

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
For the Year Ended June 30, 2007**

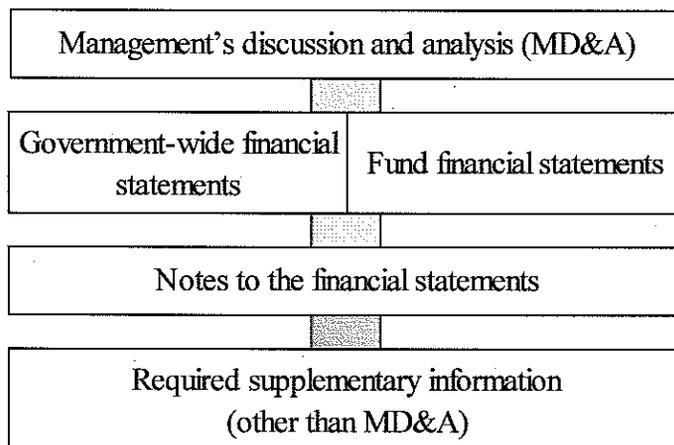
Our discussion and analysis of Louisville/Jefferson County Metro Government's financial performance provides an overview of Metro Government's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the Metro Government's financial statements, which begin on page 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 increased by \$6,433,166.
- Total assets of the primary government exceeded total liabilities by \$622.0 million at the close of fiscal year 2007.
- At fiscal year-end, Metro Governmental funds reported a combined ending fund balance of \$222.3 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, 2007**

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, is one way to measure the Metro Government's financial health, or financial position. Increases or decreases in the Metro Government's net assets over time 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.) in assessing 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 2007.
- **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, 2007**

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

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

	Governmental Activities		Total Percent age Change
	2006	2007	2006-2007
Current and other assets	\$ 307,979	\$ 325,275	5.6%
Capital assets	818,123	807,317	-1.3%
Total assets	1,126,102	1,132,592	0.6%
Long-term liabilities	413,535	431,802	4.4%
Other liabilities	97,034	78,824	-18.8%
Total liabilities	510,569	510,626	0.0%
Net assets			
Invested in capital assets, net of related debt	515,671	514,870	-0.2%
Restricted	62,355	88,866	42.5%
Unrestricted	37,507	18,230	-51.4%
Total net assets	\$ 615,533	\$ 621,966	1.0%

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

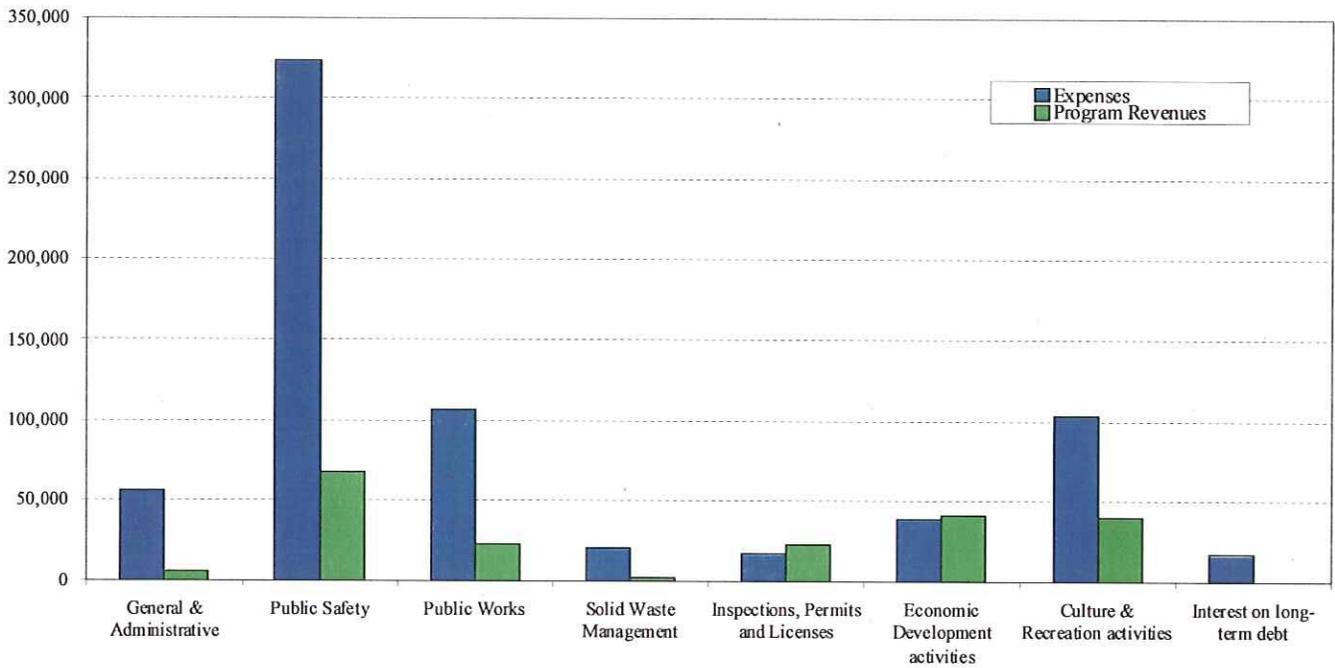
**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
CHANGES IN NET ASSETS**
For the Year Ended June 30
(amounts in thousands)

