

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2002



Kentucky

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Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2002

Paul E. Patton, Governor



Prepared by:
Finance and Administration Cabinet
Gordon C. Duke, Secretary

Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Stuart Weatherford, Director



Paul E. Patton
Governor



COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

PAUL E. PATTON
GOVERNOR

700 CAPITOL AVENUE
SUITE 100
FRANKFORT, KENTUCKY 40601
(502) 564-2611
FAX (502) 564-2517

December 20, 2002

My Fellow Kentuckians:

I am proud to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 2002.

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

The information contained herein fairly presents and fully discloses all appropriate financial information required for taxpayers, investors, creditors, and others to understand and evaluate Kentucky's financial position.

Sincerely,

A handwritten signature in black ink that reads "Paul E. Patton".

Paul E. Patton



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INTRODUCTORY SECTION



PAUL E. PATTON
GOVERNOR

OFFICE OF THE SECRETARY
FINANCE AND ADMINISTRATION CABINET
383 CAPITOL ANNEX
FRANKFORT, KENTUCKY 40601
(502) 564-4240
(502) 564-6785 Fax

Gordon C. Duke
Secretary

December 20, 2002

The Honorable Paul E. Patton
Governor, Commonwealth of Kentucky
The Capitol Building
Frankfort, Kentucky 40601

Dear Governor Patton:

INTRODUCTION

In accordance with Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.), it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2002. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which is responsible for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial position and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes the transmittal letters, the 2001 Certificate of Achievement, organizational chart and list of principal officials. The financial section includes: the auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview and analysis to the "Basic Financial Statements"; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD & A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules. The statistical section includes such items as trend information, debt information and other selected economic and statistical data.

The Reporting Entity and its Services

This report includes all funds, and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's Statement 14. The component units which are blended into the Commonwealth's primary government are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Retirement System, Kentucky Teachers' Retirement System, and Judicial Form Retirement System.

The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, Kentucky School Facilities Construction Commission, Kentucky River Authority, Kentucky State Fair Board, Kentucky Center for the Arts Corporation, Kentucky Educational Television Authority, Kentucky Economic Development Finance Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Educational Savings Plan Trust, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Community and Technical College System, and the eight state supported universities.

Additional detailed information pertaining to Commonwealth's component units are located within the Financial Section of this report.

The Commonwealth provides the full range of services contemplated by statute, including economic development, educational and human services, energy and natural resources management, law enforcement, correctional and public protection services, transportation, public improvements, and general legislative, administrative, and judicial services.

ECONOMIC CONDITION AND OUTLOOK

After a decade of remarkable economic growth the economy slipped considerably in fiscal year 2002. The nation was in a recession. Real gross domestic product (GDP) declined for three consecutive quarters making it the worst performance since the recession of 1991. However, unlike the last recession, average GDP for the year stayed positive at 0.8 percent, because low interest rates managed to keep consumption relatively high. Real consumption for fiscal year 2002 was 3.0 percent, with the consumption of durables growing at a heady 8.4 percent. Incentives like zero-percent financing for cars and trucks during the second and fourth quarters of fiscal year 2002 resulted in a 16.2 percent increase in the consumption of light vehicles.

The Kentucky economy was heavily impacted by the recession. Even though Kentucky's economic base had diversified over much of the 1990s, the strong reliance on manufacturing jobs hurt both employment and income. Total nonagricultural employment fell slightly in fiscal year 2002, and personal income was up just 3.4 percent compared to 5.6 percent in the previous year. The cause of Kentucky's dismal performance was the rapid drop in high-paying manufacturing jobs. Manufacturing employment saw a contraction of 4.9 percent in fiscal year 2002. (The increase in consumer purchases did not translate into increased manufacturing employment primarily because imports soared in the face of a strong dollar.)

The outlook for both the national and state economies is for slight growth during the current fiscal year. Kentucky's nonagricultural employment is expected to increase by just 0.7 percent in fiscal year 2003, with personal income rising by 4.5 percent. Neither of these numbers represents the strong growth typically following a recession. This rather cautious outlook is due to the poor performance of the stock market, and the slight possibility of factors like war in the Middle East and high oil prices causing the recovery to be slower than normal.

MAJOR INITIATIVES

Fiscal year 2002 was marked by a series of revenue shortfalls and corresponding budget cutbacks reflecting a weak national economy that many national analysts believe may have dropped into recession. The Commonwealth of Kentucky, along with over 40 other states, was compelled to initiate spending reduction and budget cutback measures throughout the entire fiscal year. The first such reduction was implemented effective July 1 after the Consensus Forecast Group adopted a reduced revenue projection prompting budget cutbacks for fiscal year 2002 amounting to \$326.7 million in the General Fund and \$85.4 million in the Road Fund. Elementary and secondary education as well as postsecondary education and Medicaid were exempt from this initial round of cutbacks as a matter of policy. Authorized capital construction projects and local community development projects were similarly exempted – also as a matter of policy.

