Percentage Change 2005-2006</u>
General obligation debt	\$ 256,773	\$ 236,750	-7.8%
Revenue bonds	127,312	126,630	-0.5%
Note	568	318	-44.0%
Total Metro	<u>384,653</u>	<u>363,698</u>	-5.4%
Component Units	<u>1,429,979</u>	<u>1,568,353</u>	9.7%
Grand Total	<u>\$ 1,814,632</u>	<u>\$ 1,932,051</u>	6.5%

Continued

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2006**

Metro Government assumed all long-term debt of the former City of Louisville and Jefferson County upon merger in January 2003. During the year, total debt of the Metro Government and its component units increased by \$117.4 million. Additional information on the Metro Government's long-term debt activity can be found in Note 7 of this report.

Future Economic Factors

The Louisville economy is strong and vibrant with high per capita income growth, low unemployment rates, low taxes, and a diversified workforce. Metro Government's per capita income is well above national and state levels. The unemployment rate for the Louisville Metro area at June 2006 was 5.7%.

Downtown Louisville continues to experience growth and development, with future plans including building a downtown, multi-purpose arena and a planned new addition to the Louisville skyline with Museum Plaza. There are also plans for additional downtown medical center expansions and additional plans for more than a dozen downtown housing developments.

Metro Government continues to be committed to major budgetary initiatives, such as the third phase of MetroSafe, library system expansions and the "City of Parks" initiative. Louisville's economy will be bolstered next year as well when Louisville hosts several national-profile sporting events including the Ryder Cup and the National Senior Games.

Contacting Metro Government's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of Metro Government's finances and to show Metro Government's accountability for the money it receives. If you have questions about this report or need additional information, contact Metro Government's Department of Finance, 611 West Jefferson Street, Louisville, Kentucky, 40202.

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BASIC FINANCIAL STATEMENTS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF NET ASSETS
June 30, 2006

	Primary	
	Governmental	Component
	Activities	Units
ASSETS		
Cash and cash equivalents	\$ 58,737,604	\$ 23,197,501
Investments	152,864,924	26,678,346
Receivables, net of allowance for uncollectible amounts	70,253,120	70,907,985
Deposits with paying agents	45,000	
Due from primary government		100,930
Inventories	573,311	17,026,556
Prepaid items and deferred charges	2,125,307	6,882,876
Assets restricted by bond indentures and other legal provisions	24,783,730	170,697,028
Non-utility property		171,084
Investments in direct financing lease		60,296,123
Capital assets:		
Land and improvements	291,282,349	28,490,771
Construction in progress	36,108,691	268,120,906
Works of art	255,000	
Infrastructure	885,192,171	2,816,412,547
Other capital assets	610,200,814	362,047,067
Less accumulated depreciation	(1,004,915,659)	(896,614,294)
Capital assets, net	818,123,366	2,578,456,997
Total assets	<u>1,127,506,362</u>	<u>2,954,415,426</u>
LIABILITIES		
Accounts payable and accrued payroll	40,384,665	44,792,900
Due to other government agencies	14,012,555	9,361,314
Unearned revenue	31,266,004	16,381,823
Other liabilities	11,370,277	66,292,024
Long-term liabilities:		
Due within one year	26,030,000	31,907,181
Due in more than one year	388,910,000	1,481,471,911
Total liabilities	<u>511,973,501</u>	<u>1,650,207,153</u>
NET ASSETS		
Invested in capital assets, net of related debt	403,183,366	1,159,206,202
Restricted for:		
Capital projects	62,355,267	25,101,138
Debt service		8,927,000
Unrestricted	149,994,228	110,973,933
Total net assets	<u>\$ 615,532,861</u>	<u>\$ 1,304,208,273</u>

The accompanying notes are an integral part of the financial statements.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General Government:					
Metro Council	\$ 5 828 496	\$ 17 627			\$ (5 810 869)
Mayor's Office	3,014,329		\$ 3 733		(3 010 596)
County Attorney	8,024,897	309 512	721 338		(6,994 047)
Other Elected Officials	8,155,051	153,095	192,152	\$ 1 596 380	(6,213 424)
Internal Audit	681 510				(681,510)
Finance Department	8 120 325	414,303	214,549		(7,491 473)
External Agencies	4 928 137	4 660 539			(267,598)
Policy and Strategic Planning	600 432		7 000		(593 432)
Information Technology	9,543,827	200 065		726,174	(8 617 588)
Human Resources Department	4,452,275		99 880		(4,352 395)
Human Relations Commission	1 038 194	6,775	202,635		(828 784)
Police Department	132 793 664	1 225 178	6 779 051	3 238 816	(121,550 619)
Public Protection Cabinet	160 768				(160,768)
Fire Department	52,145,033	247,141	2,090,960	927 730	(48 879 202)
Emergency Medical Services	20,419,867	9,610,942	57 010	400 000	(10,351 915)
Emergency Management	17,058,369	3 474 627	395 548	12 294 796	(893 398)
Corrections Department	45 540 563	2,513 035	5 119 892		(37 907 636)
Youth Detention Services	8 263 374	114 017	2 445 550		(5,703 807)
Metro Criminal Justice Commission	1 093 249		605 495	337 862	(149 892)
Office of Public Safety	266,779				(266,779)
Firefighters' Pension Fund	2,818,798				(2 818 798)
Policemen's Retirement Fund	2,683,127				(2,683,127)
Public Works Department	63 293 367	306 645	9 008 917	4 945 625	(49 032 180)
General Services Administration	45 394,197	2,618,052	5 481	121 733	(42 648 931)
Solid Waste Management Services	20 163 007	1 412 880	711 987	434 498	(17 603 642)
Inspections, Permits and Licenses	8,847,046	12 963 317	2 116 466		6 232 737
Animal Control Services	2,292,136	801 281		19,766	(1 471 089)
Department of Neighborhoods	7 202 084	280,483	393,639		(6,527,962)
Parks Department	25 479 670	5,427 477	338 499	4 852 914	(14 860 780)
Louisville Free Public Library	21 165 765	462,169	1 261 454	47 500	(19 394 642)
Louisville Zoological Gardens	12 727 697	7 503 751	846 712	2 371 736	(2 005 498)
Metro Development Authority	13,057,145	7 893,128	321,837	513,713	(4 328 467)
Planning and Design Services	4,329,642	236 260	581,212	361 103	(3 151 067)
Housing Department	8,187,359	722 120	3 379 355	15 735 757	11 649 873
Community Development	3 736 728	713 220			(3,023 508)
Air Pollution Control	4,787,444	2,441 201	1 494 652		(851 591)
Waterfront Development Corp	5,218,311	398,021	659 787	6 569 430	2 408 927
Redevelopment Authority	365 230	331 986			(33 244)
Health Department	38 607 238	1,643 958	15 472 596	631 953	(20 858 731)
Human Services	18 267 502	220 398	4 075 706		(13,971 398)
Kentuckiana Works	7 309 551		6 524 769		(784 782)
Community Action Partnership	6,691,967	27 435	6,084,409		(580,123)
Interest expense	16,302,423	401,500			(15,900,923)
Total governmental activities	<u>\$ 671,056,573</u>	<u>\$ 69,752,138</u>	<u>\$ 72,212,271</u>	<u>\$ 56,127,486</u>	<u>\$ (472,964,678)</u>
Component units:					
Louisville Water Co.	\$ 97 410 568	\$ 115 230 256		\$ 15 797 959	\$ 33 617 647
Parking Authority of River City Inc	13 329 151	12 616 911		1 951 839	1 239 599
Transit Authority of River City Inc	67 455 921	8 617 810	\$ 53 549 730		(5 288 381)
Louisville and Jefferson County Riverport Authority	5 443 708	3,739 668			(1 704 040)
Metropolitan Sewer District	162 624 000	129 765 000		20 083 000	(12,776,000)
Louisville Science Center	6,091,241	5,117,031			(974,210)
Total component units	<u>\$ 352,354,589</u>	<u>\$ 275,086,676</u>	<u>\$ 53,549,730</u>	<u>\$ 37,832,798</u>	<u>\$ 14,114,615</u>

(The statement of activities continues on the following page.)

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2006

	Primary Governmental Activities	Component Units
Net (expense) revenue (from preceding page)	\$ (472,964,678)	\$ 14,114,615
General revenues:		
Taxes:		
Property taxes, levied for general purposes	120,750,897	
Occupational taxes	285,559,281	
Investment income	5,251,143	5,632,859
Dividends	17,715,564	
Other intergovernmental revenue	12,764,992	
Fees and fines	2,676,570	
Gain on sale of assets	1,156,848	
Other taxes	319,388	
Rental receipts	395,634	
Miscellaneous	4,464,605	1,587,748
Total general revenues	451,054,922	7,220,607
Change in net assets	(21,909,756)	21,335,222
Net assets--beginning	636,998,745	1,282,873,051
Increase due to acquired agency	443,872	
Net assets--ending	\$ 615,532,861	\$ 1,304,208,273

The accompanying notes are an integral part of the financial statements.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Special Revenue Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 30,084,619	\$ 2,284,580	\$ 5,852,470	\$ 8,947,571	\$ 47,169,240
Investments	60,964,811	4,631,998	11,865,919	18,141,254	95,603,982
Receivables:					
Taxes receivable, less allowance for uncollectible amounts	4,575,450				4,575,450
Accounts receivable and accrued interest	13,042,167	1,972,763	46,283	22,584	15,083,797
Loans receivable, less allowance for uncollectible amounts	2,290,130	6,632,178	2,263,281		11,185,589
Notes receivable	252,819		8,111,620		8,364,439
Due from federal government	166,429	27,017,468	28,276		27,212,173
Due from state government	2,071,960	1,197,017			3,268,977
Due from other funds	24,655,305			640,761	25,296,066
Inventories	573,311				573,311
Prepaid items	241,341				241,341
Restricted assets:					
Cash and cash equivalents			24,413,551	370,179	24,783,730
Total assets	\$ 138,918,342	\$ 43,736,004	\$ 52,581,400	\$ 28,122,349	\$ 263,358,095
LIABILITIES					
Accounts payable	\$ 12,880,577	\$ 6,437,175	\$ 1,401,647	\$ 542,579	\$ 21,261,978
Accrued payroll and withholdings	16,142,531	608,892			16,751,423
Matured bonds and interest payable				640,761	640,761
Unearned revenue	8,019,793	16,666,326	690,315	2,064,819	27,441,253
Other liabilities	995,376		10,374,901		11,370,277
Total liabilities	38,038,277	23,712,393	12,466,863	3,248,159	77,465,692
FUND BALANCES					
Reserved for:					
Encumbrances	2,388,532	9,893,291	7,483,717	5,945,000	25,710,540
Inventories	573,311				573,311
Prepaid items	241,341				241,341
Long term-loans receivable	2,290,210	6,632,178	2,263,281		11,185,669
Debt service				370,179	370,179
Unreserved, reported in:					
General fund	95,386,671				95,386,671
Special revenue funds		3,498,142			3,498,142
Capital projects funds			30,367,539	18,559,011	48,926,550
Total fund balances	100,880,065	20,023,611	40,114,537	24,874,190	185,892,403
Total liabilities and fund balances	\$ 138,918,342	\$ 43,736,004	\$ 52,581,400	\$ 28,122,349	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets of \$818,123,366 reported in the government wide financial statements less \$266,183 of capital assets held by the proprietary funds used in governmental activities are not financial resources and therefore are not reported in the funds	817,857,183
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds, including deferred charges, are included in governmental activities in the Statement of Net Assets	7,987
Certain revenues are earned but not available and therefore are deferred in the funds	4,566,406
Long-term liabilities of \$414,940,000, including bonds payable, less \$20,264,916 reported in internal service funds, less deferred charges of \$1,883,966, are not due and payable in the current period and therefore are not reported in the funds	(392,791,118)
Net assets of governmental activities	<u>\$ 615,532,861</u>

The accompanying notes are an integral part of the financial statements.

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	General Fund	Special Revenue Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 121,338,886				\$ 121,338,886
Occupational taxes	285,559,281				285,559,281
Licenses and permits	11,262,911		\$ 194,820		11,457,731
Intergovernmental	26,483,393	\$ 100,366,840	1,106,090	\$ 5,806,439	133,762,762
Charges for services	48,634,652	4,630,164	518,773	710,567	54,494,156
Fees and fines	2,436,967	1,505	135		2,438,607
Investment income	3,039,430	429,978	1,635,981	145,754	5,251,143
Dividends	17,715,564				17,715,564
Donations	2,313,187	106,312	9,309,115		11,728,614
Miscellaneous	2,310,127	1,903,001	613,747	4,404	4,831,279
Total revenues	521,094,398	107,437,800	13,378,661	6,667,164	648,578,023
EXPENDITURES					
Current operating:					
General Government					
Metro Council	5,314,884				5,314,884
Mayor's Office	2,716,989	3,725			2,720,714
County Attorney	6,558,008	760,995			7,319,003
Other Elected Officials	7,079,149				7,079,149
Internal Audit	621,563				621,563
Finance Department	7,404,019				7,404,019
External Agencies	4,494,643				4,494,643
Policy and Strategic Planning	547,616				547,616
Information Technology	7,248,081				7,248,081
Human Resources Department	3,960,760	99,880			4,060,640
Human Relations Commission	920,226	26,645			946,871
Police Department	118,301,071	2,112,289			120,413,360
Public Protection Cabinet	146,626				146,626
Fire Department	46,824,840	5,504			46,830,344
Emergency Medical Services	18,397,592	64,885			18,462,477
Emergency Management	10,208,240	4,997,067			15,205,307
Corrections Department	40,773,855	9,993			40,783,848
Youth Placement Services	7,503,704	23,814			7,527,518
Metro Criminal Justice Commission	392,359	604,724			997,083
Office of Public Safety	243,313				243,313
Firefighters' Pension Fund	2,630,033				2,630,033
Policemen's Retirement Fund	2,503,447				2,503,447
Public Works Department	12,678,261	6,850,820			19,529,081
General Services Administration	32,970,057	4,853			32,974,910
Solid Waste Management Services	17,746,138	634,559			18,380,697
Inspections, Permits and Licenses	6,404,501	1,654,447			8,058,948
Animal Control Services	2,074,981				2,074,981
Department of Neighborhoods	6,565,329				6,565,329
Parks Department	22,166,257	239,475			22,405,732
Louisville Free Public Library	15,856,879	1,007,711			16,864,590
Louisville Zoological Gardens	10,759,988	4,074			10,764,062
Metro Development Authority	9,355,164	791,669			10,146,833
Planning and Design Services	3,364,215	580,916			3,945,131
Housing Department	1,036,517	6,428,138			7,464,655
Community Development	3,408,034				3,408,034
Air Pollution Control	491,962	3,767,263			4,259,225
Waterfront Development Corporation	2,711,472				2,711,472
Redevelopment Authority	331,986				331,986

(Continued)

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (continued)
For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Health Department	\$ 20,968,130	\$ 14,052,121			\$ 35,020,251
Human Services	12,775,864	3,884,497			16,660,361
Kentuckiana Works	150,000	6,504,176			6,654,176
Community Action Partnership		6,103,322			6,103,322
Debt service principal				\$ 25,595,000	25,595,000
Debt service interest and other charges	74,785		\$ 826,263	14,309,658	15,210,706
Capital outlay		54,457,140	29,359,293	9,451,669	93,268,102
Total expenditures	<u>476,681,538</u>	<u>115,674,702</u>	<u>30,185,556</u>	<u>49,356,327</u>	<u>671,898,123</u>
Excess (deficiency) of revenues over expenditures	44,412,860	(8,236,902)	(16,806,895)	(42,689,163)	(23,320,100)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets			276,050	880,798	1,156,848
Transfers in	1,972,549	11,375	325,957	43,650,850	45,960,731
Transfers out	(42,774,203)	(1,610,779)	(30,247)	(1,545,502)	(45,960,731)
Total other financing sources and uses	<u>(40,801,654)</u>	<u>(1,599,404)</u>	<u>571,760</u>	<u>42,986,146</u>	<u>1,156,848</u>
Net change in fund balances	3,611,206	(9,836,306)	(16,235,135)	296,983	(22,163,252)
Fund balances--beginning	96,824,987	29,859,917	56,349,672	24,577,207	207,611,783
Increase due to acquired agency	443,872				443,872
Fund balances--ending	<u>\$ 100,880,065</u>	<u>\$ 20,023,611</u>	<u>\$ 40,114,537</u>	<u>\$ 24,874,190</u>	<u>\$ 185,892,403</u>

The accompanying notes are an integral part of the financial statements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Net change in fund balances--total governmental funds	\$ (22,163,252)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which the increase in capital assets of \$53,575,151, less \$95,642 in the proprietary funds, exceeded depreciation of \$63,718,195 in the governmental funds and \$374,117 in the proprietary funds in the current period.	(9,864,569)
In the Statement of Activities, only the loss on the disposal of assets is reported, while in the governmental funds, the proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the basis of the assets disposed	(7,268,982)
Deferred revenues added to net assets in the prior year are deducted in the current year	(5,154,395)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	4,566,406
Repayment of \$25,595,000 of bond principal plus \$314,000 of capital lease and notes payable payments is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of Net Assets.	25,909,000
The change in compensated absences is reported in the Statement of Activities and does not require the use of current financial resources and therefore, the change is not reported as an expenditure in governmental funds	(833,000)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The change in net assets of the internal service funds is reported with governmental activities.	(1,922,520)
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. Amortization of these costs was \$288,815. Accreted interest of \$4,889,564 and other charges of \$65 are also shown as differences for the year	(5,178,444)
Change in net assets of governmental activities	<u>\$ (21,909,756)</u>

The accompanying notes are an integral part of the financial statements.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Governmental Activities
	Internal Service Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,568,364
Investments	57,260,942
Receivables, net of allowance for uncollectible amounts	407,235
Due from component unit	151,176
Deposits with paying agents	45,000
Total current assets	69,432,717
Capital assets:	
Buildings and equipment, net	266,183
Total assets	69,698,900
LIABILITIES	
Current liabilities:	
Accounts payable	1,730,503
Due to other funds	39,304,337
Unearned revenue	8,391,157
Total current liabilities	49,425,997
Noncurrent liabilities:	
Claims and judgments	20,264,916
Total noncurrent liabilities	20,264,916
Total liabilities	69,690,913
NET ASSETS	
Invested in capital assets, net of related debt	81,871
Restricted	(73,884)
Total net assets	\$ 7,987