	Governmental Activities	
	2006	2007
Revenues		
Program revenues:		
Charges for services	\$ 69,752	\$ 83,457
Operating grants and contributions	72,212	73,451
Capital grants and contributions	56,128	42,119
General revenues:		
Property taxes	120,751	126,742
Other taxes	285,559	307,856
Other	44,745	43,964
Total revenues	649,147	677,589
Expenses		
General & Administrative	53,923	55,481
Public Safety	316,348	323,968
Public Works	108,688	106,660
Solid Waste Management	20,163	20,498
Inspections, Permits and Licenses	15,927	16,384
Economic Development activities	36,986	38,524
Culture & Recreation activities	102,719	102,802
Interest on long-term debt	16,302	17,214
Total expenses	671,056	681,531
Increase (decrease) in net assets	(21,909)	(3,942)
Net assets--beginning	636,998	615,533
Prior period adjustment		10,375
Increase due to acquired agency	444	
Net assets--ending	\$ 615,533	\$ 621,966

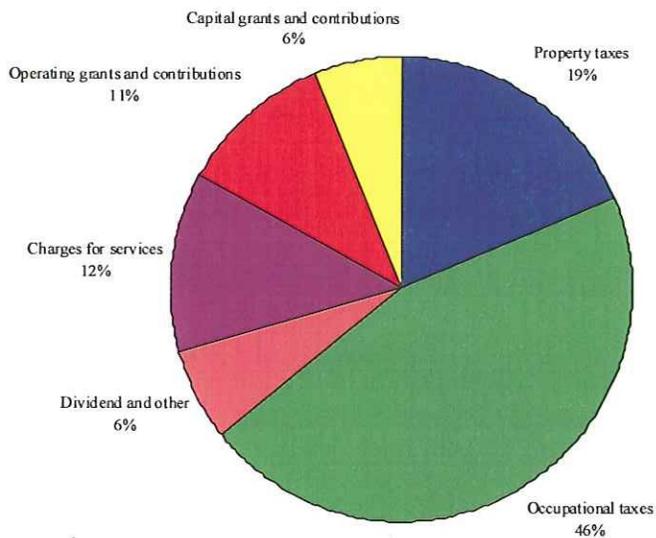
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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2007**

The cost of all governmental activities, this year was \$681.7 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, 2007**

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 control and manage money for particular purposes (such as the Special Purpose Fund) or to show that Metro Government 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, 2007**

Revenues in the General, Special Revenue and Debt Service funds increased by approximately \$28.1 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 decreased overall by about \$5.4 million. Decreases in expenditures occurred primarily as a result of decreased capital outlay. Total fund balances for governmental funds increased \$26.0 million, primarily due to increases of fund balances in the Major Capital Funds.

Component Unit Activities

The Louisville Water Company's operating income decreased 12.3% from last year due to decreased water sales and an increase in operating expenses. The Parking Authority of River City, Inc. reported a 57.9% increase in operating income from last year, mainly from an increase in parking facility revenue. The Transit Authority of River City, Inc.'s operating income decreased 1.1% as a result of increased cost of operations in fiscal year 2007. The Louisville and Jefferson County Riverport Authority reported a decrease of \$1,107,057 in operating income due to a large decrease in land sales in fiscal year 2007 versus 2006. The Metropolitan Sewer District's operating income decreased 4.3% due to an increase in operating expenses. The Louisville Science Center reported an increase of 54.0% in operating loss as a result of increased costs of operation.

General Fund Budgetary Highlights

Actual expenditures were \$83.0 million below the final budget amounts, and these funds will be carried forward to the fiscal year 2008 to offset future related expenditures. On the other hand, resources available for appropriation were \$18.2 million below the final budget amounts.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2007**

Capital Asset And Debt Administration

Capital Assets

At the end of June 30, 2007, 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)			
	2006	2007	Total Percentage Change 2006-2007
Land	\$ 287,445,282	\$ 291,345,646	1.4%
Land improvements	50,060,718	49,082,706	-2.0%
Buildings	221,627,583	217,029,543	-2.1%
Machinery and equipment	16,540,089	14,316,373	-13.4%
Vehicles	21,258,087	31,304,514	47.3%
Works of art	11,046,315	12,017,515	8.8%
Infrastructure	174,036,601	142,981,827	-17.8%
Construction in progress	36,108,691	49,238,597	36.4%
Total Metro	818,123,366	807,316,721	-1.3%
Component Units	2,582,654,115	2,650,045,621	2.6%
Grand Total	<u>\$ 3,400,777,481</u>	<u>\$ 3,457,362,342</u>	1.7%

As of June 30, 2007, the primary government and its component units had various commitments for future capital expenditures. See Note 5 for additional detail on Capital Assets.

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)			
	2006	2007	Total Percentage Change 2006-2007
General obligation debt	\$ 235,346	\$ 247,853	5.3%
Revenue bonds	126,630	128,043	1.1%
Note	318	57	-82.1%
Total Metro	362,294	375,953	3.8%
Component Units	1,568,353	1,626,853	3.7%
Grand Total	<u>\$ 1,930,647</u>	<u>\$ 2,002,806</u>	3.7%

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**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
For the Year Ended June 30, 2007**

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 \$72.2 million. Additional information on the Metro Government's long-term debt activity can be found in Note 9 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 2007 was 5.6%.

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.