The overriding policy goal adopted throughout the fiscal year – even as the Commonwealth coped with a series of shortfalls in the enacted budget – was to maintain government operations with the least amount of disruption possible. That goal was achieved in that no perceptible program cutbacks or service reductions were necessary. There were no layoffs of public employees and no across-the-board program cuts. Instead, the budget was balanced through a spend down of the Budget Reserve Trust Fund (the "Rainy Day" fund), through the transfer to the General Fund of accumulated balances and surpluses in non-General Fund accounts, and by selective cuts in administrative costs, a sharp curtailment of overtime, and a series of largely one-time reduction measures.

The Consensus Forecasting Group was reconvened by the State Budget Director in October and re-estimated revenues translated into further budget cutbacks effected by a Budget Reduction Order in December resulting in an additional reduction of \$200.1 million in the General Fund and \$37.9 million in the Road Fund. Once again, elementary and secondary education were exempted from cutbacks, but Medicaid and postsecondary education became subject to a two percent reduction. Capital project activity remained in place.

When the General Assembly convened in January in its regular biennial budget session, the Governor presented a recommended Executive Budget predicated on a gradual upturn in the state's economy and anticipated revenue collections expected to take place midway through the calendar year. Unfortunately, the General Assembly was unable to enact a budget for either the Executive or Judicial Branches within the timeframe permitted by the state Constitution due largely to a dispute over partial public financing of gubernatorial campaigns for the 2003 election cycle. Because the Commonwealth is constitutionally required to enact a balanced budget prior to July 1, the period coinciding with the commencement of the fiscal biennium, the Governor called the General Assembly into Special Session in late April. That Extraordinary Session ended May 1 without the enactment of Executive or Judicial budgets. As was the case during the Regular Session, the budgetary impasse stemmed almost wholly from a dispute over funding for partial public financing of gubernatorial campaigns. There remained very few significant differences between the House and Senate versions of the biennial Appropriations Bill.

By late June, with the fiscal year nearing an end and no Legislatively-enacted budget on the horizon, the Governor issued an Executive Order setting forth a "Spending Plan" for fiscal year 2003 designed to keep the Executive Branch of government operational effective July 1— and until such time as the General Assembly reconvened in regular or special session and enacted a comprehensive Executive Branch budget. There was no precedent in Kentucky for such an action, but there likewise was no known precedent for a General Assembly to fail to enact an Executive Budget and Appropriations Bill prior to July 1.

A few days later, the Chief Justice of the Supreme Court promulgated an Executive Order setting out a Spending Plan for the Judicial Branch of government in order to ensure that the Court of Justice continued to operate in the absence of Legislatively-enacted appropriations. Consequently, the Treasurer of the Commonwealth filed a lawsuit in Franklin Circuit Court in an attempt to determine whether "warrants" on the Treasury could be honored, based on the Spending Plans promulgated by the heads of the Executive and Judicial Branches of government. Immediately thereafter, the Spending Plans were challenged by representatives of leadership of the State Senate on the grounds that only the General Assembly was empowered to authorize appropriations, although it was acknowledged that the Governor has the power to spend for "essential" government functions.

At the same time, in the last few days of the fiscal year, a third Budget Reduction Order was executed designed to conform total spending to actual receipts for fiscal year 2002. This amounted to an additional \$155 million shortfall and accommodated through a combination of spending reductions, fund transfers, and the exhaustion of the state's Budget Reserve Trust Fund ("Rainy Day" Fund). Once again elementary and secondary education were spared from budget cuts. A few days after June 30, a final "technical" Budget Reduction Order was executed during the statutory closeout fiscal period precisely conforming actual spending to actual revenue receipts at year's end. This last action amounted to \$5.3 million in General Fund dollars. Cumulatively, fiscal year 2002 revenue shortfalls and budget reduction actions totaled some \$687 million for the General Fund – a nominal dollar record shortfall eclipsed, in percentage terms, only once in recent decades – by the still record reductions necessitated by the recession of 1982.

FINANCIAL INFORMATION

The Accounting System and Budgetary Controls

The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Additional discussions of the various funds and how they are reported are located in the Management's Discussion and Analysis (MD&A) section of this report.

In developing and operating the Commonwealth's accounting system, emphasis is placed on the adequacy of internal accounting controls. They are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived from their use, and that such cost-benefit evaluation requires estimates and judgements by management. All internal control evaluations occur within this framework.

Budgetary control is maintained at the budget unit level, described in the notes to the Required Supplementary Information. Encumbrance accounting is utilized to insure the availability of funding before contracts are finalized. Contracts which result in overruns of available balances, are not released until budget revisions are approved. Outstanding encumbrances for long-term construction projects, in the Transportation Fund and the Capital Projects Fund are reported as reservation of fund balance. Encumbrances in all other funds lapse at the end of the fiscal year.