**The accompanying notes are an
integral part of the financial statements.**

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006**

	Governmental Activities
	Internal Service Fund
OPERATING REVENUES:	
Collection, investment and other fees	\$ 4,676,020
Insurance income	12,005,142
Insurance premiums	38,817,398
Total operating revenues	55,498,560
OPERATING EXPENSES:	
Professional services	3,535,114
Contractual services	729,205
Repairs and maintenance	29,573
Other supplies and expenses	638,281
Insurance claims, settlements and losses	48,156,770
Insurance premiums	4,426,511
Depreciation	374,117
Total operating expenses	57,889,571
Operating income (loss)	(2,391,011)
NONOPERATING REVENUES (EXPENSES):	
Investment income	468,551
Loss on disposal of equipment	(60)
Total nonoperating revenues (expenses)	468,491
Change in net assets	(1,922,520)
Total net assets--beginning	1,930,507
Total net assets--ending	\$ 7,987

**The accompanying notes are an
integral part of the financial statements.**

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2006

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net cash received from taxpayers	\$ 4,079,711
Insurance income	50,895,559
Payments to employees	(3,535,114)
Payments to suppliers	(1,399,105)
Contractual services	20,385
Claims paid	(46,868,766)
Insurance premiums paid	(4,426,511)
Other receipts (payments)	(165)
	(1,234,006)
Net cash used in operating activities	(1,234,006)
CASH FLOWS FROM CAPITAL ACTIVITIES:	
Acquisition and construction of capital assets	(95,642)
	(95,642)
Net cash used in capital activities	(95,642)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(43,838,549)
Change in investment pool participation	(327,162)
Investment income	468,551
	(43,697,160)
Net cash used in investing activities	(43,697,160)
Net decrease in cash and cash equivalents	(45,026,808)
Balances--beginning of the year	56,595,172
	56,595,172
Balances--end of the year	\$ 11,568,364
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating loss	\$ (2,391,011)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	374,117
Increase (decrease) in cash due to changes in assets and liabilities:	
Accounts receivable	73,019
Due from other funds	775,452
Deposits with paying agents	25,000
Accounts and other payables	(406,217)
Liability for incurred claims	1,588,844
Due to other funds and governmental agencies	(1,705,126)
Unearned revenue	431,916
	431,916
Net cash used in operating activities	\$ (1,234,006)

During fiscal year 2006, there was no non-cash change to the fair value of investments

The accompanying notes are an integral part of the financial statements.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>Pension & Benefit Trust</u>	<u>Private- purpose Trust</u>	<u>Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 313,147	\$ 191,918	\$ 6,988,110
Equity securities	16,644,973		
Corporate bonds	898,437		
US Government obligations	2,677,246		
US Agency obligations	2,005,228		
Other investments	582,074	389,116	21,609,287
Accounts receivable and accrued interest	358,269		1,246,031
Due from other funds			13,861,379
Total assets	<u>23,479,374</u>	<u>581,034</u>	<u>43,704,807</u>
LIABILITIES			
Accounts payable	160,525		
Notes payable			3,500,000
Health insurance reimbursement and accrued liabilities	159,445		
Due to other governmental agencies			33,503,117
Due to other funds			4,284
Refundable deposits			6,697,406
Total liabilities	<u>319,970</u>	<u>-</u>	<u>\$ 43,704,807</u>
NET ASSETS			
Held in trust for pension benefits	23,159,404		
Held in trust for private purpose		581,034	
Total net assets	<u>\$ 23,159,404</u>	<u>\$ 581,034</u>	

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

	<u>Pension & Benefit Trust</u>	<u>Private- purpose Trust</u>
ADDITIONS		
Contributions:		
Employer	\$ 3,225,484	
Member	3,704	
Total contributions	<u>3,229,188</u>	
Investment earnings:		
Increase (decrease) in fair value of investments	(1,139,726)	
Realized gains and losses	2,312,168	
Interest and dividends	540,079	
Total investment earnings	<u>1,712,521</u>	<u>-</u>
Investment expense	(197,698)	
Net investment earnings	<u>1,514,823</u>	
Other income	1,784,583	
Total additions	<u>6,528,594</u>	<u>-</u>
DEDUCTIONS		
Benefit payments	6,108,129	
Administration expense	452,413	
Health insurance reimbursement	1,041,215	
Total deductions	<u>7,601,757</u>	<u>-</u>
Net increase (decrease)	<u>(1,073,163)</u>	<u>-</u>
Net assets--beginning of the year	24,232,567	\$ 581,034
Net assets--end of the year	<u>\$ 23,159,404</u>	<u>\$ 581,034</u>

The accompanying notes are an integral part of the financial statements.

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF NET ASSETS
COMPONENT UNITS
June 30, 2006**

	<u>Louisville Water Company*</u>	<u>Parking Authority of River City, Inc.</u>	<u>Transit Authority of River City, Inc.</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,750,313	\$ 750	\$ 1,402,232
Investments			
Accounts receivable and accrued interest	14,822,350	333,531	5,582,872
Due from primary government		100,930	
Inventories	6,572,429		1,306,447
Prepaid interest			
Prepaid expenses	709,225	15,395	69,084
Total current assets	<u>24,854,317</u>	<u>450,606</u>	<u>8,360,635</u>
Noncurrent assets:			
Restricted cash and cash equivalents		266,606	
Investments		18,233,414	1,359,818
Accrued interest receivable		65,667	
Revenue bond covenant accounts	13,166,647		
Water system extension funds	2,342,463		
Note receivable		1,302,679	
Contract and assessments receivable	2,860,964		
Deferred charges	2,224,440	346,672	
Non-utility property	171,084		
Investments in direct financing lease			
Capital assets:			
Land	7,340,275	9,304,855	3,177,782
Buildings and Improvements	80,778,414	79,784,386	23,811,646
Machinery and equipment	43,768,073	3,567,386	77,455,268
Museum exhibits			
Infrastructure	766,653,547		
Construction in progress	54,874,025	1,485,881	
Less accumulated depreciation	<u>(248,208,170)</u>	<u>(34,452,348)</u>	<u>(58,971,166)</u>
Capital assets, net of accumulated depreciation	<u>705,206,164</u>	<u>59,690,160</u>	<u>45,473,530</u>
Total noncurrent assets	<u>725,971,762</u>	<u>79,905,198</u>	<u>46,833,348</u>
Total assets	<u>\$ 750,826,079</u>	<u>\$ 80,355,804</u>	<u>\$ 55,193,983</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,539,722		\$ 3,347,717
Accrued payroll and withholdings	315,571		
Due to other governmental agencies	9,251,667		
Customer advances and deposits payable			
Bonds payable, current portion	6,482,500	2,610,000	
Interest payable	724,437	231,817	
Other liabilities from restricted assets	2,728,114	784,570	
Deferred revenue	6,263,606	53,758	
Dividend payable	302,351		
Compensated absences payable	1,683,048		3,028,737
Total current liabilities	<u>31,291,016</u>	<u>3,680,145</u>	<u>6,376,454</u>
Noncurrent liabilities:			
Accounts payable			
Unearned revenue	2,444,307		1,272,952
Revenue bonds payable (net of unamortized discounts)	111,550,000	44,197,201	
Other long-term debt			
Claims and judgements payable			1,718,710
Total noncurrent liabilities	<u>113,994,307</u>	<u>44,197,201</u>	<u>2,991,662</u>
Total liabilities	<u>145,285,323</u>	<u>47,877,346</u>	<u>9,368,116</u>
NET ASSETS			
Invested in capital assets, net of related debt	587,173,664	12,882,959	45,473,530
Restricted for capital projects	15,509,110	8,236,307	
Restricted for debt service			
Unrestricted	<u>2,857,982</u>	<u>11,359,192</u>	<u>352,337</u>
Total net assets	<u>\$ 605,540,756</u>	<u>\$ 32,478,458</u>	<u>\$ 45,825,867</u>

*Amounts for the Louisville Water Company are for December 31, 2005.
The accompanying notes are an integral part of the financial statements.

Louisville and Jefferson County Riverport Authority	Metropolitan Sewer District	Louisville Science Center	Total
\$ 634,115	\$ 17,198,000	\$ 1,212,091	\$ 23,197,501
8,033,346	18,645,000		26,678,346
82,302	17,401,000	744,287	38,966,342
			100,930
6,227,110	2,874,000	46,570	17,026,556
1,873,690			1,873,690
5,450	1,359,000	279,920	2,438,074
16,856,013	57,477,000	2,282,868	110,281,439
	24,000	345,898	636,504
	134,850,000	42,515	154,485,747
			65,667
			13,166,647
			2,342,463
			1,302,679
	27,778,000		30,638,964
			2,571,112
			171,084
60,296,123			60,296,123
8,667,859			28,490,771
29,005,817		4,808,807	218,189,070
171,342		1,623,566	126,585,635
		17,272,362	17,272,362
	2,049,759,000		2,816,412,547
	211,761,000		268,120,906
(14,110,237)	(527,796,000)	(13,076,373)	(896,614,294)
23,734,781	1,733,724,000	10,628,362	2,578,456,997
84,030,904	1,896,376,000	11,016,775	2,844,133,987
\$ 100,886,917	\$ 1,953,853,000	\$ 13,299,643	\$ 2,954,415,426
\$ 419,881	\$ 22,619,000	\$ 248,755	\$ 30,175,075
			315,571
		109,647	9,361,314
	1,072,000		1,072,000
852,896	17,250,000		27,195,396
	10,456,000		11,412,254
			3,512,684
53,753		196,447	6,567,564
			302,351
			4,711,785
1,326,530	51,397,000	554,849	94,625,994
	2,890,000		2,890,000
	6,097,000		9,814,259
	1,324,006,000		1,479,753,201
61,404,989			61,404,989
			1,718,710
61,404,989	1,332,993,000	-	1,555,581,159
62,731,519	1,384,390,000	554,849	1,650,207,153
23,703,049	489,973,000		1,159,206,202
		1,355,721	25,101,138
	8,927,000		8,927,000
14,452,349	70,563,000	11,389,073	110,973,933
\$ 38,155,398	\$ 569,463,000	\$ 12,744,794	\$ 1,304,208,273

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
COMPONENT UNITS
For the Year Ended June 30, 2006

	<u>Louisville Water Company*</u>	<u>Parking Authority of River City, Inc.</u>	<u>Transit Authority of River City, Inc.</u>
OPERATING REVENUES:			
Charges for sales and services:			
Water sales	\$ 115,230,256		
Parking		\$ 12,616,911	
Transit fares and advertising			\$ 8,617,810
Port fees and rents			
Sewer charges			
Admissions and museum support			
Total operating revenues	<u>115,230,256</u>	<u>12,616,911</u>	<u>8,617,810</u>
OPERATING EXPENSES:			
Cost of operations	29,650,964	2,773,237	60,790,263
General and administrative	17,810,699	3,748,756	
Depreciation	19,499,426	3,680,451	6,665,658
Loss on disposal of capital assets and other		341,177	
Water services in lieu of taxes	9,415,500		
Total operating expenses	<u>76,376,589</u>	<u>10,543,621</u>	<u>67,455,921</u>
Operating income (loss)	<u>38,853,667</u>	<u>2,073,290</u>	<u>(58,838,111)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	690,549	726,133	153,665
Interest income on direct financing lease			
Mass Transit subsidies			53,549,730
Capital reimbursements		1,951,839	
Interest expense	(4,855,929)	(2,350,192)	
Rent expense		(435,338)	
Contributed in aid of construction	15,797,959		
Dividends paid and payable	(16,178,050)		
Miscellaneous	33,463		
Total nonoperating revenues (expenses)	<u>(4,512,008)</u>	<u>(107,558)</u>	<u>53,703,395</u>
Net income (loss) before distributions	34,341,659	1,965,732	(5,134,716)
Transfer (to) from primary government			
Change in net assets	34,341,659	1,965,732	(5,134,716)
Net assets, beginning of year	<u>571,199,097</u>	<u>30,512,726</u>	<u>50,960,583</u>
Net assets, end of year	<u>\$ 605,540,756</u>	<u>\$ 32,478,458</u>	<u>\$ 45,825,867</u>

*Amounts for the Louisville Water Company are for the year ended December 31, 2005.
The accompanying notes are an integral part of the financial statements.

Louisville and Jefferson County Riverport Authority	Metropolitan Sewer District	Louisville Science Center	Total
			\$ 115,230,256
		\$ 230,769	12,847,680
			8,617,810
\$ 3,739,668			3,739,668
	\$ 129,765,000		129,765,000
		4,886,262	4,886,262
<u>3,739,668</u>	<u>129,765,000</u>	<u>5,117,031</u>	<u>275,086,676</u>
2,138,956		2,381,028	97,734,448
484,404	61,046,000	2,196,626	85,286,485
932,117	51,174,000	1,513,587	83,465,239
			341,177
			9,415,500
<u>3,555,477</u>	<u>112,220,000</u>	<u>6,091,241</u>	<u>276,242,849</u>
<u>184,191</u>	<u>17,545,000</u>	<u>(974,210)</u>	<u>(1,156,173)</u>
60,102	3,964,000	38,410	5,632,859
1,828,725			1,828,725
			53,549,730
			1,951,839
(1,888,231)	(50,404,000)		(59,498,352)
			(435,338)
	20,083,000		35,880,959
			(16,178,050)
<u>264,861</u>			<u>298,324</u>
<u>265,457</u>	<u>(26,357,000)</u>	<u>38,410</u>	<u>23,030,696</u>
449,648	(8,812,000)	(935,800)	21,874,523
(539,301)			(539,301)
(89,653)	(8,812,000)	(935,800)	21,335,222
<u>38,245,051</u>	<u>578,275,000</u>	<u>13,680,594</u>	<u>1,282,873,051</u>
<u>\$ 38,155,398</u>	<u>\$ 569,463,000</u>	<u>\$ 12,744,794</u>	<u>\$ 1,304,208,273</u>

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NOTES TO THE FINANCIAL STATEMENTS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

1. Summary of Significant Accounting Policies

Louisville/Jefferson County Metro Government ("Metro Government") began operations January 6, 2003, and was formed from the merger of the former City of Louisville (founded in 1778 and incorporated in 1828) and Jefferson County, Kentucky (created in 1780). Metro Government operates under a Mayor-Council form of government and provides the following services: public health and safety, streets and roads, sanitation, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The following is a summary of the significant accounting policies:

A. Basis of Presentation

The financial statements of Metro Government have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

In accordance with GASB Statement No. 14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations Are Component Units*, Metro Government has included in its financial statements the departments, agencies, boards, commissions, authorities, and corporations that comprise the primary government along with its discretely presented Component Units.

i. Blended Component Units

The following Component Units have been presented as blended Component Units because the boards of the Component Units are substantively the same as the primary government, or the Component Units provide services exclusively or almost exclusively to the primary government.

- The Louisville/Jefferson County Revenue Commission ("Revenue Commission")
- The Commissioners of the Revenue Commission are appointed by Metro Government. The Revenue Commission is reported as part of the primary government because its primary purpose is to collect certain taxes and fees on behalf of Metro Government, and to collect and remit debt service requirements on Metro Government's general obligation bonds. To a lesser extent, the Revenue Commission is the collection agent of certain fees and taxes for other local governmental entities.

The Revenue Commission is treated as an internal service fund of the primary government since Metro Government is the primary participant of the Revenue Commission. Amounts held on behalf of other local governmental entities are reflected within a fiduciary fund.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

- The Public Properties Corporation (“PPC”) - The PPC is a non-profit municipal corporation which is used to account for certain property acquisitions and improvements financed by proceeds from the sale of various First Mortgage Revenue Bonds. It is reported as part of the primary government because its purpose is to issue bonds solely on behalf of Metro Government.
- The Revenue Finance Corporation - The Revenue Finance Corporation is a non-profit municipal corporation which is used for the acquisition and implementation of public projects financed by increments in tax revenues. It exists solely for the benefit of Metro Government, and is accordingly reported as part of the primary government.
- Capital Projects Corporation (“CPC”) - The Mayor, with the approval of the Metro Council, appoints the CPC’s governing board. The CPC was incorporated by the Jefferson County Fiscal Court, succeeded by Metro Government, as its agency and instrumentality in the financing of public improvements and projects of a capital nature. The CPC undertakes projects and issues bonds at the direction of and pursuant to ordinances adopted by the Metro Council. All debt obligations of the CPC are serviced with rental payments made by Metro Government as consideration from annually renewable leases of the financed properties by Metro Government.

Complete financial statements for each of the individual component units may be obtained at Metro Government’s Department of Finance, 611 West Jefferson Street, Louisville, Kentucky, 40202.

ii. Discretely Presented Component Units

The Component Units column in the government-wide financial statements includes the financial data of Metro Government’s discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from Metro Government. The following six Component Units are included in the reporting entity because the primary government is financially accountable for and is able to impose its will on the organizations.

- Louisville Water Company (“LWC”) – The LWC is a legally separate entity that provides water utility services to the residents of the metropolitan area and charges fees for those services. It is shown as a discretely presented component unit because the Metro Government is the sole shareholder, receives a quarterly dividend, and the Mayor appoints a voting majority of the LWC’s Board of Directors. Water services valued at \$9,415,500 were provided to Metro Government in lieu of taxes during the year ended December 31, 2005. Complete financial statements of the LWC can be requested from the Louisville Water Company, 550 South Third Street, Louisville, KY 40202.
- Parking Authority of River City, Inc. (“PARC”) - PARC is a non-profit corporation, which was established by the former City of Louisville to serve Metro Government’s existing parking facility needs and to develop strategies for future needs. PARC also operates several parking garages in the downtown area.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

PARC is shown as a discretely presented component unit because the Mayor appoints a voting majority of its Board of Directors and Metro Government has the ability to approve or overrule decisions of PARC in financing of new facilities and equipment. Complete financial statements of PARC can be requested from the Parking Authority of River City, 517 South Fourth Street, Louisville, KY 40202.