Debt Administration

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2002 is:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$232,106	1.6%	\$167

No general obligation bonds were authorized or outstanding at June 30, 2002.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2002 is presented in Note 15.

Cash Management, Investment and Collateral Policy

The Commonwealth of Kentucky's investments are governed by KRS 42.500 and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Community Independent Banker's Association and the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At June 30, 2002, the Commonwealth's operating portfolio was approximately \$3.7 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (18%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (45%); repurchase agreements collateralized by the aforementioned (19%); municipal securities (5%); and corporate and asset backed securities, including money market securities (13%). The portfolio has a current yield of 3.00% and a modified duration of 1.43 years. Investment income through June 30, 2002 was \$221 million versus \$316 million the previous fiscal year.

The Commonwealth's investments are categorized into four investment pools: Short-Term, Intermediate-Term, Long-Term, and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Intermediate Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Long-Term Pool invests the Budget Reserve Trust Fund and other funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds Pool is where bond proceeds for capital construction projects are held until expended for their intended purpose.

The Commonwealth of Kentucky engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, interest rate swaps, and more recently the purchase of mortgage-backed securities and collateralized mortgage obligations.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The state is able to enter into either a principal relationship or an agent relationship. In a principal relationship the state reverses its treasury and agency securities in exchange for 102 percent of eligible collateral, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the states treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the state. At the present time the state has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On September 28, 1995, the State Investment Commission adopted resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed \$200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. Currently, the Commonwealth has no asset-based swap transactions outstanding.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranatural governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset-backed securities rated in the highest category by a nationally recognized rating agency.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated maturity of five years or less. Money market securities ranked A1-P1 or higher are limited to 20 percent of any investment pool when combined with corporate and Asset-Backed Securities, and must not exceed 25 percent of any investment pool. Asset-Backed must have a weighted-average life of not more than four years at the time of purchase. United States Agency Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent of any investment portfolio. MBS must have a stated final maturity of ten years or less, with a weighted-average life of not more than four years at time of purchase. CMO must have a weighted-average life of four years or less at time of purchase.

RISK MANAGEMENT

The Division of Risk Management (DRM) provides oversight and coordinates risk management and insurance responsibilities among various state agencies in accordance with KRS 42.0245. For the year ended June 30, 2002, the Division assisted in achieving a cash savings of \$304,326 by obtaining lower bids from improved insurance bid specifications and by seeking broader markets. Risk exposures in the amount of \$53,012,096 were eliminated for state agencies' properties that were either uninsured or underinsured. The Finance and Administration Cabinet insures property, computers, vehicles, telephones, fidelity bonds, and workers' compensation with a total insurance value of \$462 million annually for a premium of \$253,000.

New risk management initiatives fully implemented for the year included initiating a computer application to standardize the identification of state insured buildings for tracking methods of both the Department of Insurance and the Finance and Administration Cabinet. This initiative provides more current property appraisals and expedites claims analysis.

Currently, the Commonwealth's two major self-insurance programs include the State Fire and Tornado Insurance Fund for property and casualty coverage and the State Self-Insurance Fund for Workers' Compensation benefits. The Finance and Administration Cabinet, in accordance with KRS 45A.022, purchases insurance policies to transfer to insurance companies other financial and catastrophic risks for various state agencies. One such coverage is the vehicle liability insurance policy, which insures 10,609 vehicles for an annual premium of \$3,094,104. As of June 30, 1999, the Commonwealth terminated the self-insured Kentucky Kare program and offered coverage for health benefits through competitive bidding with the private health insurance markets. The Commonwealth expended \$558 million for health insurance for the calendar year 2001.

The State Fire and Tornado Insurance Fund, created in 1936, insures publicly owned buildings and personal property, including computers, against loss from fire, windstorms, hail, explosions, floods and earthquakes. All state agencies are required to secure insurance from the Fund against these perils. Earthquake and flood coverage for all state facilities are available as additional insured perils in the Fund. The Fund, in accordance with KRS 56.070, is comprised of an appropriation level of \$5 million combined with premiums charged to state agencies and universities. By statute, the Fund must have a reserve of \$5 million at the close of each fiscal year.

Current Annual premiums of \$6,474,405 insure \$7,723,945,499 in property assets for 6,800 facilities throughout the state. Computers, telephones, fine arts and other insured assets total \$930,569,808. All losses are reinsured to limit fund liability to \$500,000 for any one loss to each subject risk. The premium for reinsurance is \$3,839,250, a 183 percent increase from the previous fiscal year. For the year ended June 30, 2002, the Fund paid 293 claims in the amount of \$1,464,631.