- Transit Authority of River City (“IARC”) - IARC is a legally separate entity that operates the mass transit system in the metropolitan area. IARC is shown as a discretely presented component unit because the Mayor appoints a voting majority of its Board of Directors and Metro Government has the ability to approve, disapprove, revise, amend, or otherwise alter IARC’s annual budget. Metro Government does not provide any funding to IARC, but it does administer the Mass Transit Trust Fund, which receives occupational tax revenues and remits those amounts to IARC. Payments to IARC from the Mass Transit Trust Fund for the fiscal year totaled \$35,509,773. Complete financial statements of IARC can be requested from the Transit Authority of River City, 1000 West Broadway, Louisville, KY 40203.
- Louisville and Jefferson County Riverport Authority (“Riverport”) - Riverport is a legally separate entity that acquires, develops, and markets land for operation of a river port industrial complex. Riverport is shown as a discretely presented component unit because the Mayor appoints a voting majority of its Board of Directors, and Metro Government has the ability to impose its will on Riverport’s decisions. Complete financial statements of Riverport can be requested from the Louisville and Jefferson County Riverport Authority, 6900 Riverport Drive, Louisville, KY 40258.
- Louisville and Jefferson County Metropolitan Sewer District (“MSD”) - The MSD is a legally separate entity that provides sewer services to the residents of the metropolitan area and charges fees for those services. MSD is shown as a discretely presented component unit because the Mayor appoints a voting majority of its Board of Directors and Metro Government has the ability to veto, overrule, or modify decisions of MSD regarding expansion of infrastructure and sewage facilities. Metro Government does not provide any funding to MSD. Complete financial statements of MSD can be requested from Louisville and Jefferson County Metropolitan Sewer District, 700 West Liberty Street, Louisville, KY 40202.
- Louisville Science Center, Inc. (“LSC”) - The LSC provides museum exhibits and scientific programs to the public. Financial support is received from admissions, merchandise sales, memberships, parking fees, donations, and an appropriation from Metro Government. It is shown as a discretely presented component unit because the Mayor appoints a voting majority of its Board of Directors. During the year ended June 30, 2006, Metro Government paid \$829,500 as an appropriation to the LSC. Complete financial statements of LSC can be requested from Louisville Science Center, 727 West Main Street, Louisville, KY 40202.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

iii. Related Organizations

- Louisville Metro Housing Authority (“Housing Authority”) - The Housing Authority is a legally separate entity that plans for the construction, operation and management of low cost housing projects within the metropolitan area. The Board consists of the Mayor and eight other members appointed by the Mayor and approved by the Metro Council. Financial support is received from the federal government and from fees. The Housing Authority serves as its own fiscal agent, and Metro Government is not financially accountable for the activities of the entity. Metro Government did not provide any funding to the Housing Authority for the year ended June 30, 2006.
- Regional Airport Authority of Louisville and Jefferson County (“RAA”) - The RAA was created by state statute and is responsible for the operation of Louisville International Airport and Bowman Field, both located in Louisville. The Board consists of eleven members including the Mayor and the Kentucky Secretary of Commerce. Six of the members are appointed by Metro Government and three by the Commonwealth of Kentucky. Metro Government does not provide any funding to the RAA.
- The Louisville and Jefferson County Convention and Visitors Bureau (the “Convention Bureau”) - The Convention Bureau is a legally separate entity created by state statute and operates to promote convention and tourism activity in Louisville and Jefferson County. The Board consists of nine members, six of whom are appointed by Metro Government and three by the Commonwealth of Kentucky. Metro Government does not provide any funding to the Convention Bureau, but the Convention Bureau received \$9,473,912 in transient room taxes collected by the Revenue Commission.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources, such as taxes and other items not properly included among program revenues, are reported instead as general revenues. Metro Government allocates certain indirect costs to be included in the program expense reported for individual functions and activities in the government-wide statement of activities.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds that have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Each fund is a separate accounting entity with a self-balancing set of accounts. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible during the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Metro Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims judgments, are recorded only when payment is due.

Revenues susceptible to accrual are property taxes, licenses, interest revenue and charges for services. Occupational taxes, fines, permits and parking meter revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Metro Government reports unearned revenue on its government-wide statement of net assets and fund financial statements. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when Metro Government receives resources before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when Metro Government has a legal claim to the resources, the liability for unearned revenue is removed from the government-wide statement of net assets and fund financial statements, and revenue is recognized.

Funds are classified into three categories: governmental, proprietary and fiduciary.

Metro Government reports the following major governmental funds:

- The General Fund, Metro Government's primary operating fund, which accounts for all of the activities of the general government not required to be accounted for in another fund.
- The Special Revenue Fund, which accounts for the collection and disbursement of earmarked money, primarily federal and state grant money.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

- The Capital Projects Fund, which accounts for the acquisition or construction of general capital assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the internal service fund include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. All of Metro Government's proprietary activities, except for the internal service fund, qualify and are reported as discretely presented component units; therefore, the primary government does not include a business-type activities column in the government-wide financial statements.

Internal service funds account for the cost of purchased insurance, the operation and administration of the Metro Government's self-insurance programs, and the cost of administering and collecting the Metro Government's occupational tax.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments. Metro Government reports the following fiduciary funds:

- The Private Purpose Trust Fund is used to account for a discount loan program.
- The Pension & Benefit Trust Fund is used to account for the Firefighters' Pension Fund and the Policemen's Retirement Fund
- Agency funds are used to account for assets that Metro Government holds on behalf of others as their agent, including IARC, the Police Property Room, and the Revenue Commission.

E. Budgets

Budgets are adopted consistent with generally accepted accounting principles. An annual appropriated budget is adopted for the General Fund. This appropriated budget includes all transfers to capital projects funds for which transfers are designated for subsequent years' capital expenditures or for transfer to other capital or debt service funds or accounts.

Formal budgets are not adopted for the Special Revenue Fund or for the Debt Service Funds because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and transfers are budgeted in the General Fund to comply with these requirements. All annual appropriations from the General Fund lapse at year-end, except for unexpended grant and encumbered appropriations. Project-length financial plans are presented for all capital project funds.

On or before June 1 of each year, pursuant to state statute, the Mayor proposes an Executive Budget to the Metro Council, incorporating an estimate of revenues and recommended appropriations from the General Fund. The Metro Council may hold hearings and discuss and amend the Executive Budget. On or before June 30 of each year, as required by state statute, the Metro Council adopts the Executive Budget, as it may have been amended, as the approved budget for the fiscal year beginning July 1. An

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

affirmative vote of a majority of the Metro Council is required to change the proposed appropriations or to revise revenue estimates contained in the Executive Budget. An affirmative vote of the majority of the Metro Council is also required to amend the budget once it has been approved or to approve any supplemental appropriations.

All budget adjustments at the department level must be approved by the Chief Financial Officer consistent with the approved budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriations, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

F. Cash Deposits and Investments

Cash and cash equivalents include amounts in demand deposits as well as various short-term investments, which consist of highly liquid investments with maturity of three months or less when purchased. State statutes authorize Metro Government to invest in instruments guaranteed by the U.S. Government or its agencies and in repurchase agreements with banks that conduct business in the state. The Firefighters' Pension Fund and the Policemen's Retirement Fund have no restrictions on the type of investments that they enter into as long as due diligence is exercised. See footnote 2 for additional information.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value based on quoted market values.

Certain cash and investment amounts are classified on the statement of net assets as restricted because applicable bond indentures or other legal provisions limit their use. Restricted cash and cash equivalents are included and used for their respective purposes.

G. Taxes Receivable

Net taxes receivable not expected to be collected within sixty days after the close of the fiscal year, thus not available to pay current liabilities at June 30, 2006, have been recorded in the balance sheet of the general fund as deferred revenue.

This is Metro Government's property tax calendar:

<u>Date</u>	<u>Event</u>
January 1, year of levy	Assessment date
October 1, year of levy	Taxes levied
November 30, year of levy	2% discount allowed
December 31, year of levy	Gross amount due
January 31, following year	5% penalty added
April 7, following year	10% interest plus 10% penalty added to above
May 1, following year	Delinquent date, \$16 penalty added to above

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

The Jefferson County Clerk collects personal property tax on vehicles when registered. The Jefferson County Sheriff bills and collects all property taxes on real estate and personal property excluding vehicles. Delinquent property bills are turned over to the County Clerk on May 1. Property tax revenues are recognized when levied to the extent that they result in current receivables.

Allowance for uncollectibles is composed of tax receivables which have been deemed uncollectible based on a trend analysis of collections over the past five fiscal years, and for loans receivable based on an analysis which mainly considers payments past due.

H. Interfund Receivables/Payables

During the course of operations, certain transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. These accounts exist solely to balance transactions between funds and are eliminated on the government-wide statement of net assets.

I. Land Held for Development

Land held for development is stated at cost. Land and related costs are capitalized as incurred and charged to operations as related parcels are sold or otherwise transferred.

J. Inventories and Prepaid Items

Inventories are valued at cost, which approximates market, using the first-in, first-out ("FIFO") method. The costs of certain inventories are recorded as expenditures when purchased.

In the fund financial statements, reported inventories in the general fund are equally offset by a reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of total assets.

Payments made to vendors for goods and services that will benefit periods beyond June 30, 2006 are recorded in assets as prepaid items.

K. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. Metro Government defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist, including infrastructure acquired prior to June 30, 1980. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation of capital assets for the primary

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

government is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful life</u>
Land Improvements	20
Buildings & Improvements	25-40
Machinery & Equipment	5-12
Vehicles	4-20
Treasures	25
Infrastructure	10-40

Information regarding depreciation methods and useful lives of Metro Government's component units is available in each of the respective component unit's financial reports.

L. Compensated Absences

Vested and accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported in the fund's financial statements as an expenditure and a fund liability of the governmental fund that will pay it only when the liability has matured. In prior years the general fund typically has been used to liquidate these liabilities. In the government-wide statement of net assets, the total amount of vested or accumulated vacation leave is reported within the liabilities. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation pay may be accumulated up to 60 days. Earned vacation pay up to a maximum of 40 days is payable upon termination of employment.

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for sick pay benefits in the government's fund financial statements, but is reported in the government-wide financial statements. Sick leave, which has no maximum accumulation, is charged to expense when paid.

Qualified participants in the County Employee's Retirement System ("CERS"), under certain circumstances, are eligible to convert accrued sick pay benefits into additional credit for years of service

M. Long-term Debt and Obligations

In the government-wide financial statements, proprietary fund types in the fund financial statements and component units financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

1. Summary of Significant Accounting Policies, continued

reported as other financing sources or other financing uses, respectively, and issuance costs are reported as debt service expenditures.

N. Claims and Judgments Payable

Claims and judgments payable represents estimates for medical, automobile liability, workers' compensation, and other claims incurred as of June 30, 2006. This liability includes both reported and unreported events. This amount was determined by Metro Government's management and also includes actuarially determined amounts by Metro Government's independent insurance administrators.

O. Reserved Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for use for a specific purpose.

P. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. All other interfund transactions are reported as operating transfers.

Q. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

R. Louisville Water Company Dividends

The LWC has a quarterly dividend policy. Because the reporting period of the LWC covers the year ended December 31, 2005, a timing difference arises and causes a difference in the dividends paid and received as illustrated by the following schedule:

Date paid	LWC Dividends Paid	Revenue Commission Dividends Received
March 31, 2005	\$ 3,329,505	
June 30, 2005	3,329,505	
September 30, 2005	3,329,505	\$ 3,792,819
December 31, 2005	6,189,535	6,350,499
March 31, 2006		3,786,123
June 30, 2006		3,786,123
	\$ 16,178,050	\$17,715,564

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments

In March 2003, the GASB issued Statement No. 40 *Deposits and Investment Risk Disclosures*, which is effective for periods beginning after June 15, 2004. Risk disclosures in previous financial statements (under the provisions of GASB Statement No. 3) focused only on custodial credit risk. GASB Statement No. 40 not only addresses custodial credit risk, but other common areas of investment risk as well, including interest rate risk, credit risk, and concentration of credit risk.

A. Pooled Portfolio Investments

The following schedule presents the investments in Metro Government's pooled portfolio as of June 30, 2006, at fair value, with maturities (using the weighted average method), and credit risk ratings (from Moody's Investors Service):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>	<u>Credit Rating</u>
Money Market Mutual Funds	\$ 24,219,296	0 10	Aaa
U.S. Agency Discount Notes	24,753,500	0 19	Aaa
U.S. Agency Obligations	79,076,911	0.87	Aaa
Commercial Paper	29,818,682	0.13	P1
	<u>\$ 157,868,389</u>		
Portfolio weighted average maturity		0 51	

B. Non-Pooled Portfolio Investments

Non-pooled portfolio investments of the primary government include all restricted assets of the capital projects funds and debt service funds. These investments are subject to the same Metro Government investment policies as the pooled portfolio investments. Non-pooled portfolio investments as of June 30, 2006, are summarized below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>	<u>Credit Rating</u>
U.S. Government Money Market Mutual Funds	<u>\$ 25,286,390</u>	0.11	Aaa

C. Custodial Credit Risk

Custodial credit risk for deposits and investments is the risk that, in the event of failure by a financial institution, Metro Government may not be able to recover the value of its deposits and investments or collateral securities that are in the possession of the financial institution. Metro Government's investment policy dictates that all cash maintained in any financial institution named as a depository be collateralized, the collateral held in the name of the Metro Government, and that investments be registered in the name of the Metro Government. Collateral must be held by an independent third-party custodian.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

Metro Government is fully collateralized and all investments were held in the Metro Government's name as of June 30, 2006.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. Metro Government's formal investment policy does limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investments are made based upon prevailing market conditions at the time of the transaction. According to the Metro Government investment policy, maintenance of adequate liquidity to meet the cash flow needs of Metro is essential. Assets categorized as short-term operating funds will be invested in permitted investments maturing in 12 months or less, with an average weighted maturity not to exceed six months. The core portfolio may be invested in permitted investments with a stated maturity of up to five years, with an average weighted maturity not to exceed two years.

E. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the "prudent investor" standard outlined in Metro Government's investment policy to ensure that (a) due diligence is exercised in accordance with State law, (b) any negative deviations are reported timely and (c) reasonable action is taken to control any adverse developments. Metro Government's investment policy dictates that investments in commercial paper have a credit rating of no less than 'A1' (or its equivalent) at the time of purchase.

F. Concentration of Credit Risk

Metro Government's investment policy requires diversification of the overall portfolio to eliminate the risk of loss from an over-concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Treasury Obligations	100%
Federal Agency Obligations	100%
Federal Agency Obligations (Callable)	50%
Repurchase Agreements	100%
Commercial Paper	*20%
Bankers' Acceptances	*20%
Collateralized/Insured Certificates of Deposit	50%
Uncollateralized Certificates of Deposit	*20%
Municipal Obligations	10%
Money Market Mutual Funds	100%

* The combined amount of these investments shall not exceed twenty percent of the total book value of the portfolio at the date of acquisition.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

The investment policy dictates that the Metro Government portfolio will be further diversified to limit the exposure to any one issuer. No more than 5% of the Metro portfolio will be invested in the securities of any single issuer with the following exceptions:

	<u>Maximum</u>
U.S. Treasury	100%
Each Federal Agency	35%
Each Repurchase Agreement Counterparty	25%
Money Market Mutual Funds	50%

G. Revenue Commission

The bank balances at June 30, 2006, including cash with paying agents, were \$5,571,743. Of this amount \$100,000 was covered by federal depository insurance. The remainder as collateralized by the bank holding deposits in the Revenue Commission's name.

The investment balances at June 30, 2006 of \$43,722,235 consists of a certificate of deposit with a local bank for \$100,000 and the remainder at JP Morgan Securities in money market mutual funds. Investments at JP Morgan had an average weighted maturity of approximately two months and a credit rating of Aaa as supplied by Moody's.

Interest income is remitted to the Metro Government and to the various governmental units in accordance with an agreed-upon allocation formula. An investment fee of 10% of investment income is charged to the Transient Room Tax Agency Fund.

Custodial Credit Risk – Custodial credit risk for deposits and investments in the risk that, in the event of failure by a financial institution, the Revenue Commission may not be able to recover the value of its assets held by such financial institution. Except as follows, the Revenue Commission's investment policy states that all cash maintained in any financial institution by collateralized by certain types of investments. With the express approval of the Commissioner's, the Revenue Commission may invest up to 10% of its investment portfolio in uninsured certificates of deposit at authorized financial institutions.

Interest Rate Risk – Interest rate risk is the risk that changes in the interest rates on investments will adversely affect their underlying fair market value. While the Revenue Commission's investment policy does not specifically address this matter, it has been management's practice to limit investment maturities in order to manage its exposure to reduction in fair value that may result from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments are made under the "prudent person rule" outline in the Revenue Commission's investment policy. The policy states that "investments shall be made with judgment and care under prevailing circumstances, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived." The investment policy does not address diversification of the investment portfolio, but does provide the following guidelines on the types of investments that can be made.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

In accordance with its investment policy, the Revenues Commission is permitted to invest in the following:

1. Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, provided that delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian.
2. Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States government.
3. Obligations of any corporation of the United States government.
4. Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institutions which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured.
5. Bankers' acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency.
6. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and instrumentalities.
7. Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency.

H. Fiduciary Funds

The Mass Transit Trust Fund is required to follow investment policies in accordance with KRS 66.480 (see the Mass Transit audit report for additional discussion of allowed investments). The Escrow and Deposit Fund is governed by the Metro investment policy described within this note.

The Firefighters' Pension Fund had deposits of \$238,106 at June 30, 2006. Of this amount, \$100,000 was covered by the Federal Depository Insurance Corporation (FDIC). The remaining \$138,106 was not insured or collateralized by securities held by a pledging financial institution. The Policemen's Retirement Fund had deposits of \$108,502 at June 30, 2006. Of this amount, \$100,000 was insured by the FDIC. The remaining \$8,502 was not insured or collateralized by securities held by a pledging financial institution.

The Firefighters' Pension Fund and Policemen's Retirement Fund are each governed by a Board of Trustees, which is ultimately responsible for the appropriateness of its investment policies and the execution of those policies to meet the funds' investment objectives. The Board's work in conjunction with investment managers and financial advisors to determine the appropriate asset mix within each investment type pursuant to asset allocation parameters set by the Boards. Investments are to be made with "care, skill and prudence" under the market circumstances prevailing at the time with the primary objectives of (a) preserving principal, (b) producing a combination of income and liquidity sufficient to meet monthly pension payment requirements and (c) on a

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

long-term basis, producing real total returns sufficient to meet the lifetime pension requirements.

Both the Firefighters' Pension Fund and Policemen's Retirement Fund trustees desire a balanced portfolio diversified appropriately among the three primary asset classes of marketable securities: (1) liquid reserves, (2) fixed income securities, and (3) common stock. Allowable investments include domestic and international common stocks, government and corporate bonds, and short-term fixed income securities maturing in one year or less. All fixed income investments in the Firefighters' Pension Fund and Policeman's Retirement Fund must be rated Baa or greater at the time of purchase.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

Metro fiduciary fund investments are summarized in the table below as of June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Years</u>	<u>Credit Rating</u>
Mass Transit Trust Fund			
Money Market Mutual Funds	\$ 10,012,329	0.08	Aaa
Escrow and Deposit Funds			
U.S. Treasury Obligations	\$ 8,092,674	9.64	Aaa
U.S. Agency Obligations	998,140	1.44	Aaa
U.S. Agency Discount Notes	2,004,516	0.71	Aaa
Money Market Funds	501,628	0.08	Aaa
	<u>\$ 11,596,958</u>		
Portfolio weighted average maturity		6.97	
Firefighters' Pension Fund			
U.S. Government Obligations	\$ 2,677,246	6.46	Aaa
U.S. Agency Obligations	620,517	4.01	Aaa
Corporate Bonds	42,635	2.80	Aaa-Aa
Equity Securities	8,115,195		
U.S. Government Money Market Funds	93,031	0.10	Aaa
Other Investments	100,359		
	<u>\$ 11,648,983</u>		
Portfolio weighted average maturity		5.80	
Policemen's Retirement Fund			
U.S. Agency Obligations	1,384,711	6.81	Aaa
Corporate Bonds	855,802	19.58	Aaa-Baa
Equity Securities	8,529,778		
Money Market Funds	183,666	0.14	A
Other Investments	205,018		
	<u>\$ 11,158,975</u>		
Portfolio weighted average maturity		10.81	

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

I. Component Units

For complete information on custodial credit risk, interest rate risk, credit risk, and concentration of credit risk, refer to the individual reports of each component unit. Summarized investment information for the component units is included in the table below:

Investment Type	Fair Value	Weighted Average Maturity in Years	Credit Rating
LWC			
U S Treasury Obligations	\$ 4,700,001	7.88	Aaa
Money Market Funds	1,047,593	0.08	Aaa
	<u>\$ 5,747,594</u>		
Portfolio weighted average maturity		6.45	
PARC			
U S Treasury Money Market Funds	<u>\$ 18,233,414</u>	0.03	Aaa
IARC			
U S Treasury Bills	\$ 1,359,818	0.24	Aaa
U.S. Government Money Market Funds	63,129	0.08	Aaa
	<u>\$ 1,422,947</u>		
Portfolio weighted average maturity		0.24	
Riverport			
U S Agency Discount Notes	\$ 3,491,580	0.40	Aaa
U S Agency Obligations	4,541,766	1.17	Aaa
	<u>\$ 8,033,346</u>		
Portfolio weighted average maturity		0.84	
MSD			
U S Treasury Obligations	\$ 428,000	0.50	Aaa
U S. Agency Discount Notes	27,358,000	0.35	Aaa
Tax Exempt State & Municipal bonds	5,002,000	0.02	Aaa
Commercial Paper	14,082,000	0.08	P1
Money Market Funds	14,131,000	0.12	Aaa
Repurchase Agreement	100,685,000		
Corporate Bonds	4,583,000	0.02	Aa
	<u>\$ 166,269,000</u>		
Portfolio weighted average maturity		0.20	
LSC			
Corporate Bonds	\$ 316,297	0.02	A
Municipal Bonds	150,000	0.08	Aaa
Municipal Bonds	55,000	0.02	A
Other Investments	42,515		
	<u>\$ 563,812</u>		
Portfolio weighted average maturity		0.04	

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

2. Cash Deposits and Investments, continued

As of June 30, 2006, TARC has \$1,780,446, PARC has \$33,283, and LSC has \$631,339 in deposits which were not covered by FDIC insurance and were not collateralized with securities held by a pledging financial institution.

3. Disaggregation of Accounts Receivable and Accounts Payable

Accounts receivable are amounts owed to Metro Government as of June 30, 2006. Those amounts to be received within one year are considered current. All others are considered non-current.

Receivables at June 30, 2006 for Metro Government's individual major funds, internal service funds, and fiduciary funds in the aggregate, including allowance for uncollectibles, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Units</u>
Receivables:								
Taxes	\$ 6,213,400						\$ 6,213,400	
Accounts	13,042,167	\$ 1,972,763	\$ 46,283	\$ 22,584	\$ 407,235	\$ 1,604,300	17,095,332	\$ 40,282,798
Loans	2,290,130	13,345,283	2,263,281				17,898,694	
Notes	252,819		8,111,620				8,364,439	1,302,679
Gross receivables	21,798,516	15,318,046	10,421,184	22,584	407,235	1,604,300	49,571,865	41,585,477
Less allowance for uncollectibles	1,637,950	6,713,105					8,351,055	1,316,456
Net total receivables	<u>\$ 20,160,566</u>	<u>\$ 8,604,941</u>	<u>\$ 10,421,184</u>	<u>\$ 22,584</u>	<u>\$ 407,235</u>	<u>\$ 1,604,300</u>	<u>\$ 41,220,810</u>	<u>\$ 40,269,021</u>

Accounts payable are amounts owed by Metro Government as of June 30, 2006. Those liabilities to be paid within one year are considered current. All others are considered non-current.

Payables at June 30, 2006 for Metro Government's individual major funds, internal service funds, and fiduciary funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Units</u>
Payables:								
Vendors	\$ 11,020,841	\$ 6,437,175	\$ 1,401,647	\$ 542,579	\$ 1,730,503	\$ 160,525	\$ 21,293,270	\$ 33,065,075
Notes						3,500,000	3,500,000	61,404,989
Other	1,859,736					159,445	2,019,181	
	<u>\$ 12,880,577</u>	<u>\$ 6,437,175</u>	<u>\$ 1,401,647</u>	<u>\$ 542,579</u>	<u>\$ 1,730,503</u>	<u>\$ 3,819,970</u>	<u>\$ 26,812,451</u>	<u>\$ 94,470,064</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

4. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 282,646,899	\$ 4,838,383	\$ (40,000)	\$ 287,445,282
Land improvements	3,837,067	318,350	(318,350)	3,837,067
Construction in progress	25,978,184	14,245,638	(4,115,131)	36,108,691
Works of art	255,000			255,000
Total capital assets not being depreciated	<u>312,717,150</u>	<u>19,402,371</u>	<u>(4,473,481)</u>	<u>327,646,040</u>
Other capital assets:				
Land improvements	76,235,959	1,965,783	(10,164)	78,191,578
Buildings	342,913,135	1,811,021	(195,800)	344,528,356
Machinery and equipment	59,456,084	8,745,567	(3,351,687)	64,849,964
Vehicles	87,475,938	3,993,377	(2,314,036)	89,155,279
Collections & Works of art	33,056,706	3,983,430	(3,564,499)	33,475,637
Infrastructure	872,041,764	13,673,602	(523,195)	885,192,171
Total other capital assets at historical cost	<u>1,471,179,586</u>	<u>34,172,780</u>	<u>(9,959,381)</u>	<u>1,495,392,985</u>
Less accumulated depreciation for:				
Land improvements	(28,706,112)	(3,261,815)		(31,967,927)
Buildings	(115,727,745)	(7,253,305)	80,277	(122,900,773)
Machinery and equipment	(43,631,195)	(5,535,812)	857,132	(48,309,875)
Vehicles	(65,783,326)	(4,775,778)	2,661,912	(67,897,192)
Collections & Works of art	(23,679,397)	(2,569,424)	3,564,499	(22,684,322)
Infrastructure	(670,833,509)	(40,322,061)		(711,155,570)
Total accumulated depreciation	<u>(948,361,284)</u>	<u>(63,718,195)</u>	<u>7,163,820</u>	<u>(1,004,915,659)</u>
Other capital assets, net	<u>522,818,302</u>	<u>(29,545,415)</u>	<u>(2,795,561)</u>	<u>490,477,326</u>
Governmental activities capital assets, net	<u>\$ 835,535,452</u>	<u>\$ (10,143,044)</u>	<u>\$ (7,269,042)</u>	<u>\$ 818,123,366</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

4. Capital Assets, continued

Depreciation expense was charged to governmental activities as follows:

General Government	
Metro Council	\$ 986
Mayor's Office	30,508
Board of Elections	378,609
County Clerk	5,685
Finance Department	2,163
Information Technology	1,560,761
Police Department	749,567
Fire Department	780,095
Emergency Medical Services	172,767
Emergency Management Agency	377,860
Corrections Department	804,719
Youth Detention Services	9,630
Public Works Department	40,938,308
General Services Administration	9,031,056
Solid Waste Management Services	9,336
Inspections, Permits and Licenses	10,595
Animal Control Services	16,647
Department of Neighborhoods	3,470
Parks Department	892,433
Louisville Free Public Library	2,614,452
Louisville Zoological Gardens	904,650
Metro Development Authority	1,888,213
Planning and Development Services	3,925
Housing Department	2,700
Air Pollution Control	114,788
Waterfront Development Corporation	2,194,799
Redevelopment Authority	1,197
Health Department	204,685
Human Services	296
Kentuckiana Works	13,295
Total depreciation expense	<u>\$ 63,718,195</u>

In addition, depreciation on capital assets held by the government's internal service funds is allocated to the various functions based on the percentage of function expenditures to total expenditures.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

4. Capital Assets, continued

Capital asset activity for the LWC for the year ended December 31, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 6,122,892	\$ 1,217,383		\$ 7,340,275
Construction in progress	63,769,042	68,526,575	\$ (77,421,592)	54,874,025
Total capital assets not being depreciated	69,891,934	69,743,958	(77,421,592)	62,214,300
Other capital assets:				
Buildings	71,909,507	8,971,991	(103,084)	80,778,414
Machinery and equipment	36,793,808	8,004,558	(1,030,293)	43,768,073
Infrastructure	716,880,073	54,154,695	(4,381,221)	766,653,547
Total other capital assets at historical cost	825,583,388	71,131,244	(5,514,598)	891,200,034
Less accumulated depreciation for:				
Buildings	(27,999,628)	(1,681,948)	52,583	(29,628,993)
Machinery and equipment	(22,860,210)	(3,399,140)	990,501	(25,268,849)
Infrastructure	(180,664,836)	(13,719,838)	1,074,346	(193,310,328)
Total accumulated depreciation	(231,524,674)	(18,800,926)	2,117,430	(248,208,170)
Other capital assets, net	594,058,714	52,330,318	(3,397,168)	642,991,864
Capital assets, net	<u>\$ 663,950,648</u>	<u>\$ 122,074,276</u>	<u>\$ (80,818,760)</u>	<u>\$ 705,206,164</u>

Capital asset activity for PARC for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 9,304,855			\$ 9,304,855
Construction in progress	3,356,275	\$ 1,535,255	\$ (3,405,649)	1,485,881
Total capital assets not being depreciated	12,661,130	1,535,255	(3,405,649)	10,790,736
Other capital assets:				
Buildings and Improvements	76,942,080	2,845,895	(3,589)	79,784,386
Machinery and equipment	3,474,783	512,223	(419,620)	3,567,386
Total other capital assets at historical cost	80,416,863	3,358,118	(423,209)	83,351,772
Total accumulated depreciation	(31,163,478)	(3,367,313)	78,443	(34,452,348)
Other capital assets, net	49,253,385	(9,195)	(344,766)	48,899,424
Capital assets, net	<u>\$ 61,914,515</u>	<u>\$ 1,526,060</u>	<u>\$ (3,750,415)</u>	<u>\$ 59,690,160</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

4. Capital Assets, continued

Capital asset activity for IARC for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,177,782			\$ 3,177,782
Other capital assets:				
Buildings	23,504,635	\$ 307,011		23,811,646
Machinery and equipment	10,471,553	441,447	\$ (400,805)	10,512,195
Vehicles	70,376,127	782,484	(4,215,538)	66,943,073
Total other capital assets at historical cost	104,352,315	1,530,942	(4,616,343)	101,266,914
Less accumulated depreciation	(56,921,851)	(6,665,658)	4,616,343	(58,971,166)
Other capital assets, net	47,430,464	(5,134,716)	-	42,295,748
Capital assets, net	<u>\$ 50,608,246</u>	<u>\$ (5,134,716)</u>	<u>\$ -</u>	<u>\$ 45,473,530</u>

Capital asset activity for Riverport for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land and improvements	\$ 8,676,613		\$ (8,754)	\$ 8,667,859
Other capital assets:				
Buildings	28,680,907	\$ 416,483	(91,573)	29,005,817
Other	183,885	24,005	(36,548)	171,342
Total other capital assets at historical cost	28,864,792	440,488	(128,121)	29,177,159
Less accumulated depreciation for:				
Buildings	(13,164,191)	(835,293)	13,406	(13,986,078)
Other	(140,982)	(19,725)	36,548	(124,159)
Total accumulated depreciation	(13,305,173)	(855,018)	49,954	(14,110,237)
Other capital assets, net	15,559,619	(414,530)	(78,167)	15,066,922
Capital assets, net	<u>\$ 24,236,232</u>	<u>\$ (414,530)</u>	<u>\$ (86,921)</u>	<u>\$ 23,734,781</u>

Capital asset activity for MSD for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 297,705,000	\$ 75,304,000	\$ (161,248,000)	\$ 211,761,000
Other capital assets:				
Infrastructure	1,874,875,000	175,885,000	(1,001,000)	2,049,759,000
Less accumulated depreciation	(477,624,000)	(51,173,000)	1,001,000	(527,796,000)
Other capital assets, net	1,397,251,000	124,712,000	-	1,521,963,000
Capital assets, net	<u>\$ 1,694,956,000</u>	<u>\$ 200,016,000</u>	<u>\$ (161,248,000)</u>	<u>\$ 1,733,724,000</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

4. Capital Assets, continued

Capital asset activity for the LSC for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Exhibits in progress	\$ 2,876,615		\$ (2,807,309)	\$ 69,306
Other capital assets:				
Leasehold improvements	4,218,290	\$ 521,211		4,739,501
Machinery and equipment	1,581,574	41,992		1,623,566
Museum exhibits	13,842,780	3,429,582		17,272,362
Total other capital assets				
at historical cost	19,642,644	3,992,785	-	23,635,429
Less accumulated depreciation	(11,562,786)	(1,513,587)		(13,076,373)
Other capital assets, net	8,079,858	2,479,198	-	10,559,056
Capital assets, net	<u>\$ 10,956,473</u>	<u>\$ 2,479,198</u>	<u>\$ (2,807,309)</u>	<u>\$ 10,628,362</u>

5. Land Held for Development

Land held for development at June 30, 2006 is summarized as follows:

	Riverport Authority
Land held for development	<u>\$ 6,227,110</u>

6. Risk Management

Metro Government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; professional liability exposures; injuries to employees; and natural disasters. The Insurance and Risk Management Fund ("Fund"), an internal service fund, was established in 1976 to consolidate all of the former City's insurance or self-insurance under a comprehensive risk management program. Under merger, this program now includes all Metro Government departments including PARC and the former Jefferson County Fiscal Court Risk Management Fund established in 1974. The Fund consists of a comprehensive self-insurance program relating to the following:

- A. Automobile Liability: Self-insured up to \$500,000 per occurrence. Excess coverage is purchased through the Louisville Area Governmental Self-Insurance Trust ("LAGIT").
- B. Worker's Compensation (covering all employees): Self-insured up to \$1,000,000 per occurrence. Excess coverage is purchased above this retained level.
- C. Unemployment Compensation: Completely self-insured.
- D. Group Health Coverage: Various programs including HMO and PPO are available as options to all eligible Metro Government employees. Beginning in January 2004, Metro Government Employees could participate in the newly formed health self-insurance fund, which is administered by Anthem and Humana. Effective January 1, 2005, the pharmaceutical benefit is administered by Walgreens Health Initiative.
- E. General Liability: Various general liability exposures (including public official liability, law enforcement liability, medical professional liability, employers liability, and

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

6. Risk Management, continued

employment practices liability), self-insured up to a \$500,000 deductible per occurrence. Employer's liability has a \$1,500,000 per occurrence deductible (\$1,000,000 limit of liability above a \$500,000 self-insured retention is provided by an underlying commercial excess insurance policy). Excess coverage is purchased through LAGIT.

F. Automobile Physical Damage: Excess coverage is purchased for catastrophic losses through Louisville Area Governmental General Insurance Trust ("LAGGIT") above a \$100,000 self-insured retention per occurrence.

G. Real and Business Personal Property: Metro Government's property exposures are self-insured up to \$250,000 per occurrence, except for flood coverage which carries a deductible of \$250,000 in addition to the amount of insurance available under the National Flood Insurance Program, whether purchased or not. Excess coverage is purchased on a blanket limit basis under LAGGIT for up to \$500 million, subject to certain sub-limits for specific exposures.

Revenues come from either Metro Government's general fund or from interagency charges developed through an independent actuarial study each year. Revenues are forecasted to match expenses, which include estimated incurred losses for both known and incurred but not reported claims, premiums for excess insurance coverage to complement the self-insurance programs, various taxes and assessments, and administrative operating expenses.

It is Metro Government's policy to fund its reserves for all property and liability exposures by charging to expense the estimated reserve amounts anticipated for claims reported during the fiscal period in which the claim occurs. An additional expense is charged at the end of the fiscal period for claims which are anticipated to have occurred during the period, but have not yet been reported.

In addition to the comprehensive self-insurance programs mentioned above, Metro Government purchases various types of primary insurance coverage, including government crime coverage (employee dishonesty and faithful performance coverage), aircraft and watercraft liability and hull coverage, and long-term disability coverage for full-time employees.

The claims liability of \$20,264,916 reported in the Fund at June 30, 2006, is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*. Claims liabilities are estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Claims liabilities include specific, incremental claim adjustment expenses; allocated loss adjustments; and are reduced for estimated recoveries on unsettled claims. Changes in the Fund's claims liability amount in fiscal years 2005 and 2006 were as follows:

Year ending June 30	Balance Beginning of year	Claims and Changes in Estimates	Claim Payments	Balance End of year
2005	\$ 17,655,545	\$ 44,487,507	\$ 42,804,832	\$ 19,338,220
2006	\$ 19,338,220	\$ 47,795,462	\$ 46,868,766	\$ 20,264,916

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

The liability associated with the health self-insurance fund as of June 30, 2006 is \$3,100,000.

Metro Government is also a member of LAGIT (for liability exposures) and a member of LAGGIT (for property exposures) which are separate risk-sharing mechanisms formed for public entities located in Jefferson County, Kentucky. The Metro Risk Management Division has the administrative responsibility for actual operations of LAGIT and LAGGIT and independently audited financial statements of each trust are available through the Metro Government Department of Finance. For this service, Metro Government receives an annual administrative fee of \$92,818 of which \$14,857 was transferred to the County Attorney's Office for legal services.

Metro Government has not had any settled claim that has exceeded the above coverage's in any of the past three fiscal years.

The LWC, Riverport, LSC, MSD and IARC have established and administer various insurance and self-insurance programs in the areas of Automobile Liability, General Liability, Employee Dishonesty, Workers' Compensation and Real and Personal property with various retentions and deductibles to protect their assets.

Automobile liability and general liability, as well as real and personal property excess insurance, are maintained through the LAGIT and LAGGIT programs for MSD and IARC.

Metro Government, by contract, is responsible for LSC's primary general liability exposures; therefore they are also members of LAGIT.

7. Long-Term Debt

A. Primary Government

Upon merger, Metro Government assumed all long-term debt of the former City of Louisville and Jefferson County. Prior to merger, the City and County each issued General Obligation Bonds and First Mortgage and Lease Revenue Bonds and notes to provide funds for the acquisition and construction of major capital facilities or to refund prior bond issues. The General Obligation Bonds are direct obligations and pledge the full faith and credit of Metro Government.

There are \$236,750,000 of General Obligation Bonds outstanding at June 30, 2006. The primary collateral for the General Obligation Bonds is the occupational license tax and net profits license tax collected by the Revenue Commission. The Revenue Commission is the fiscal agent for general obligation bonded debt issued by the City of Louisville before January 6, 2003, and by Metro Government thereafter. Metro Government is the fiscal agent for general obligation bonded debt issued before January 6, 2003, by Jefferson County Fiscal Court. Metro Government's general fund is contingently liable as guarantor of the general obligation bonded debt.