The State Self-Insured Workers' Compensation Trust Fund, established in 1979, provides workers' compensation coverage for state employees. At June 30, 2002, the State program had assets of \$14.3 million and an unreserved accumulated deficit of \$78.4 million. Premium income for the fiscal year totaled \$13.6 million, and the unreserved accumulated deficit increased \$14.5 million or 22.6 percent from the

previous fiscal year. The Fund carries reinsurance coverage for large individual or incident claims of \$5 million, with limits of \$10 million. The amount of claims paid for the fiscal year was \$25.0 million, which is \$7.8 million less than fiscal year 2001. The Transportation Cabinet has a separate self-insured workers' compensation fund for its employees. As of June 30, 2002, the Fund has a claim liability of \$21.2 million. Total claim payments for the year were \$3.5 million. The fund carries reinsurance coverage for claims exceeding \$1 million, with limits of \$10 million.

OTHER INFORMATION

Independent Audit

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with government auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the independent auditor appears elsewhere in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2001. This is the fifteenth consecutive year the Commonwealth has received this prestigious award.

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

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of this report could not have been accomplished without the cooperation of all branches and agencies of the Commonwealth. The professionalism demonstrated by the staffs of the Finance and Administration Cabinet's Divisions of Statewide Accounting Services and Printing, as well as the Office of the Auditor of Public Accounts, is especially noteworthy. Their combined dedication made the publication of this report possible.

Respectfully submitted,



Gordon C. Duke, Secretary
Finance and Administration Cabinet



Finance and Administration Cabinet

Office of the Controller

Capitol Annex Building
702 Capital Avenue, Room 393
Frankfort, Kentucky 40601-3448
(502) 564-2210
Fax (502) 564-5697

Edgar C. Ross
Controller

Paul E. Patton
Governor
Gordon C. Duke
Secretary

December 20, 2002

The Honorable Gordon C. Duke
Secretary, Finance and Administration Cabinet
383 New Capitol Annex
Frankfort, Kentucky

Dear Secretary Duke:

Pursuant to Section 48.800(3) of the Kentucky Revised Statutes, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2002, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB) Statement 14.

The basis of accounting upon which the report has been prepared complies with accounting principles generally accepted in the United States of America for state governments as prescribed by both GASB and the American Institute of Certified Public Accountants' (AICPA) publication Audits of State and Local Governmental Units.

The information presents fairly and fully discloses the financial position and results of financial operations of the Commonwealth for the reporting period as measured by the financial activity of the various funds. All appropriate disclosures necessary to assist readers in their understanding and evaluation of Kentucky's financial condition have been included in this report.

Respectfully submitted,

Edgar C. Ross, Controller



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

Certificate of Achievement For Excellence in Financial Reporting

Presented to:

Commonwealth of Kentucky

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2001

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



A handwritten signature in cursive script, reading "William Patrick Harte".

President

A handwritten signature in cursive script, reading "Jeffrey L. Esser".

Executive Director

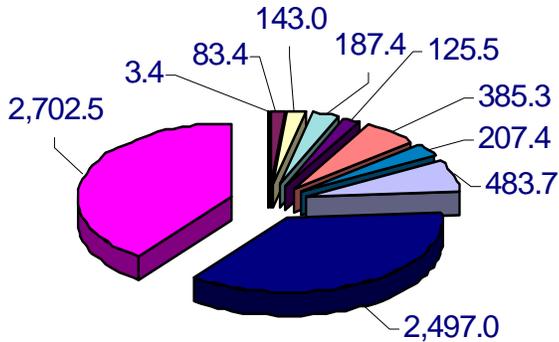
Chart 1

General Fund – Budgetary Basis

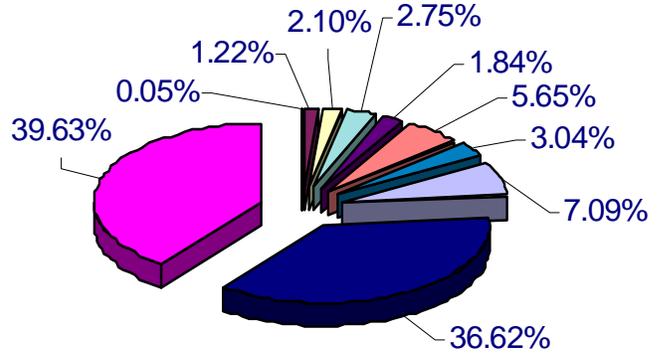
Fiscal Year 2002

(Expressed in millions)