In November 2004, Metro Government issued \$5,655,000 of General Obligations Bonds, Series 2004B for the purpose of financing capital improvements of designated parking facilities for PARC. PARC has entered into an operating sublease agreement with Metro Government to provide payment in amounts equal to the debt service on the series 2004B bonds. The sublease is renewable annually through fiscal year 2025 at the option of PARC.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

General Obligation Bonds outstanding, including accreted interest, at June 30, 2006, are as follows (in thousands):

Description of Issue	Original Issue Amount	Interest Rate	Maturity During Year Ended June 30	Debt Outstanding June 30, 2006
City of Louisville General Obligation				
Serial Bonds:				
Refunding Bonds, Series 1998A	\$ 25,650	3.95 to 5.125%	2019	\$ 18,965
Series 2001A	13,490	3.50 to 5.00	2022	11,595
Series 2002A Exempt	38,900	3.00 to 5.00	2024	36,150
Series 2002B Taxable	8,550	3.625 to 6.05	2024	8,015
Jefferson Co. General Obligation				
Bonds:				
1998A Serial Bonds	28,650	4.00 to 4.90	2019	21,125
1999A Serial & Term Bonds	8,800	4.95 to 5.15	2009	1,100
1999B Serial & Term Bonds	6,790	4.95 to 5.15	2009	1,800
1999C Serial & Term Bonds	15,265	5.375 to 6.15	2016	10,660
2000A Term & Coupon Bonds	2,595	7.70	2016	1,860
2000B Capital Appreciation Bonds	50,096	5.35 to 6.00	2015	38,855
2001A Current Interest Bonds	36,900	5.00 to 5.50	2012	22,640
2001B Current Interest Bonds	2,885	5.00 to 5.50	2011	1,630
2002A Serial Coupon	32,995	3.25 to 4.75	2020	25,940
2002B Serial Coupon	16,450	2.75 to 3.00	2008	7,905
Louisville/Jefferson Co. Metro				
Government General Obligation				
Bonds:				
Series 2004A	23,840	3.00 to 5.00	2025	23,045
Series 2004B	5,655	3.00 to 5.00	2025	5,465
Total general obligation bonds				<u>\$ 236,750</u>

Debt service requirements to maturity, not including accreted interest, for General Obligation Bonds are as follows (in thousands):

Year ending June 30	Principal	Interest	Total
2007	\$ 21,254	\$ 10,510	\$ 31,764
2008	19,962	10,093	30,055
2009	17,608	9,689	27,297
2010	18,089	9,164	27,253
2011	17,967	8,655	26,622
2012-2016	70,090	33,533	103,623
2017-2021	40,570	9,518	50,088
2022-2025	19,545	1,631	21,176
Totals	<u>\$ 225,085</u>	<u>\$ 92,793</u>	<u>\$ 317,878</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

There are \$126,630,000 of First Mortgage and Lease Revenue Bonds outstanding at June 30, 2006. They are collateralized by mortgages on improvements to facilities acquired or constructed with debt proceeds. Annual debt service requirements are provided from the general fund in amounts pursuant to contracts and lease arrangements.

First Mortgage and Lease Revenue Bonds outstanding, including accreted interest, at June 30, 2006, are as follows (in thousands):

Description of Issue	Original Issue Amount	Interest Rate	Maturity During Year Ended June 30	Debt Outstanding June 30, 2006
City of Louisville Public Properties				
Corporation First Mortgage Bonds:				
Revenue Refunding Bonds,				
Series 1998	\$ 13,090	4.45 to 5.00%	2023	\$ 10,200
Revenue Bonds, Second Series 1998	23,200	5.50 to 6.375	2019	17,830
Jefferson Co. Lease Revenue Bonds:				
1992A Municipal Multiplier				
Term Bonds	16,764	6.75 to 7.00	2018	41,750
1997 Current Interest Bonds	66,000	5.20 to 5.50	2028	56,850
Total First Mortgage and Lease Revenue Bonds				<u>\$ 126,630</u>

Debt service requirements to maturity, not including accreted interest, for First Mortgage and Lease Revenue Bonds are as follows (in thousands):

Year ending June 30	Principal	Interest	Total
2007	\$ 2,775	\$ 4,611	\$ 7,386
2008	3,544	5,481	9,025
2009	4,672	7,222	11,894
2010	4,742	7,221	11,963
2011	4,836	7,170	12,006
2012-2016	29,015	43,960	72,975
2017-2021	24,880	22,033	46,913
2022-2026	18,900	5,299	24,199
2027-2028	8,280	689	8,969
Totals	<u>\$ 101,644</u>	<u>\$ 103,686</u>	<u>\$ 205,330</u>

Notes payables outstanding at June 30, 2006, are as follows (in thousands):

Description of Issue	Interest Rate	Maturity	Debt Outstanding June 30, 2006
IBM Credit Corporation	0.05%	2008	\$ 281
Union Trust Project	88% of prime	2007	37
Total notes payable			<u>\$ 318</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

Debt service requirements to maturity for notes payable are as follows (in thousands):

Year ending June 30	Principal	Interest	Total
2007	\$ 261	\$ 13	\$ 274
2008	57	1	58
Totals	<u>\$ 318</u>	<u>\$ 14</u>	<u>\$ 332</u>

Pursuant to the Internal Revenue code of 1986, as amended, Metro Government computes rebateable arbitrage on each of its outstanding bonds a minimum of every five years and at maturity. Metro Government has covenanted to rebate excess earnings on invested bond proceeds to the United States Treasury for each five-year computation period in accordance with the law. Arbitrage rebates due the federal government are reported as a liability in the Statement of Net Assets and Governmental Funds Balance Sheet. There was no arbitrage rebate liability for Metro Government at June 30, 2006.

B. Discretely Presented Component Units

i. Louisville Water Company

LWC had \$74,010,000 in Water System Revenue Bonds, Series 2000, \$43,750,000 in Water System Refunding Bonds, Series 2001, and \$272,500 in various Kentucky Infrastructure Authority loans and notes outstanding at December 31, 2005.

The Series 2000 bonds mature annually in amounts ranging from \$990,000 to \$5,870,000 from November 15, 2003 through 2025 and bear interest at rates ranging from 5.0% to 5.5%. The Series 2001 bonds mature annually in amounts ranging from \$3,495,000 to \$5,845,000 from November 15, 2001 through 2014 and bear interest at rates ranging from 4.0% to 4.7%.

Annual debt service requirements to maturity for Water System Revenue Bonds are as follows (in thousands):

Year ending December 31	Principal	Interest	Total
2006	\$ 6,210	\$ 5,795	\$ 12,005
2007	6,495	5,515	12,010
2008	6,800	5,222	12,022
2009	7,130	4,904	12,034
2010	7,480	4,570	12,050
2011-2015	37,210	17,232	54,442
2016-2020	20,065	10,270	30,335
2021-2025	26,370	4,379	30,749
Totals	<u>\$ 117,760</u>	<u>\$ 57,887</u>	<u>\$ 175,647</u>

ii. Parking Authority of River City, Inc.

PARC, an Enterprise Fund and a nonprofit corporation established by the City to assist in the development of the downtown riverfront area and other areas within the inner city, has \$21,285,000 of First Mortgage Revenue Refunding Bonds Series 1997, \$9,370,000 of First Mortgage Revenue Refunding Bonds Series 2001, and

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

\$18,815,000 of First Mortgage Revenue Bonds Series 2002 outstanding at June 30, 2006, less \$2,662,799 of unamortized discount and loss on bond refunding, equaling \$46,807,201 of outstanding debt shown on the statement of net assets. The Series 2002 bonds were issued in December 2002, and the proceeds are being used for construction of a parking garage at the Muhammad Ali Center and completion of construction and improvements to other existing parking garages.

The Series 1997 bonds mature annually in amounts ranging from \$1,886,808 to \$876,375 from December 1, 2003 through December 1, 2020 and bear interest ranging from 4.0% to 5.0%. The Series 2001 bonds mature semi-annually in amounts ranging from \$611,799 to \$603,644 from December 31, 2003 through December 1, 2020 and bear interest ranging from 3.5% to 4.625%. The Series 2002 bonds mature semi-annually in amounts ranging from \$440,801 to \$1,363,250 from December 1, 2003 through June 1, 2032 and bear interest ranging from 2.5% to 5.0%.

Annual debt service requirements to maturity for PARC Revenue Bonds are as follows (in thousands):

Year ending	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$	2,610	\$ 2,257	\$ 4,867
2008		2,715	2,147	4,862
2009		2,835	2,030	4,865
2010		2,960	1,905	4,865
2011		3,095	1,771	4,866
2012-2016		16,480	6,557	23,037
2017-2021		7,140	3,816	10,956
2022-2026		4,540	2,441	6,981
2027-2031		5,765	1,225	6,990
2032-2034		1,330	66	1,396
Totals	\$	<u>49,470</u>	<u>\$ 24,215</u>	<u>\$ 73,685</u>

iii. Louisville and Jefferson County Riverport Authority

Riverport has a loan payable to the Kentucky Economic Development Cabinet in connection with the construction of a bulk commodity terminal facility. The loan is payable annually through 2007 and bears interest at the rate of 5.5% per annum. Loan payments are waived if Riverport's gross proceeds are insufficient to cover port operator expenses and debt service in a given year. All loan payments were waived for the fiscal year ended June 30, 2006.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

Annual debt service requirements for the loan payable are as follows (in thousands):

Year ending June 30	Principal	Interest	Total
2007	\$ 853	\$ 3,713	\$ 4,566
2008	872	3,660	4,532
2009	926	3,607	4,533
2010	983	3,550	4,533
2011	58,624		58,624
Totals	<u>\$ 62,258</u>	<u>\$ 14,530</u>	<u>\$ 76,788</u>

iv. Metropolitan Sewer District

MSD has \$1,362,535,000 of Revenue Bonds outstanding as of June 30, 2006, less \$21,279,000 of an unamortized loss on refunding, equaling \$1,341,256,000 of outstanding debt shown on the statement of net assets. MSD's various bonds outstanding are listed in the following table (in thousands):

Description of Issue	Original Issue Amount	Interest Rate	Maturity During Year Ended June 30	Debt Outstanding June 30, 2006
Sewer and Drainage System				
Revenue Bonds:				
Series 1997A	\$ 51,245	5.25 to 6.00 %	2027	\$ 25,455
Series 1997B	68,350	4.00 to 5.20	2025	67,125
Series 1998A	260,000	4.25 to 9.00	2030	244,275
Series 1999A	300,000	5.25 to 6.50	2033	293,085
Series 2001A	300,000	5.00 to 5.50	2036	297,030
Series 2003A and 2003B	191,000	variable	2023	171,600
Series 2004A	100,000	5.00 to 5.25	2038	100,000
Series 2005A	64,740	3.00 to 5.00	2026	63,965
Series 2006A	100,000	4.00 to 5.00	2038	100,000
Total Sewer and Drainage System Revenue Bonds				<u>\$ 1,362,535</u>

Annual debt service requirements to maturity for Sewer and Drainage System Revenue Bonds are as follows (in thousands):

Year ending June 30	Principal	Interest	Total
2007	\$ 17,250	\$ 70,117	\$ 87,367
2008	18,190	68,923	87,113
2009	20,825	67,890	88,715
2010	21,795	66,898	88,693
2011	22,770	65,892	88,662
2012-2016	130,785	312,041	442,826
2017-2021	166,085	277,044	443,129
2022-2026	213,250	231,633	444,883
2027-2031	277,725	171,173	448,898
2032-2036	361,800	86,912	448,712
2037-2038	112,060	8,523	120,583
Totals	<u>\$ 1,362,535</u>	<u>\$ 1,427,046</u>	<u>\$ 2,789,581</u>

Continued

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

7. Long-Term Debt, continued

C. Summary of Debt Transactions:

Long-term liability activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Additions and Accreted Interest</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
GOVERNMENTAL ACTIVITIES:					
Bonds and notes payable:					
General obligation debt	\$ 256,773	\$ 2,147	\$ (22,170)	\$ 236,750	\$ 21,254
Revenue bonds	127,312	2,743	(3,425)	126,630	2,775
Notes payable	568		(250)	318	261
Total bonds and notes payable	<u>384,653</u>	<u>4,890</u>	<u>(25,845)</u>	<u>363,698</u>	<u>24,290</u>
Other liabilities:					
Capital lease	564		(64)	500	68
Claims and judgments	31,338	47,795	(46,869)	32,264	
Compensated absences	17,645	15,962	(15,129)	18,478	1,672
Total other liabilities	<u>49,547</u>	<u>63,757</u>	<u>(62,062)</u>	<u>51,242</u>	<u>1,740</u>
Governmental activities long-term liabilities	<u>\$ 434,200</u>	<u>\$ 68,647</u>	<u>\$ (87,907)</u>	<u>\$ 414,940</u>	<u>\$ 26,030</u>
COMPONENT UNITS:					
Bonds payable:					
LWC	\$ 124,213		\$ (6,181)	\$ 118,032	\$ 6,483
PARC	49,053		(2,246)	46,807	2,610
Riverport	62	63,000	(804)	62,258	853
MSD	1,256,651	\$ 100,000	(15,395)	1,341,256	17,250
Total bonds payable	<u>1,429,979</u>	<u>163,000</u>	<u>(24,626)</u>	<u>1,568,353</u>	<u>27,196</u>
Other liabilities:					
Claims and judgments	1,243	1,703	(1,228)	1,718	
Compensated absences	4,845		(133)	4,712	3,029
	<u>6,088</u>	<u>1,703</u>	<u>(1,361)</u>	<u>6,430</u>	<u>3,029</u>
Component units long-term liabilities	<u>\$ 1,436,067</u>	<u>\$ 164,703</u>	<u>\$ (25,987)</u>	<u>\$ 1,574,783</u>	<u>\$ 30,225</u>

Balances for claims and judgments include \$20,264,916 reported in the Insurance and Risk Management Fund, an Internal Service Fund.

8. Capital Lease Obligations

Jefferson County Fiscal Court financed the purchase of radio equipment for its public works department through a capital lease obligation of \$944,652, which has been assumed by Metro Government. The obligation requires quarterly payments of principal and interest of \$24,297 through September 2012. The interest rate of the obligation is 6.20%.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

8. Capital Lease Obligation, continued

Annual debt service requirements to maturity for capital leases are as follows:

Year ending June 30	Principal	Interest	Total
2007	\$ 67,718	\$ 29,471	\$ 97,189
2008	72,015	25,174	97,189
2009	76,585	20,604	97,189
2010	81,445	15,744	97,189
2011	86,613	10,576	97,189
2012-2013	116,036	5,451	121,487
Totals	<u>\$ 500,412</u>	<u>\$ 107,020</u>	<u>\$ 607,432</u>

9. Conduit Debt Obligations

Metro Government occasionally issues Industrial Revenue Bonds to assist local private-sector entities in financing new or expanded industrial, commercial or residential facilities deemed to be in the public interest. The bonds are collateralized by the facilities financed with the bond proceeds and are payable solely from a pledge of revenues to be derived from those facilities. The bonds and related interest do not represent or constitute an indebtedness of Louisville Metro Government or a pledge of faith and credit of Louisville Metro Government or any political subdivision thereof. Accordingly, the bonds and related assets are not included in Metro Government's financial statements.

10. Interfund Receivables, Payables, and Transfers

Interfund receivable and payable balances at June 30, 2006, are as follows:

Fund	Interfund Receivable	Interfund Payable
General	\$ 24,655,305	
Other Governmental	640,761	
Agency:		
Revenue Commission	10,808,282	
Excrow & Deposit		\$ 4,284
Mass Transit	3,053,097	
Internal Service:		
Revenue Commission	151,176	39,304,337
Totals	<u>\$ 39,308,621</u>	<u>\$ 39,308,621</u>

These balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

10. Interfund Transfers, Receivables, and Payables, continued:

Interfund transfers during the fiscal year ended June 30, 2006 were as follows:

<u>Transfers out:</u>	<u>Interfund Transfers</u>				<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund		\$ 11,375	\$ 117,957	\$ 42,644,871	\$ 42,774,203
Special Revenue Fund	\$ 1,426,628			184,151	1,610,779
Capital Projects Fund				30,247	30,247
Nonmajor Governmental Funds	545,921		208,000	791,581	1,545,502
Total transfers out	<u>\$ 1,972,549</u>	<u>\$ 11,375</u>	<u>\$ 325,957</u>	<u>\$ 43,650,850</u>	<u>\$ 45,960,731</u>

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. Customer Contributions for Water Pipeline Construction

The LWC requires consumers to make a deposit for the cost of construction of pipelines and special services. These advances are refundable, within certain time limits up to 20 years, under the terms of the various contracts.

The customer advances for construction account reflects the liability for probable refunds of construction advances at some future date. When the period during which the refund can be made has expired, any balance is transferred to contributions in aid of construction.

The cost of construction of pipelines and services paid for by the customers, which are not refundable, are reported on the statement of net assets as restricted for capital projects. The net increase in this account during the year totaled \$15,797,959 and is shown on the statement of revenues, expenses and changes in net assets as non-operating revenue.

12. Contingencies and Commitments

A. Litigation

The Metro Government has been named as a defendant in various legal actions, including litigation regarding the computation of overtime pay for firefighters in previous years. The ultimate outcome of these various legal actions cannot be determined with certainty. Management does not anticipate that such actions will have a material impact on the financial position of Metro Government.

B. Federal Grants

In the normal course of operations, the Metro Government receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

12. Contingent Liabilities, continued

granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise, as the result of audits of grant funds is not believed to materially affect the financial condition of Metro Government.

C. Lease and Sublease Agreement, University of Louisville Stadium Bonds

In 1997 Jefferson County issued \$18,500,000 in bonds, which was used to pay for a portion of the cost of constructing the University of Louisville Papa John's Cardinal Stadium. The University of Louisville Athletic Association ("ULAA") has agreed to pay all principal, interest, and premiums on the bonds and to maintain and insure the project so long as any bonds remain outstanding. However, pursuant to the terms of a lease and sublease agreement, in the event that the ULAA does not make the debt service payments, Metro Government is to pay for all principal, interest, and premiums on the bonds, subject to a maximum financial obligation in any fiscal year of \$2 million.

D. Construction Commitments

The Metro Government has active construction projects as of June 30, 2006. The projects include improvements to major roadways, government buildings, parks, and other various ongoing projects.

13. Deferred Compensation

LWC and MSD offer their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. MSD also offers their employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401(k). The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from the statement of net assets. Metro Government, the LWC and MSD therefore do not show these assets and liabilities on their respective statements of net assets.

14. Post-Employment Health Care Benefits

Retired Metro Government employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advanced-funded on an actuarially determined basis through the County Employees' Retirement System. As outlined in their respective union contracts, retired firefighters and policemen covered under the Pension Trust Funds may continue health care and life insurance through Metro Government, but they bear the full cost of premiums.

15. Landfill Closure and Post-closure Care Costs

Metro Government owns three landfill sites that were operated by the former City of Louisville, which are closed and not accepting waste. State and federal laws and regulations require certain maintenance and monitoring functions at the sites for 30 years after closure.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

15. Landfill Closure and Post-closure Care Costs, continued

If the landfills were still in operation, Metro Government would be required to report a portion of the closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each fiscal year end.

Because all landfills were closed in prior years, 100% of landfill closure and postclosure care costs, estimated at \$1,747,462, were recorded as an expense and corresponding liability at June 30, 1995, in the Capital Cumulative Reserve Fund of the former City. Payments and changes in estimates have decreased this liability from prior years to \$165,352 at June 30, 2006. Future costs may vary from that amount because of inflation, changes in technology, or changes in regulations.

16. Pension Plans

A. County Employees' Retirement System

i. Plan Description

Metro Government, the LWC, IARC, Riverport, MSD, and the Revenue Commission contribute to the County Employees Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems, an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for CERS. That report may be obtained by writing to the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

ii. Funding Policy

Plan members are required to contribute 5% (8% for participants in the Hazardous Duty Plan) of creditable compensation and Metro Government and the LWC are required to contribute at an actuarially determined rate. The rate as of June 30, 2006, is 10.98% (25.01% under the Hazardous Duty Plan) of participating employees' compensation. The contribution requirements of employers and plan members are established and may be amended by the CERS Board of Trustees.

Metro Government's contribution to the CERS for the years ending June 30, 2006, 2005, and 2004 were \$44,565,067, \$37,470,844, and \$30,888,750, respectively.

- The LWC's contributions to the CERS for years ending December 31, 2005, 2004, and 2003 were \$2,888,640, \$2,354,391, and \$2,092,949, respectively, equal to required contributions for each year.
- IARC's contribution to the CERS for the years ended June 30, 2006, 2005, and 2004 were \$2,738,701, 2,146,157, and \$1,517,959, respectively.
- Riverport's contribution to the CERS for the years ended June 30, 2006, 2005, and 2004 were \$33,160, \$28,570, and \$24,733, respectively.
- MSD's contribution to the CERS for the years ended June 30, 2006, 2005, and 2004 were \$3,288,000, 2,478,000, and \$2,201,000, respectively.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

16. Pension Plans, continued

- The Revenue Commission's contribution to the CERS for the years ended June 30, 2006, 2005, and 2004 were \$255,000, 189,000, and \$179,000, respectively.

B. Fire and Police Pension Trust Funds

i. Plan Descriptions

Most of the former City's firemen and policemen transferred to CERS in 1989 and 1986, respectively. For those who did not transfer, Metro Government contributes to the Firefighters' Pension Fund and the Policemen's Retirement Fund. Both of these are single employer defined benefit pension plans. These plans do not issue reports on a stand-alone basis.

The Funds provide retirement, death, and disability benefits. A member may retire under the provisions of the Firefighters' Pension Fund after reaching the age of 62 or having completed 20 years of service (25 years of service if hired after July 1, 1984). A member may retire under the provisions of the Policemen's Retirement Fund after reaching age 62 or having completed 20 years of service (25 years of service if hired on or after April 1, 1985). Employee accounts vest after 10 years of service under the Firefighters' Pension Fund and 5 years under the Policemen's Retirement Fund.

Employees who retire with 20 years of service are eligible to receive 50% of their three-year average salary (25 years of service are eligible to receive 56% of their three-year average salary, if hired after July 1, 1984) under the Firefighters' Pension Fund. The three-year average salary is the sum of the three highest fiscal years of annual base salary plus overtime and supplemental pay. Under the Policemen's Retirement Fund, employees who retire at or after age 62 with 5 or more years of service are entitled to receive payments for the remainder of their lives equal to 2% of their three-year average base salary times the number of years of service. Both Funds provide up to a maximum of 75% of the three-year average salary as the length of service increases. Upon termination, employees having completed 10 years of service but not considered eligible for normal retirement, shall receive a refund of contributions without interest under the Firefighters' Pension Fund. Under the Policemen's Retirement Fund, an employee who completes 5 years of service but is not yet eligible for normal retirement shall receive three-fourths of his contributions to the Fund without interest, upon termination.

Both Funds include death and disability benefits whereby the surviving spouse or disabled employee is entitled to receive certain benefits. Death benefits may reach 75% of base pay (at time of death) plus overtime and supplemental pay for firefighters and 75% of base pay for policemen. Disability payments may reach 75% of base pay (at time of disability) plus overtime and supplemental pay for firefighters and 75% of base pay for policemen. Under both Funds, the disabled employee is entitled to receive disability payments for life, while the surviving spouse may receive death benefits for life or as long as the spouse does not remarry.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

16. Pension Plans, continued

Membership of each plan consisted of the following at June 30, 2006:

	Firefighters' Pension <u>Fund</u>	Policemen's Retirement <u>Fund</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	226	225
Vested active plan participants	0	1

ii. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - The preparation of the financial statements of the Firefighters' Pension Fund and the Policemen's Retirement Fund generally conform to the provisions of the GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. The financial statements of the Funds are prepared on the accrual basis. Plan member contributions are recognized in the period in which the contributions are due. Metro Government's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The cost of administering the plans is financed by Metro Government and is based on budgets submitted by the administrators on an annual basis.

Investments - Investments are stated at fair value. Securities traded on a national exchange are valued at the last reported sales price. Gains or losses on the sale of fixed income securities are recognized using the completed transaction method. There are no significant investments (other than U.S. Government and U.S. Government Agencies) in any one organization that represent 5% or more of net assets available for benefits. There are no investments or other assets legally reserved for purposes other than the payment of member benefits for either Fund.

iii. Contributions

The contribution requirements and benefit provisions for the Funds are established by state statute and Metro Government ordinance. Employees covered under the Firefighters' Pension Fund were required to pay 7.0% of their gross earnings to the Fund. The employee contribution rate is 6.5% for the Policemen's Retirement Fund.

Based on the actuarial valuations performed by consulting actuaries at January 1, 2006, Metro Government is required to make contributions to the Policemen's Retirement Fund of \$1,063,968 and to the Firefighters' Pension Fund of \$1,404,474 for the fiscal year beginning July 1, 2006. Actuarial assumptions and other information used to determine the annual required contributions are located in the Required Supplemental Information – Pensions section of this report, because these plans do not issue separately audited financial statements.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

16. Pension Plans, continued

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION & BENEFIT TRUST FUNDS
June 30, 2006

	Firefighters' Pension Trust	Policemen's Retirement Fund	Total Pension & Benefit Trust
ASSETS			
Cash and cash equivalents	\$ 206,901	\$ 106,246	\$ 313,147
Equity securities	8,115,195	8,529,778	16,644,973
Corporate bonds	42,635	855,802	898,437
US Government obligations	2,677,246		2,677,246
US Agency obligations	620,517	1,384,711	2,005,228
Other investments	193,390	388,684	582,074
Accounts receivable and accrued interest	197,180	161,089	358,269
Total assets	\$ 12,053,064	\$ 11,426,310	\$ 23,479,374
LIABILITIES			
Accounts payable	\$ 18,842	\$ 141,683	\$ 160,525
Health insurance reimbursement and accrued liabilities	159,445		159,445
Total liabilities	178,287	141,683	319,970
NET ASSETS			
Held in trust for pension benefits	\$ 11,874,777	\$ 11,284,627	\$ 23,159,404

Continued

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

16. Pension Plans, continued

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION & BENEFIT TRUST FUNDS
For the Year Ended June 30, 2006

	<u>Firefighters' Pension Trust</u>	<u>Policemen's Retirement Fund</u>	<u>Total Pension & Benefit Trust</u>
ADDITIONS			
Contributions:			
Employer	\$ 1,655,809	\$ 1,569,675	\$ 3,225,484
Member		3,704	3,704
Total contributions	<u>1,655,809</u>	<u>1,573,379</u>	<u>3,229,188</u>
Investment earnings:			
Increase (decrease) in fair value of investments	(374,176)	(765,550)	(1,139,726)
Realized gains and losses	1,103,845	1,208,323	2,312,168
Interest and dividends	260,127	279,952	540,079
Total investment earnings	<u>989,796</u>	<u>722,725</u>	<u>1,712,521</u>
Investment expense	(101,724)	(95,974)	(197,698)
Net investment earnings	888,072	626,751	1,514,823
Other income	974,128	810,455	1,784,583
Total additions	<u>3,518,009</u>	<u>3,010,585</u>	<u>6,528,594</u>
DEDUCTIONS			
Benefit payments	3,367,224	2,740,905	6,108,129
Administration expense	207,196	245,217	452,413
Health insurance reimbursement	594,957	446,258	1,041,215
Total deductions	<u>4,169,377</u>	<u>3,432,380</u>	<u>7,601,757</u>
Net decrease	(651,368)	(421,795)	(1,073,163)
Net assets--beginning of the year	<u>12,526,145</u>	<u>11,706,422</u>	<u>24,232,567</u>
Net assets--end of the year	<u>\$ 11,874,777</u>	<u>\$ 11,284,627</u>	<u>\$ 23,159,404</u>

Continued

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE FINANCIAL STATEMENTS, continued
June 30, 2006

17. Subsequent Events

In November 2006, Metro Government issued \$33,255,000 of General Obligation Bonds. The Series 2006 Bonds are payable in principal installments of \$1,100,000 to \$2,405,000, plus interest at 3.5% to 4.5% over 20 years.

Proceeds of the Series 2006 Bonds will be used for financing capital projects as outlined in the Mayor's Blueprint for Our Future Program including improvements to sidewalks, roofs, information systems, firehouses and police stations, playgrounds, parks, and the zoo. Specifically, these bonds will advance projects such as the Mayor's 21st Century Fire initiative that includes three new firehouses, the MetroSafe emergency communications network, and the development of a new animal-care facility for Metro Animal Services. Bond funding will also pay for video cameras to help police deter crime in targeted neighborhoods, several park-enhancement projects, improvements to streets and roads, expansion of the Main Library's children's section and upgrades to the Belle of Louisville.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual Amounts - GAAP Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 121,130,000	\$ 120,930,000	\$ 121,338,886	\$ 408,886
Occupational taxes	275,895,000	277,520,000	285,559,281	8,039,281
Licenses and permits	11,571,200	11,531,200	11,262,911	(268,289)
Intergovernmental	58,132,500	25,231,704	26,483,393	1,251,689
Charges for services	84,343,200	86,252,049	48,634,652	(37,617,397)
Fees and fines	2,595,600	2,470,600	2,436,967	(33,633)
Investment income	1,220,000	2,600,000	3,039,430	439,430
Dividends	14,658,800	17,564,600	17,715,564	150,964
Donations	4,740,400	4,939,149	2,313,187	(2,625,962)
Miscellaneous	20,971,700	3,441,205	2,310,127	(1,131,078)
Total revenues	<u>595,258,400</u>	<u>552,480,507</u>	<u>521,094,398</u>	<u>(31,386,109)</u>
EXPENDITURES				
Current operating:				
General Government	23,355,300	23,723,094	21,669,030	2,054,064
Internal Audit	676,500	676,500	621,563	54,937
Finance	10,047,300	13,298,216	7,404,019	5,894,197
External Agencies	5,492,300	5,692,300	4,494,643	1,197,657
Policy and Strategic Planning	678,600	678,600	547,616	130,984
Information Technology	7,968,800	7,968,800	7,248,081	720,719
Human Resources Department	4,287,700	4,287,700	3,960,760	326,940
Human Relations Commission	1,018,900	1,018,900	920,226	98,674
Police Department	131,831,500	131,900,008	118,301,071	13,598,937
Public Protection Cabinet	160,400	160,400	146,626	13,774
Fire Department	44,758,500	45,511,500	46,824,840	(1,313,340)
Emergency Medical Services	17,357,800	17,688,800	18,397,592	(708,792)
Emergency Management	10,066,500	9,899,900	10,208,240	(308,340)
Corrections Department	39,220,100	40,093,900	40,773,855	(679,955)
Youth Detention Services	7,280,300	7,766,654	7,503,704	262,950
Crime Commission	474,700	451,200	392,359	58,841
Office of Public Safety	285,300	285,300	243,313	41,987
Firefighters' Pension Fund	2,658,000	2,658,000	2,630,033	27,967
Policemen's Retirement Fund	2,523,200	2,523,200	2,503,447	19,753
Public Works Department	15,376,700	15,433,973	12,678,261	2,755,712
General Services Administration	31,607,500	32,987,500	32,970,057	17,443
Solid Waste Management and Services	21,983,200	22,289,800	17,746,138	4,543,662
Inspections, Permits and Licenses Department	7,389,700	7,414,700	6,404,501	1,010,199
Animal Control Services	2,083,800	2,309,400	2,074,981	234,419
Department of Neighborhoods	7,280,000	7,311,041	6,565,329	745,712
Parks Department	25,922,300	26,145,864	22,166,257	3,979,607
Louisville Free Public Library	17,470,700	17,470,700	15,856,879	1,613,821
Louisville Zoological Gardens	12,510,100	12,525,100	10,759,988	1,765,112
Metro Development Authority	14,946,700	15,382,841	9,355,164	6,027,677
Planning and Development Services	3,631,800	3,681,016	3,364,215	316,801
Housing Department	1,222,500	1,338,000	1,036,517	301,483
Community Development	55,733,000	3,509,300	3,408,034	101,266
Air Pollution Control	932,400	932,400	491,962	440,438
Waterfront Development Corporation	3,567,400	3,602,400	2,711,472	890,928
Louisville Redevelopment Authority	2,120,300	2,120,300	331,986	1,788,314
Health Department	22,598,300	22,416,400	20,968,130	1,448,270
Human Services	12,579,900	13,166,400	12,775,864	390,536
Kentuckiana Works	150,000	150,000	150,000	-
Debt service	26,010,400	26,010,400	74,785	25,935,615
Total expenditures	<u>595,258,400</u>	<u>552,480,507</u>	<u>476,681,538</u>	<u>75,798,969</u>
Excess (deficiency) of revenues over expenditures	-	-	44,412,860	44,412,860
OTHER FINANCING SOURCES (USES)				
Transfers in			1,972,549	
Transfers out			(42,774,203)	
Total other financing sources and uses			<u>(40,801,654)</u>	
Net change in fund balances			3,611,206	
Fund balances--beginning			96,824,987	
Increase due to acquired agency			443,872	
Fund balances--ending			<u>\$ 100,880,065</u>	

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**

June 30, 2006

Information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

SCHEDULES OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
<u>Firefighters' Pension Fund:</u>						
1/1/2001	31,810,012	28,316,524	(3,493,488)	112.3%	-	0%
1/1/2002	23,419,155	27,290,103	3,870,948	85.8%	-	0%
1/1/2003	16,862,780	26,081,663	9,218,883	64.7%	-	0%
1/1/2004	15,299,159	24,691,614	9,392,455	62.0%	-	0%
1/1/2005	13,888,714	23,203,024	9,314,310	59.9%	-	0%
1/1/2006	12,900,389	28,786,353	15,885,964	44.8%	-	0%
<u>Policemen's Retirement Fund:</u>						
1/1/2001	22,005,254	22,892,977	887,723	96.1%	32,094	2766.0%
1/1/2002	18,856,604	21,820,606	2,964,002	86.4%	32,094	9235.4%
1/1/2003	13,587,632	20,667,741	7,080,109	65.7%	46,883	15101.7%
1/1/2004	13,232,420	19,158,719	5,926,299	69.1%	41,643	14231.2%
1/1/2005	12,552,786	18,194,311	5,641,525	69.0%	42,210	13365.4%
1/1/2006	12,165,678	22,741,250	10,575,572	53.5%	46,525	22730.9%

Year Ended June 30	SCHEDULES OF EMPLOYER CONTRIBUTIONS			
	Firefighters' Pension Fund		Policemen's Retirement Fund	
	Annual Contribution	Percentage Contributed	Annual Contribution	Percentage Contributed
2001	37,040 *	100.0%	30,314 *	100.0%
2002	32,610 *	100.0%	27,824 *	100.0%
2003	31,479 *	100.0%	150,544 *	100.0%
2004	600,129 *	100.0%	651,469 *	100.0%
2005	1,057,280	100.0%	1,282,519	100.0%
2006	1,655,809	100.0%	1,569,675	100.0%

*These amounts have been restated from the prior year for consistent presentation with the current year. These amounts include the employer's required contribution and the supplemental contribution approved the Metro Council.