Revenue Source

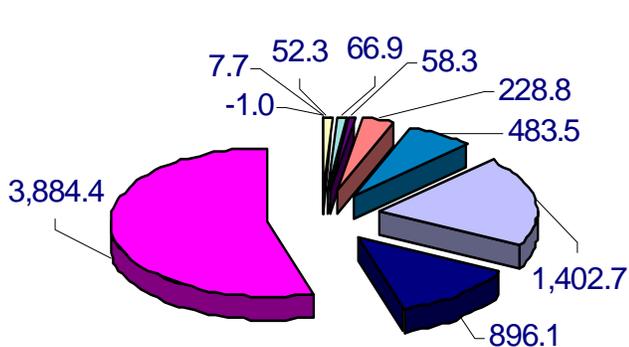


Revenue Percentage

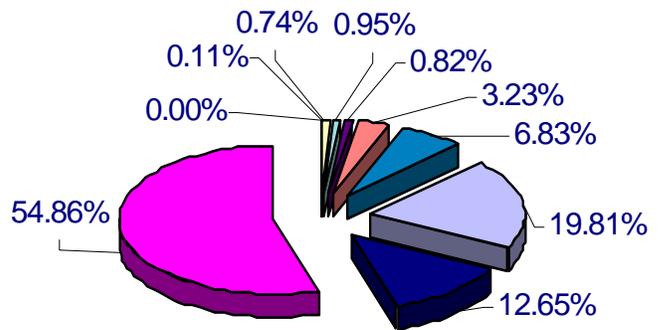


■ Miscellaneous Taxes	■ Inheritance and Estate Taxes	■ License and Privilege Taxes
■ Severance Taxes	■ Operating Transfers In	■ Non-Tax Revenue
■ Corporate Income Tax	■ Property Taxes	■ Sales and Gross Receipts Taxes
■ Individual Income Tax		

Expenditure Function



Expenditure Percentage



■ Non-Budgetary Items	■ Transportation	■ Commerce	■ Natural Resources
■ Public Protection	■ Legislative and Judicial	■ Justice	■ Human Resources
■ General Government	■ Education and Humanities		

Chart 2

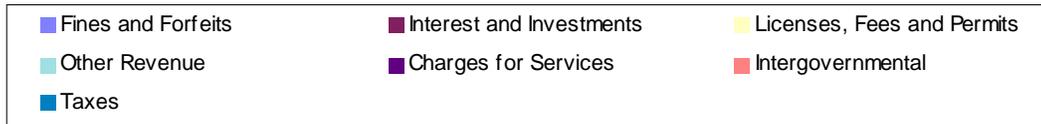
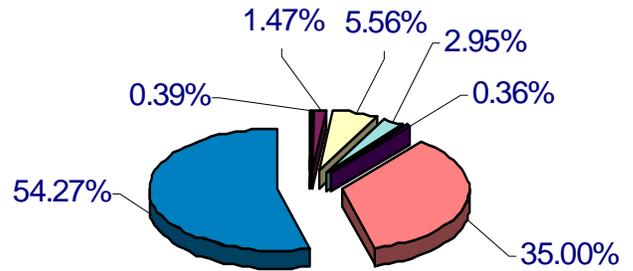
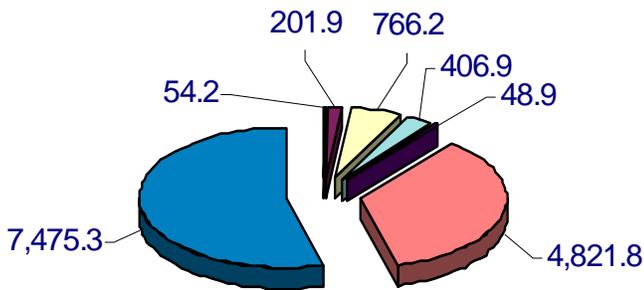
Governmental Funds – GAAP Basis

Fiscal Year 2002

(Expressed in millions)

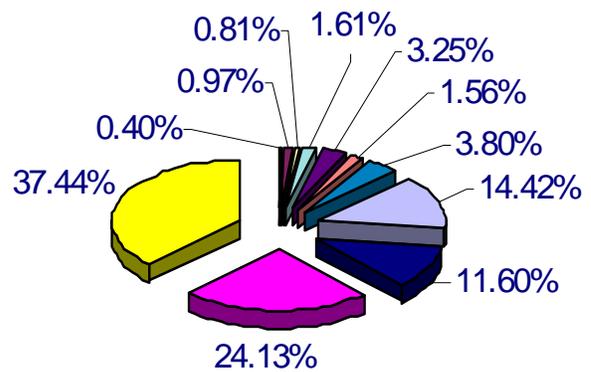
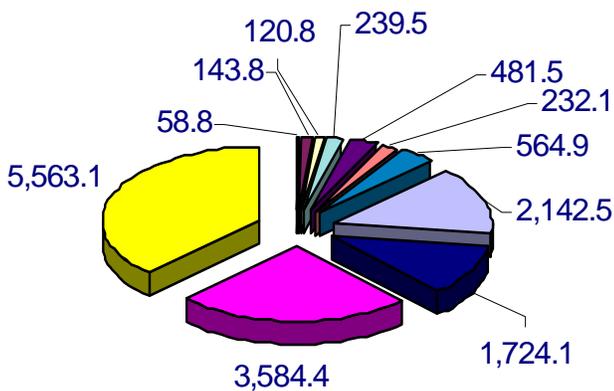
Revenue Source

Revenue Percentage

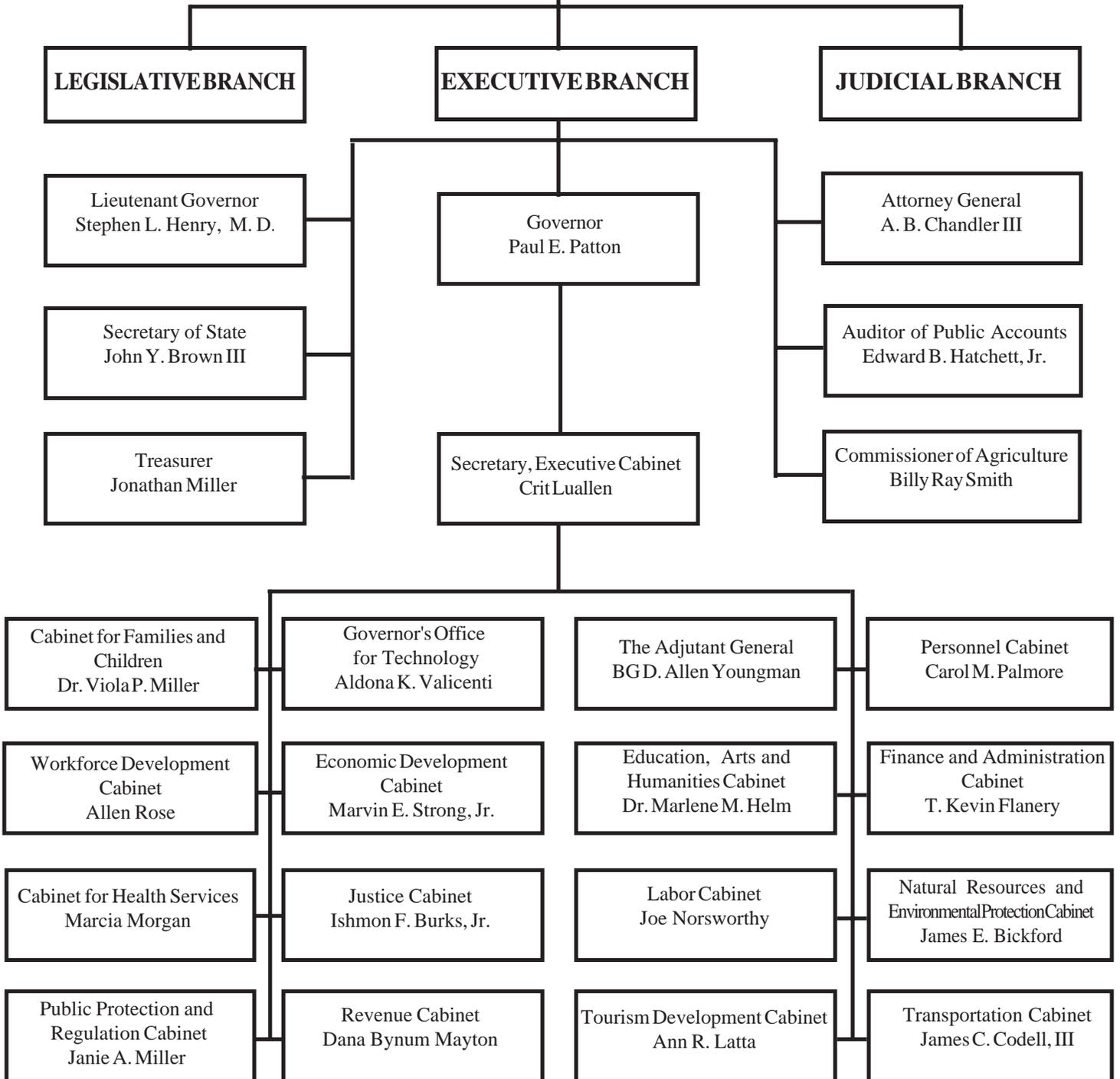


Expenditure Function

Expenditure Percentage



Electorate of Kentucky



*Principal Officials at June 30, 2002

FINANCIAL SECTION



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Paul E. Patton, Governor
Mr. Gordon C. Duke, Secretary
Finance and Administration Cabinet

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2002, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of some of the entities that comprise the Commonwealth. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds, is based upon the reports of the other auditors. Those entities were:

Certain portions of the Governmental Funds including:

- Transportation Fund
- Debt Service Fund – Turnpike Authority
- Special Revenue Fund – Turnpike Authority

Certain portions of the Proprietary Funds including:

- Kentucky Lottery Corporation
- Kentucky Coal Workers' Pneumoconiosis
- Kentucky Workers' Compensation Special Fund
- Petroleum Storage Tank Environmental Assurance Program