There were no net pension obligations for either fund.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**

June 30, 2006

Additional information as of the latest actuarial valuation is presented in the following table:

	<u>Firefighters' Pension Fund</u>	<u>Policemen's Retirement Fund</u>
Valuation date	January 1, 2006	January 1, 2006
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent, closed	Level percent, closed
Remaining amortization period	15 years	15 years
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	N/A	7.5%
Projected inflation rate	N/A	N/A

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**OTHER SUPPLEMENTARY INFORMATION -
COMBINING FINANCIAL STATEMENTS**

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006**

	Debt Service Funds		
	General Obligation	Public Properties Corporation	Capital Projects Corporation
ASSETS			
Cash and cash equivalents			
Investments			
Accounts receivable			
Due from other funds	\$ 640,761		
Restricted assets:			
Cash and cash equivalents	666	\$ 365,817	\$ 3,696
Total assets	<u>\$ 641,427</u>	<u>\$ 365,817</u>	<u>\$ 3,696</u>
LIABILITIES			
Accounts payable			
Matured bonds payable	\$ 640,761		
Unearned revenue			
Total liabilities	<u>640,761</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Reserved for:			
Encumbrances			
Debt service	\$ 666	\$ 365,817	\$ 3,696
Unreserved			
Total fund balances	<u>666</u>	<u>365,817</u>	<u>3,696</u>
Total liabilities and fund balances	<u>\$ 641,427</u>	<u>\$ 365,817</u>	<u>\$ 3,696</u>

Capital Projects Funds

Special Purpose Fund	Bond Fund	Public Properties Corporation	Revenue Finance Corporation	Total Nonmajor Governmental Funds
\$ 7,828,681	\$ 20,731	\$ 1,042,464	\$ 55,695	\$ 8,947,571
15,872,696	42,031	2,113,604	112,923	18,141,254
	22,584			22,584
				640,761
				370,179
\$ 23,701,377	\$ 85,346	\$ 3,156,068	\$ 168,618	\$ 28,122,349
\$ 520,007		\$ 22,572		\$ 542,579
2,064,819				640,761
2,584,826	-	22,572	-	2,064,819
5,855,039		89,961		5,945,000
15,261,512	\$ 85,346	3,043,535	\$ 168,618	370,179
21,116,551	85,346	3,133,496	168,618	18,559,011
\$ 23,701,377	\$ 85,346	\$ 3,156,068	\$ 168,618	\$ 28,122,349

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006**

	<u>Debt Service Funds</u>			<u>Special Purpose Fund</u>
	<u>General Obligation</u>	<u>Public Properties Corporation</u>	<u>Capital Projects Corporation</u>	
REVENUES				
Intergovernmental			\$ 4,396,000	\$ 1,410,439
Charges for services	\$ 457,654			252,913
Investment income (loss)	1,510	\$ 49,526	13,386	80,895
Miscellaneous				-
Total revenues	<u>459,164</u>	<u>49,526</u>	<u>4,409,386</u>	<u>1,744,247</u>
EXPENDITURES				
Debt service:				
Principal	22,170,000	2,070,000	1,355,000	
Interest and other charges	9,527,939	1,652,280	3,129,439	
Capital outlay				\$ 8,818,205
Total expenditures	<u>31,697,939</u>	<u>3,722,280</u>	<u>4,484,439</u>	<u>8,818,205</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,238,775)</u>	<u>(3,672,754)</u>	<u>(75,053)</u>	<u>(7,073,958)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets				
Transfers in	31,223,403	3,693,458	77,523	8,656,466
Transfers out		(545,921)		
Total other financing sources and uses	<u>31,223,403</u>	<u>3,147,537</u>	<u>77,523</u>	<u>8,656,466</u>
Net change in fund balances	(15,372)	(525,217)	2,470	1,582,508
Fund balances--beginning	16,038	891,034	1,226	19,534,043
Fund balances--ending	<u>\$ 666</u>	<u>\$ 365,817</u>	<u>\$ 3,696</u>	<u>\$ 21,116,551</u>

Capital Projects Funds

Bond Fund	Capital Projects Corporation	Public Properties Corporation	Revenue Finance Corporation	Total Nonmajor Governmental Funds
				\$ 5,806,439
				710,567
		\$ 437		145,754
\$ 4,404				4,404
4,404	-	437	-	6,667,164
				25,595,000
				14,309,658
		633,464		9,451,669
-	-	633,464	-	49,356,327
4,404	-	(633,027)	-	(42,689,163)
	208,000	672,798		880,798
	(208,000)	(791,581)		43,650,850
				(1,545,502)
-	-	(118,783)	-	42,986,146
4,404	-	(751,810)	-	296,983
\$ 80,942	-	3,885,306	\$ 168,618	24,577,207
\$ 85,346	\$ -	\$ 3,133,496	\$ 168,618	\$ 24,874,190

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
June 30, 2006

	<u>Insurance and Risk Management Fund</u>	<u>Louisville/Jefferson Co. Metro Revenue Commission</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,677,518	\$ 4,890,846	\$ 11,568,364
Investments	13,538,707	43,722,235	57,260,942
Receivables, net of allowance for doubtful accounts	407,235		407,235
Due from component units		151,176	151,176
Deposits with paying agents	45,000		45,000
Total current assets	<u>20,668,460</u>	<u>48,764,257</u>	<u>69,432,717</u>
Capital assets:			
Buildings and equipment, net		266,183	266,183
Total capital assets	-	266,183	266,183
Total assets	<u>20,668,460</u>	<u>49,030,440</u>	<u>69,698,900</u>
LIABILITIES			
Current liabilities:			
Accounts payable	392,741	1,337,762	1,730,503
Due to other funds		39,304,337	39,304,337
Unearned revenue	84,687	8,306,470	8,391,157
Total current liabilities	<u>477,428</u>	<u>48,948,569</u>	<u>49,425,997</u>
Noncurrent liabilities:			
Claims and judgments	20,264,916		20,264,916
Total noncurrent liabilities	<u>20,264,916</u>	<u>-</u>	<u>20,264,916</u>
Total liabilities	<u>20,742,344</u>	<u>48,948,569</u>	<u>69,690,913</u>
NET ASSETS			
Invested in capital assets, net of related debt		81,871	81,871
Restricted	(73,884)		(73,884)
Total net assets	<u>\$ (73,884)</u>	<u>\$ 81,871</u>	<u>\$ 7,987</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2006

	Insurance and Risk Management Fund	Louisville/Jefferson Co. Metro Revenue Commission	Total
OPERATING REVENUES:			
Collection, investment and other fees		\$ 4,676,020	\$ 4,676,020
Insurance income	\$ 12,005,142		12,005,142
Insurance premiums	38,817,398		38,817,398
Total operating revenues	<u>50,822,540</u>	<u>4,676,020</u>	<u>55,498,560</u>
OPERATING EXPENSES:			
Professional services	270,626	3,264,488	3,535,114
Contractual services	36,010	693,195	729,205
Repairs and maintenance		29,573	29,573
Other supplies and expenses	165	638,116	638,281
Insurance claims, settlements and losses	48,118,549	38,221	48,156,770
Insurance premiums	4,426,511		4,426,511
Depreciation		374,117	374,117
Total operating expenses	<u>52,851,861</u>	<u>5,037,710</u>	<u>57,889,571</u>
Operating income (loss)	<u>(2,029,321)</u>	<u>(361,690)</u>	<u>(2,391,011)</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	468,551		468,551
Loss on disposal of equipment		(60)	(60)
Total nonoperating revenues (expenses)	<u>468,551</u>	<u>(60)</u>	<u>468,491</u>
Change in net assets	(1,560,770)	(361,750)	(1,922,520)
Total net assets--beginning	<u>1,486,886</u>	<u>443,621</u>	<u>1,930,507</u>
Total net assets--ending	<u>\$ (73,884)</u>	<u>\$ 81,871</u>	<u>\$ 7,987</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2006

	Insurance and Risk Management Fund	Louisville/Jefferson Co. Metro Revenue Commission	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net cash received from taxpayers		\$ 4,079,711	\$ 4,079,711
Insurance income	\$ 50,895,559		50,895,559
Payments to employees	(270,626)	(3,264,488)	(3,535,114)
Payments to suppliers		(1,399,105)	(1,399,105)
Contractual services	20,385		20,385
Claims paid	(46,868,766)		(46,868,766)
Insurance premiums paid	(4,426,511)		(4,426,511)
Other receipts (payments)	(165)		(165)
Net cash used in operating activities	<u>(650,124)</u>	<u>(583,882)</u>	<u>(1,234,006)</u>
CASH FLOWS FROM CAPITAL ACTIVITIES:			
Acquisition and construction of capital assets		(95,642)	(95,642)
Net cash used in capital activities	-	<u>(95,642)</u>	<u>(95,642)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(216,713)	(43,621,836)	(43,838,549)
Change in investment pool participation	(327,162)		(327,162)
Investment income	468,551		468,551
Net cash used in investing activities	<u>(75,324)</u>	<u>(43,621,836)</u>	<u>(43,697,160)</u>
Net decrease in cash and cash equivalents	(725,448)	(44,301,360)	(45,026,808)
Balances--beginning of the year	7,402,966	49,192,206	56,595,172
Balances--end of the year	<u>\$ 6,677,518</u>	<u>\$ 4,890,846</u>	<u>\$ 11,568,364</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating loss	\$ (2,029,321)	\$ (361,690)	\$ (2,391,011)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		374,117	374,117
Increase (decrease) in cash due to changes in assets and liabilities:			
Accounts receivable	73,019		73,019
Due from component units		775,452	775,452
Deposits with paying agents	25,000		25,000
Accounts and other payables	(307,666)	(98,551)	(406,217)
Liability for incurred claims	1,588,844		1,588,844
Due to other funds and governmental agencies		(1,705,126)	(1,705,126)
Unearned revenue		431,916	431,916
Net cash used in operating activities	<u>\$ (650,124)</u>	<u>\$ (583,882)</u>	<u>\$ (1,234,006)</u>

During fiscal year 2006, there was no non-cash change to the fair value of investments

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS**

June 30, 2006

	<u>Mass Transit</u>	<u>Escrow and Deposit</u>	<u>Revenue Commission</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 100,543	\$ 6,887,567		\$ 6,988,110
Investments	10,012,329	11,596,958		21,609,287
Accounts receivable and accrued interest	1,030,573	215,458		1,246,031
Due from other funds	3,053,097		\$ 10,808,282	13,861,379
Total assets	<u>\$ 14,196,542</u>	<u>\$ 18,699,983</u>	<u>\$ 10,808,282</u>	<u>\$ 43,704,807</u>
LIABILITIES				
Notes payable		\$ 3,500,000		\$ 3,500,000
Due to other governmental agencies	\$ 14,196,542	8,498,293	\$ 10,808,282	33,503,117
Due to other funds		4,284		4,284
Refundable deposits		6,697,406		6,697,406
Total liabilities	<u>\$ 14,196,542</u>	<u>\$ 18,699,983</u>	<u>\$ 10,808,282</u>	<u>\$ 43,704,807</u>

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2006

	Mass Transit			Balance June 30, 2006
	Balance July 1, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 100,402	\$ 543	\$ 402	\$ 100,543
Investments	8,132,002	37,371,567	35,491,240	10,012,329
Accounts receivable	1,030,573			1,030,573
Due from other funds	3,155,443	3,053,097	3,155,443	3,053,097
Total Assets	<u>\$ 12,418,420</u>	<u>\$ 40,425,207</u>	<u>\$ 38,647,085</u>	<u>\$ 14,196,542</u>

LIABILITIES				
Due to other governmental agencies	\$ 12,418,420	\$ (37,287,895)	\$ (35,509,773)	14,196,542
Total Liabilities	<u>\$ 12,418,420</u>	<u>\$ (37,287,895)</u>	<u>\$ (35,509,773)</u>	<u>\$ 14,196,542</u>

	Escrow and Deposit			Balance June 30, 2006
	Balance July 1, 2005	Additions	Deductions	
ASSETS				
Cash and cash equivalents	\$ 6,886,190	\$ 3,804,921	\$ 3,803,544	\$ 6,887,567
Investments	12,487,030	1,004	891,076	11,596,958
Accounts receivable	215,458	503,213	503,213	215,458
Total Assets	<u>\$ 19,588,678</u>	<u>\$ 4,309,138</u>	<u>\$ 5,197,833</u>	<u>\$ 18,699,983</u>

LIABILITIES				
Notes payable	\$ 3,500,000			3,500,000
Due to other governmental agencies	9,359,593	\$ (1,178,326)	\$ (317,026)	8,498,293
Due to other funds	4,284			4,284
Refundable deposits	6,724,801	(1,944,505)	(1,917,110)	6,697,406
Total Liabilities	<u>\$ 19,588,678</u>	<u>\$ (3,122,831)</u>	<u>\$ (2,234,136)</u>	<u>\$ 18,699,983</u>

	Revenue Commission			Balance June 30, 2006
	Balance July 1, 2005	Additions	Deductions	
ASSETS				
Due from other funds	\$ 11,376,211	\$ 124,164,759	\$ 124,732,688	\$ 10,808,282
Total Assets	<u>\$ 11,376,211</u>	<u>\$ 124,164,759</u>	<u>\$ 124,732,688</u>	<u>\$ 10,808,282</u>

LIABILITIES				
Due to other governmental agencies	\$ 11,376,211	\$ (124,732,688)	\$ (124,164,759)	\$ 10,808,282
Total Liabilities	<u>\$ 11,376,211</u>	<u>\$ (124,732,688)</u>	<u>\$ (124,164,759)</u>	<u>\$ 10,808,282</u>

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY OF NET ASSETS AND CHANGES IN NET ASSETS

Last Four Fiscal Years (since Merger) (1)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Primary Government/Governmental Activities:				
Invested in Capital Assets, net of related debt	\$ 403,183,366	\$ 401,335,777	\$ 572,034,646	\$ 586,506,197
Restricted	62,355,267	74,553,001	65,930,660	82,123,082
Unrestricted	149,994,228	161,109,967	42,875,935	32,085,186
Total Primary Government/Governmental Activities Net Assets	<u>\$ 615,532,861</u>	<u>\$ 636,998,745</u>	<u>\$ 680,841,241</u>	<u>\$ 700,714,465</u>
 Primary Government/Governmental Activities:				
Expenses				
General Government	\$ 25,704,283	\$ 24,606,502	\$ 22,597,546	\$ 28,378,878
Finance and Administration Cabinet	74,077,387	51,150,386	25,681,498	64,694,411
Public Protection Cabinet	283,243,591	267,011,335	231,768,841	229,016,909
Public Works and Services Cabinet	85,748,510	109,752,796	123,007,267	160,165,636
Neighborhoods, Parks and Cultural Affairs Cabinet	66,575,216	64,403,045	57,648,612	60,666,920
Community Development Cabinet	48,528,905	49,878,040	37,810,252	48,175,989
Health and Family Services Cabinet	70,876,258	68,664,642	63,379,465	62,738,088
Interest Expense	16,302,423	17,077,617	16,072,154	14,372,117
	<u>671,056,573</u>	<u>652,544,363</u>	<u>577,965,635</u>	<u>668,208,948</u>
 Program Revenues:				
Charges for Services	69,752,138	72,184,333	48,187,045	76,772,770
Operating Grants and Contributions	72,212,271	75,099,069	63,481,947	96,643,442
Capital grants and Contributions	56,127,486	29,167,632	33,251,324	47,404,216
Total Primary Government Program Revenues	<u>198,091,895</u>	<u>176,451,034</u>	<u>144,920,316</u>	<u>220,820,428</u>
 Net (Expense) Revenue	(472,964,678)	(476,093,329)	(433,045,319)	(447,388,520)
 General Revenues:				
Taxes				
Property taxes, levied for general purposes	120,750,897	120,575,832	118,655,718	114,569,931
Occupational taxes	285,559,281	275,767,186	260,797,870	250,215,859
Investment Income	5,251,143	3,965,089	937,567	2,211,363
Dividends	17,715,564	13,935,078	12,687,780	12,379,583
Other intergovernmental revenue	12,764,992	4,672,662	1,963,651	(828,347)
Fees and fines	2,676,570	2,211,315	1,058,179	
Gain on sale of assets	1,156,848	650,000	349,995	
Other taxes	319,388	319,838		
Rental receipts	395,634	4,764,521	1,111,567	
Miscellaneous	4,464,605	5,972,358	4,008,837	
Total General Revenues	<u>451,054,922</u>	<u>432,833,879</u>	<u>401,571,164</u>	<u>378,548,389</u>
 Change in Net Assets	(21,909,756)	(43,259,450)	(31,474,155)	(68,840,131)
Net Assets - beginning, restated	636,998,745	680,258,195	712,315,396	769,554,596
Increase due to acquired agency	443,872			
Net Assets - ending	<u>\$ 615,532,861</u>	<u>\$ 636,998,745</u>	<u>\$ 680,841,241</u>	<u>\$ 700,714,465</u>

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
Last Four Fiscal Years (since Merger) (1)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES				
Property taxes	\$ 121,338,886	\$ 120,912,806	\$ 113,164,349	\$ 110,578,566
Occupational taxes	285,559,281	275,767,186	260,797,870	235,901,121
Licenses and permits	11,457,731	11,521,182	10,544,820	23,740,060
Intergovernmental	133,762,762	113,503,540	131,510,281	127,477,833
Charges for services	54,494,156	60,026,636	33,941,527	60,847,632
Fees and fines	2,438,607	722,187	1,016,230	914,318
Investment income	5,251,143	3,965,089	937,567	4,156,510
Dividends	17,715,564	13,935,078	12,687,780	12,379,583
Donations	11,728,614	2,748,194	5,162,538	4,040,450
Miscellaneous	4,831,279	3,297,555	4,008,837	17,374,993
Total revenues	<u>648,578,023</u>	<u>606,399,453</u>	<u>573,771,799</u>	<u>597,411,066</u>
EXPENDITURES				
General Government	23,055,313	22,297,609	21,781,951	27,275,237
Finance and Administration Cabinet	57,676,780	25,626,377	24,709,348	44,928,574
Public Protection Cabinet	255,743,356	240,582,706	220,338,241	216,546,703
Public Works and Services Cabinet	39,984,759	76,719,314	73,417,049	100,144,066
Neighborhoods, Parks and Cultural Affairs Cabinet	56,599,713	54,793,354	52,261,923	51,561,820
Community Development Cabinet	40,326,284	33,780,769	33,029,779	40,492,339
Health and Family Services Cabinet	64,438,110	62,556,124	61,432,461	61,072,601
Debt Service Principal	25,595,000	22,613,352	19,177,195	19,643,000
Debt Service Interest	15,210,706	16,033,918	16,072,154	14,372,117
Capital Outlay	93,268,102	62,653,450	59,315,442	87,662,658
Total expenditures	<u>671,898,123</u>	<u>617,656,973</u>	<u>581,535,543</u>	<u>663,699,115</u>
Other Financing Sources (Uses)				
Sale of capital assets	1,156,848	650,000	349,995	187,679
Insurance recovery		63,938	15,294	
Proceeds of bonds		30,762,582		49,445,000
Proceeds of long-term capital debt				47,813,474
Bond issuance costs paid				(199,324)
Refunded bond principal, interest, and premium				(49,547,534)
Payment to bond refunding escrow agent				(2,999,382)
Transfers in	45,960,731	46,270,744	42,774,751	110,805,958
Transfers out	(45,960,731)	(47,270,744)	(42,774,751)	(113,403,255)
Total other financing sources (uses)	<u>1,156,848</u>	<u>30,476,520</u>	<u>365,289</u>	<u>42,102,616</u>
Net change in fund balance	<u>\$ (22,163,252)</u>	<u>\$ 19,219,000</u>	<u>\$ (7,398,455)</u>	<u>\$ (24,185,433)</u>

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
GENERAL GOVERNMENTAL REVENUES BY SOURCE (1)**

Last Four Fiscal Years (since Merger) (2)

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines and Forfeitures	Investment Income	Donations and Miscellaneous Revenue	Total Revenues (3)
2003	\$ 346,479,687	\$ 23,741,060	\$ 125,886,137	\$ 56,029,421	\$ 914,218	\$ 2,099,625	\$ 4,349,907	\$ 559,500,055
2004	373,962,219	10,544,820	128,437,170	33,532,382	1,016,230	90,583	6,824,682	554,408,086
2005	396,679,992	11,480,682	112,396,801	57,928,605	718,975	2,932,989	4,655,833	586,793,877
2006	406,898,167	11,262,911	131,246,233	53,722,470	2,438,472	3,533,830	6,632,627	615,734,710

- (1) Includes General, Special Revenue and Debt Service Funds.
- (2) For the implementation of GASB Statement No 44, *Economic Condition Reporting The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (3) In 2003, revenues also included major and non-major Capital Projects Fund. 2003 has been restated in the statistical section to reflect the correct amounts.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

GENERAL FUND TAX REVENUES BY SOURCE

Last Four Fiscal Years (since Merger) (1)

Fiscal Year	Total Taxes	General Property Taxes	Bank and Life Insurance Shares	Public Service Corporations	Occupational Taxes	Other (2)	Interest, Penalties and Other Fees
2003	\$ 346,149,531	\$ 92,608,431	\$ 4,350,721	\$ 6,763,891	\$ 235,901,121	\$ 5,944,104	\$ 581,263
2004	373,962,220	93,016,802	4,803,193	7,402,223	260,797,870	7,411,472	530,660
2005	396,679,991	96,472,771	4,699,922	8,794,533	275,767,186	9,576,926	1,368,653
2006	406,898,167	101,294,625	4,536,598	6,684,538	285,559,281	8,290,703	532,422

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.