Certain portions of the Risk Management funds within the Internal Service Funds:

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

Certain Fiduciary Funds including:

- Pension Trust Funds
- Kentucky Educational Savings Plan Trust
- Kentucky Affordable Prepaid Tuition Plan

Component Units:

- Kentucky Higher Education Student Loan Corporation
- Bluegrass State Skills Corporation
- Kentucky Educational Television Authority
- Kentucky Infrastructure Authority
- Kentucky Higher Education Assistance Authority
- Kentucky Access
- Kentucky Housing Corporation
- Kentucky State Fair Board
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky River Authority



Colleges and Universities:

- University of Kentucky
- Eastern Kentucky University
- Morehead State University
- Northern Kentucky University
- Kentucky Community and Technical College System
- University of Louisville
- Kentucky State University
- Murray State University

Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues or Additions
Primary Government – Governmental Activities	6.57%	19.21%
Primary Government – Business-Type Activities	44.07%	60.81%
Component Units	96.59%	93.52%
Fund Financial Statements:		
Governmental Funds – Major Funds	24.44%	8.35%
Governmental Funds – Non-Major Funds	43.11%	15.07%
Proprietary Funds – Business-Type Activities- Enterprise Funds	43.93%	62.40%
Proprietary Funds – Governmental Activities – Internal Service Funds	6.55%	11.40%
Fiduciary Funds – Pension Trust Funds	100.00%	100.00%
Fiduciary Funds – Private Purpose Funds	100.00%	100.00%
Component Units	96.59%	93.52%

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 opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
Mr. Gordon C. Duke, Secretary
Finance and Administration Cabinet
Page 3

As discussed in Note 2 of the basic financial statements, the Commonwealth of Kentucky adopted Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*; Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*; Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*; Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The audit reports for Western Kentucky University and the Kentucky Center for the Arts have not been released as of the date of this report and therefore those financial statements have not been audited. Western Kentucky University’s and the Kentucky Center for the Arts financial activities are included in the basic financial statements as a discretely presented component units and represent 2.76% and .30% of assets and 2.47% and .20% of revenues, respectively, of the Commonwealth’s aggregate discretely presented component units.

The management’s discussion and analysis on pages 17 through 27, budgetary comparison schedules and corresponding notes on pages 113 through 133, and information about infrastructure assets reported using the modified accrual approach on pages 134 and 135, and claims development information for entity risk pools on page 136, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky’s basic financial statements. The combining and individual fund statements and schedules – non-major funds, presented in this report on pages 137 through 184 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 1 through 7 and 185 through 196 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the Commonwealth of Kentucky’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,



Edward B. Hatchett, Jr.

December 20, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Commonwealth of Kentucky provides this Management's Discussion and Analysis of the Commonwealth's Comprehensive Annual Financial Report (CAFR) for readers of the financial statements. This narrative overview and analysis of the financial activities of the Commonwealth of Kentucky is for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

Net Assets - The assets of the Commonwealth exceeded its liabilities at fiscal year ending June 30, 2002 by \$15.4 billion (presented as "net assets"). Of this amount, a negative \$2.5 billion was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the Commonwealth's ongoing obligations to citizens and creditors.

Changes in Net Assets - The Commonwealth's total net assets increased by \$193.7 million (a 1.3% increase) in fiscal year 2002. Net assets of governmental activities increased by \$447.3 million (a 2.9% increase), while net assets of the business-type activities showed a decrease of \$253.5 million.

Fund Highlights:

As of the close of fiscal year 2002, the Commonwealth's governmental funds reported a combined ending fund balance of \$2.42 billion, a decrease of \$186.5 million in comparison with the prior year. Of this total amount, \$1.23 billion represents the "unreserved fund balances" with majority being in the special revenue fund. Included in the \$1.23 billion is a negative \$36.0 million in the General Fund, \$1.22 billion in the Special Revenue Fund, \$316.6 million in the Debt Service Fund, leaving a negative \$265.5 million in the Capital Projects Fund. The \$1.22 billion represented by the Special Revenue Fund is roughly 8.2 percent of the total governmental fund expenditures for the year.

Long-Term Debt:

The Commonwealth's total long-term debt obligations increased by \$502 million, or 9.2 percent during the current fiscal year. A major contributing factor was the increase of \$460 million of net bonds payable in Primary Governmental Activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth of Kentucky's basic financial statements. The basic financial statements include two kinds of financial statements that present different views of the Commonwealth – the Government-Wide Financial Statements and the Fund Financial Statements and Combining Major Component Unit Financial Statements. These financial statements also include the Notes to the Financial Statements that explain some of the information in the financial statements and provide more detail. This report also contains additional required supplementary information (budgetary schedules) and other supplementary information (combining financial statements) in addition to the basic financial statements themselves. These components are described below.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Commonwealth's net assets may serve as a useful indicator of whether the financial position of the Commonwealth is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the

timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

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

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including education (support for both common public schools and higher education), general government, health services, legal and judiciary services, museums, natural resources, public safety and defense, regulatory services, social services, and transportation. Internal Service Fund balances are reported as a part of the governmental activities.