(2) Tax revenues designated as Other include Deed Taxes, Delinquent Taxes and other miscellaneous property taxes.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
EMPLOYMENT, INCOME AND OCCUPATIONAL TAX REVENUES**

Last Four Fiscal Years (since Merger) (1)

Fiscal Year	Employment	Unemployment Rate	Per Capita Income (2)	Percent Income Growth	Occupational Tax Revenue	Percent Revenue Growth
2003	330,666	5.7%	33,466	2.11%	235,901,121	2.87%
2004	329,537	6.2%	34,646	3.53%	260,797,870	10.55%
2005	330,575	5.5%	36,443	5.19%	275,767,186	5.74%
2006	332,856	6.2%	38,101	4.55%	285,559,281	3.55%

Source: Bureau of Labor Statistics website: www.bls.gov

Note: Employment, unemployment and per capita figures represent the annual average for the full calendar year previous to fiscal year end.

- (1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (2) Per capita income for 2006 is an estimate based on the average annual percentage increase over the last ten years.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)
Last Four Fiscal Years (since Merger) (2)

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value	Homestead Exemption (3)
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value		
2003	\$46,274,546,626	\$48,330,892,272	\$ 9,032,190,675	\$ 9,032,190,675	\$55,306,737,301	\$57,363,082,947	96.42 %	\$ 26,800
2004	48,823,781,592	50,939,965,058	8,777,257,634	8,777,257,634	57,601,039,226	59,717,222,692	96.46 %	28,000
2005	50,881,807,698	53,029,275,814	8,819,447,665	8,819,447,665	59,701,255,363	61,848,723,479	96.53 %	28,000
2006	53,883,962,963	56,308,314,219	8,594,585,408	8,594,585,408	62,478,548,371	64,902,899,627	96.26 %	29,400

- (1) Pursuant to the Constitution of Kentucky and applicable statutes, real property is to be revalued annually at 100 percent of its fair cash value.
- (2) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (3) Under the provisions of the Homestead Amendment to the Kentucky Constitution, persons 65 years or older are granted exemptions of these amounts on the assessed value of their bona fide residence.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

PROPERTY TAX RATES

DIRECT AND OVERLAPPING GOVERNMENTS

TAX RATES (PER \$100 OF ASSESSED VALUATION)

Last Four Fiscal Years (since Merger) (1)

Fiscal Year	City		Jefferson County		Urban Service District (2)		Metro Government (2)		Consolidated School District			Total		
	Real	Personal	Real	Personal	Real	Personal	Real	Personal	Real	Inventory	Personal	Real	Inventory	Personal
2003	0.376	0.566	0.128	0.166					0.572	0.572	0.572	1.076	0.572	1.304
2004					0.374	0.566	0.128	0.166	0.576	0.576	0.576	1.078	0.576	1.308
2005					0.374	0.566	0.128	0.166	0.592	0.592	0.592	1.094	0.592	1.324
2006					0.373	0.566	0.128	0.166	0.625	0.625	0.625	1.126	0.625	1.357

Tax rates obtained from the Jefferson County Clerk's Office

- (1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (2) Beginning in fiscal year 2004, property tax rates were set for the Urban Services District, which includes the prior boundaries of the City of Louisville, and for Metro Government as a whole which encompasses the entire area within Jefferson County.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
PRINCIPAL PROPERTY TAXPAYERS**

Current Year and Nine Years Ago

Taxpayer	Type of Business	June 30, 2006			June 30, 1997		
		Assessed Valuation	Rank	Percent of Total Assessed Valuation of \$ 62,478,548,371	Assessed Valuation	Rank	Percent of Total Assessed Valuation of \$ 41,443,679,485
Louisville Gas & Electric Co.	Energy Utility	\$ 1,008,321,644	1	1.6%	\$ 574,972,522	3	1.4%
BellSouth Telecommunications	Telecommunications	652,606,972	2	1.0%	590,284,465	2	1.4%
Humana Inc.	Healthcare	257,576,679	3	0.4%	261,453,698	5	0.6%
Louisville Trophy LLC	Miscellaneous Services	167,800,080	4	0.3%			
Celco Partnership	Telecommunications	167,515,154	5	0.3%			
MRI NCT LLC	Real Estate	133,424,796	6	0.2%			
Thomas W. Bullitt	Retail	124,474,843	7	0.2%			
PNC Bank	Banking/Financial Services	104,068,436	8	0.2%			
AT&T Communications	Telecommunications	103,990,624	9	0.2%	167,967,648	6	0.4%
Information Systems Corp	Information Services	99,797,735	10	0.2%			
United Parcel Service	Air Express and Distribution				857,200,307	1	2.1%
Insight Midwest LP	Cable Media				399,517,012	4	1.0%
General Electric	Household Appliance Manufacturer				156,912,087	7	0.4%
Ford Motor Company	Automotive Manufacturer				130,816,496	8	0.3%
200 Block CHC LTD PTN	Commercial Real Estate				122,422,158	9	0.3%
United Distillers Productions	Banking/Financial Services				100,524,096	10	0.2%
	TOTAL	\$ 2,819,576,963		4.5%	\$ 3,362,070,489		8.1%

Source: Jefferson County Sheriff's Office

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

PROPERTY TAX LEVIES AND COLLECTIONS

Last Four Fiscal Years (since Merger) (1)

Fiscal Year	Amount of Levy	Amount Collected in Year of Levy	Percent Collected in Year of Levy	Delinquent Tax Collections (2)	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy	Total Outstanding Delinquent Taxes Receivable at June 30, 2006
2003	\$ 101,151,309	\$ 97,734,411	96.6%	\$ 2,960,241	\$ 100,694,652	99.5%	\$ 6,389,780
2004	107,833,673	104,493,360	96.9%	4,337,307	108,830,667	100.9%	5,392,784
2005	112,929,657	109,744,607	97.2%	5,616,628	115,361,235	102.2%	9,262,583
2006	115,468,469	114,972,927	99.6%	4,062,710	119,035,637	103.1%	6,213,399

Levies do not include autos. These are levied and collected by the County Clerk's Office as required by KRS Chapter 134 and Louisville City Ordinance #185, Series 1984.

- (1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (2) Beginning in fiscal year 2003, Metro Government began reflecting delinquent tax information as it relates to total property tax collections in a given year within the statistical section of the financial statements.

LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT

LEGAL DEBT MARGIN

Last Four Fiscal Years (since Merger) (1)

	Fiscal Year			
	2003	2004	2005	2006
Debt Limit - 10% of assessed valuation	\$ 5,707,241,737	\$ 5,760,103,923	\$ 5,970,125,536	\$ 6,247,854,837
Total bonded debt applicable to limit	<u>389,639,029</u>	<u>372,825,790</u>	<u>382,672,355</u>	<u>362,507,086</u>
Legal debt margin	<u>\$ 5,317,602,708</u>	<u>\$ 5,387,278,133</u>	<u>\$ 5,587,453,181</u>	<u>\$ 5,885,347,751</u>
Total net debt applicable to the limit as a percentage of debt limit	6.83%	6.47%	6.41%	5.80%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed Valuation - January 1, 2005	\$ 62,478,548,371
Debt Limit (10% of assessed value)	6,247,854,837
Debt applicable to limit:	
Bonded debt outstanding	363,379,925
Less: Amount set aside for repayment of bonded debt	<u>(872,839)</u>
Total debt margin applicable to limit	<u>362,507,086</u>
Legal debt margin	<u>\$ 5,885,347,751</u>

Metro Government is authorized by Section 158 of the Kentucky Constitution to incur indebtedness to a maximum of ten percent of the value of the taxable property located within the boundaries of Jefferson County. Value of taxable property is to be estimated by the assessment next before the assessment previous to incurring of additional indebtedness.

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.

**LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT**

June 30, 2006

<u>Governmental Unit</u>	<u>Gross Debt Outstanding</u>	<u>Percentage Applicable to Louisville Metro Taxpayers</u>	<u>Louisville Metro Taxpayers Share of Debt</u>
Direct Debt:			
Revenue bonds	\$ 126,629,919	100 00%	\$ 126,629,919
General obligation debt	<u>236,750,006</u>	100 00%	<u>236,750,006</u>
Total direct debt	<u>363,379,925</u>		<u>363,379,925</u>
Overlapping debt:			
Jefferson County Public Schools	<u>346,524,782</u>	100 00%	<u>346,524,782</u>
Total direct and overlapping debt	<u>\$ 709,904,707</u>		<u>\$ 709,904,707</u>

LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Four Fiscal Years (since Merger) (1)
(amounts in thousands except per capita)

Fiscal Year	Governmental Activities				Total Primary Government	Percentage of Personal Income	Personal Income (2)	Per Capita
	General Obligation Bonds	First Mortgage Revenue Bonds	Lease Revenue Bonds					
2003	\$ 257,421	\$ 33,835	\$ 97,346	\$ 388,602	1.63%	\$ 23,791,641	558	
2004	245,589	31,900	95,940	373,429	1.54%	24,184,881	535	
2005	256,773	30,100	97,212	384,085	1.51%	25,470,269	550	
2006	236,750	28,030	98,600	363,380	1.36%	26,705,159	519	

Source: Bureau of Economic Analysis website: www.bea.gov

- (1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting*, The Statistical Section, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (2) Personal Income for 2006 is an estimate based on the average annual percentage increase over the last ten years.

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
Last Four Fiscal Years (since Merger) (1)

Fiscal Year	Population (2)	Assessed Value	General Obligation Bonds	Ratio of General Bonded Debt to Assessed Value	General Bonded Debt Per Capita
2003	695,843	\$ 55,306,737,301	\$ 257,421,139	0.47%	370
2004	698,059	57,601,039,226	245,589,193	0.43%	352
2005	698,903	59,701,255,363	256,773,069	0.43%	367
2006	699,827	62,478,548,371	236,750,006	0.38%	338

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.

(2) Source: Bureau of Economic Analysis website: www.bea.gov

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

PLEDGED REVENUE COVERAGE

Last Four Fiscal Years (since Merger) (1)

Fiscal Year	First Mortgage Revenue Bonds				Lease Revenue Bonds			
	Gross Revenue (2)	Debt Service		Coverage	Gross Revenue (2)	Debt Service		Coverage
		Principal (3)	Interest			Principal	Interest	
2003	\$ 3,553,871	\$ 1,625,000	\$ 1,947,959	0.99	\$ 7,649,620	\$ 3,645,000	\$ 4,004,820	1.00
2004	3,570,582	1,714,500	1,857,240	1.00	7,132,819	3,800,000	3,332,963	1.00
2005	3,563,081	1,800,000	1,760,475	1.00	4,487,594	1,290,000	3,196,519	1.00
2006	2,934,383	1,286,500	1,645,430	1.00	4,486,909	1,355,000	3,129,439	1.00

Note: Metro Government makes annual lease payments in amounts sufficient to pay the required principal and interest payments on the First Mortgage Revenue Bonds and the Lease Revenue Bonds

- (1) For the implementation of GASB Statement No 44, *Economic Condition Reporting: The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information. Since the former City of Louisville and the former Jefferson County Fiscal Court merged on January 6, 2003, Metro Government is implementing this pronouncement beginning with the year of merger in order to avoid comparability issues.
- (2) Gross revenues include lease income and nonoperating interest income in debt service and debt service reserve funds.
- (3) Fiscal year 2005 excludes \$225,000 in refunded principal on the First Mortgage Revenue Bonds paid from a pre-funded escrow account. Fiscal year 2006 excludes \$685,000 in refunded principal and \$105,000 in current principal due on the First Mortgage Bonds paid from proceeds of capital asset sales.

**LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT
 DEMOGRAPHIC & ECONOMIC INDICATORS
 POPULATION GROWTH
June 30, 2006**

<u>Area</u>	<u>1990</u>	<u>2000</u>	<u>% Change 1990-2000</u>	<u>Estimated (1)</u>		<u>% Change 1990-2005</u>
				<u>2004</u>	<u>2005</u>	
Louisville/Jefferson County	664,937	693,604	4.3%	698,903	699,827	5.2%
Kentucky	3,685,296	4,041,769	9.7%	4,141,835	4,173,405	13.2%
United States	248,709,873	281,421,906	13.2%	293,656,842	296,410,404	19.2%

(1) Estimated population amounts for 2006 are not available from the Census Bureau.

Source: US Census Bureau website: www.census.gov

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago**

Employer	Industry/Product	June 30, 2006			June 30, 1997		
		Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
United Parcel Service	Air Express and Distribution	17,543	1	2.89%	14,409	1	2.51%
Jefferson County Public Schools	K-12 Public Education	13,235	2	2.18%	12,565	2	2.19%
Ford Motor Company	Automotive Manufacturer	8,972	3	1.48%	8,580	4	1.50%
Norton Health Care	Healthcare	8,525	4	1.41%			
Louisville Metro Government	Government Services	5,893	5	0.97%			
Humana, Inc.	Healthcare	5,850	6	0.96%	3,807	9	0.66%
Jewish Hospital & St. Mary's Healthcare, Inc	Healthcare	5,405	7	0.89%	5,387	6	0.94%
University of Louisville	Higher Education	5,236	8	0.86%	4,619	7	0.81%
GE Consumer & Industrial	Household Appliance Manufacturer	5,000	9	0.82%	9,750	3	1.70%
The Kroger Company	Retail Grocer	4,827	10	0.80%			
Kentucky State Government	Government Services				5,893	5	1.03%
Columbia/HCA Healthcare Corp	Healthcare				4,450	8	0.78%
Alliant Health System	Healthcare				3,756	10	0.66%
Total		80,486		13.27%	73,216		12.78%

Sources: Business First of Louisville
Bureau of Labor Statistics website: www.bls.gov

Note: Employee counts and employment figures are based on the eight county Louisville Metropolitan Statistical Area

LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT
NUMBER OF GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
June 30, 2006 (1)

	Full-Time Equivalent Employees		
	as of June 30, (5)		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Metro Council	85	81	80
Mayor's Office	31	31	33
County Attorney	102	104	106
Other Elected Officials	64	67	69
Internal Audit	8	8	8
Finance Department	51	48	54
External Agencies	63	68	70
Policy and Strategic Planning	7	6	6
Information Technology	59	49	49
Human Resources Department	49	49	53
Human Relations Commission	17	18	19
Police Department (4)	1,514	1,605	1,547
Public Protection Cabinet	1	1	1
Fire Department (3)	553	624	646
Emergency Medical Services (3)	278	186	131
Emergency Management Agency (4)	171	26	26
Corrections Department	569	545	524
Youth Detention Services	129	128	130
Metro Criminal Justice Commission	5	5	6
Public Works Department (2)	223	257	274
General Services Administration (2)	220	197	203
Solid Waste Management Services	243	244	252
Inspections, Permits and Licenses	138	141	138
Animal Control Services	41	37	37
Department of Neighborhoods	44	48	41
Parks Department	576	593	612
Louisville Free Public Library	289	287	283
Louisville Zoological Gardens	180	187	189
Metro Development Authority	66	67	54
Planning and Development Services	64	62	59
Housing Department	58	56	58
Community Development	12	15	15
Air Pollution Control	62	57	57
Waterfront Development Corporation	67	14	14
Redevelopment Authority	1	2	2
Health Department	321	320	320
Human Services	173	183	189
Kentuckiana Works	11	14	18
Community Action Partnership	96	99	94
Total	<u><u>6,641</u></u>	<u><u>6,529</u></u>	<u><u>6,467</u></u>

- (1) For the implementation of GASB Statement No 44, *Economic Condition Reporting*. *The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information, however Metro Government is reflecting the last three fiscal years in this table to avoid any comparability issues since merger
- (2) In 2006, a division of the Public Works Department was incorporated into the General Services Administration
- (3) In 2006, certain Fire Department employees were transferred into Emergency Medical Services.
- (4) In 2006, the communication division of the Police Department was transferred to the Emergency Management Agency.
- (5) Numbers represent actual employees for the last pay period of each fiscal year, with full-time employees counted at 100% and part-time and seasonal employees counted at 50%

LOUISVILLE/ JEFFERSON COUNTY METRO GOVERNMENT
MISCELLANEOUS OPERATING INDICATORS AND CAPITAL ASSET INFORMATION
June 30, 2006 (1) (2)

Date Founded (City of Louisville)	1778
Date of Incorporation (City of Louisville)	1828
Date of City/County Merger	2003
Form of Government	Mayor/Council
Area in Square miles	386

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Public Works			
Miles of Streets	125	138	153
Number of Potholes filled	21,618	29,809	30,000
Parks			
Community Centers	17	17	17
Number of Parks	123	123	123
Park Acreage	14,000	14,000	14,000
Golf Courses	9	9	9
Swimming Pools	12	12	12
Tennis Courts	172	172	172
Number of Walking Trails/Bike Paths	40	40	40
Zoo and Louisville Nature Center			
Total Acreage	151	151	151
Area developed in acres	90	90	90
Number of Animals	1,300	1,300	1,300
Libraries			
Number of branches	16	16	16
Number of Library Card Holders	325,524	343,043	358,927
Number of Computers	402	410	470
Fire Protection (Urban Service District)			
Number of Stations	22	22	22
Number of Incidents (calls answered)	11,198	10,960	9,488
Number of Medical Runs	11,481	9,090	7,923
Number of Home Inspections Conducted	12,316	12,132	11,053
Number of Building Inspections Conducted	9,740	11,024	7,708
Police Protection			
Number of active Patrol Units	802	802	802
Number of Arrests	27,356	29,088	21,443
Number of Citations	92,997	80,728	55,501
Corrections			
Number of Prisoners	39,046	39,242	35,375
Number of Beds	1,919	1,919	1,919
Health			
Number of Clinics	12	12	12
Number of Services Provided	314,696	445,676	454,022
EMS			
Number of Dispatches	93,195	92,816	111,627
Number of Transports	51,420	52,913	54,073
Animal Services			
Licensed Pets	67,293	63,310	58,510
Number of Animals Spayed/Neutered	899	1,063	2,058
Number of Pets Adopted	899	1,063	1,943
Housing			
Number of Downtown Housing Projects	1,688	1,949	2,036

(1) For the implementation of GASB Statement No. 44, *Economic Condition Reporting - The Statistical Section*, GASB recommends reporting ten years of statistical and demographic information, however Metro Government has elected to reflect data since the merger of the former City and County Governments. This table reflects data for the last three calendar years.

(2) Information is provided on a calendar year basis. Amounts for calendar year 2006 are estimated or year-to-date figures.