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

Discretely Presented Component Units – These are operations for which the Commonwealth has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above. The Commonwealth’s discretely presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities’ assets, liabilities, revenues and expenses in relation to the total of all component units.

The Commonwealth’s five discretely presented major component units are:

- Kentucky Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- University of Louisville
- University of Kentucky
- Kentucky Community and Technical College System

The Commonwealth’s nineteen non-major component units are combined into a single column for reporting in the fund financial statements. These non-major component units are:

- Kentucky State Fair Board
- Kentucky Center for the Arts Corporation
- Kentucky Educational Television Authority
- Kentucky Economic Development Finance Authority
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky River Authority
- Kentucky Access
- Kentucky Agricultural Finance Corporation
- Kentucky Grain Insurance Corporation
- Kentucky Local Correctional Facilities Construction Authority
- Bluegrass State Skills Corporation
- Kentucky School Facilities Construction Commission
- Eastern Kentucky University
- Kentucky State University
- Morehead State University
- Murray State University
- Northern Kentucky University
- Western Kentucky University

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Addresses and other additional information about the Commonwealth’s component units are presented in the notes to the financial statements.

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

Fund Financial Statements and Major Component Unit Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements.

The fund financial statements focus on individual parts of the State government, reporting the Commonwealth's operations in more detail than the government-wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

The three categories of funds are:

Governmental Funds Financial Statements – Most of the basic services provided by the Commonwealth are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known the modified accrual basis of accounting. These statements provide a detailed short-term view of the Commonwealth's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Commonwealth.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliation's are presented on the page immediately following each governmental fund financial statement.

The Commonwealth has ten governmental funds; five are considered major funds for presentation purposes and the remainder are considered non-major. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. All the non-major funds are aggregated together into one column on these statements. The Commonwealth's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, the Capital Projects Fund, and the Agency Revenue Fund. The non-major governmental funds are an aggregate of the Special Revenue Funds and Debt Service Funds. The non-major Special Revenue Funds are Other Special Revenue, Special Benefits and Turnpike Authority. The Debt Service Funds are Primary Government and Turnpike Authority.

The basic governmental funds financial statements can be found in the Fund Financial Statements section immediately following the Government-Wide Statements. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements as part of Other Supplementary Information of this report.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of private sector business. Proprietary funds are used when the state charges for services provided, whether it is to an outside customer (enterprise fund) or to another agency within the state (internal service fund). Proprietary funds, which include enterprise and internal service funds use the accrual basis of accounting. Internal service funds are reported as governmental activities and enterprise funds are reported as business-type activities.

The Commonwealth has five enterprise funds, of which all are considered major proprietary funds for presentation purposes. As previously mentioned, they are the operations of the State Parks, the Kentucky Lottery Corporation, the Kentucky Horse Park, Insurance Administration, and Unemployment Compensation Insurance. All other proprietary funds are aggregated into one column titled Internal Service Funds on the Proprietary Funds Statements.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements in the fund financial statements section.

Fiduciary Funds Financial Statements – These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to

support the programs of the Commonwealth. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The Commonwealth's fiduciary funds are the Pension (and Other Employee Benefit) Trust Funds and the Private-Purpose Trust Funds which includes the Kentucky Educational Savings Plan Trust (a discretely presented component unit) and Agency Funds. Individual fund detail can be found in the combining financial statements described below.

The basic fiduciary funds and similar component units' financial statements can be found immediately following the proprietary funds financial statements.

Other than the three previously mentioned fund categories, there is also a category for operations of the Commonwealth which is independent in some aspects. Those operations are classified as Discretely Presented Component Units in the:

Component Units Financial Statements – As mentioned above, Component Units are operations for which the Commonwealth has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. The government-wide financial statements present information for the component units in aggregate within a single column of the statement of net assets. Also, information on the statement of activities is aggregated for component units. The combining statements of net assets and the combining statement of activities provide details for each major component unit and in aggregation for the non-major component units. Individual non-major component unit detail can be found in the combining financial statements described below.

Financial statements for major component units follow the financial statements for fiduciary funds and fiduciary type component units.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government- wide and fund financial statements.

The notes to the financial statements can be found immediately following the discretely presented major component units financial statements.

Required Supplementary Information - The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Combining Financial Statements - The combining financial statements referred to earlier in connection with fiduciary funds and non-major component units are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

Budgetary Detail - The Schedule of Expenditures and Intra-Agency Transfers – Detail Budget to Actual Comparison is presented in this section. It provides detailed comparisons of expenditures and intra-agency transfers at the legal level of control. Comparisons can be made between the original budget, final budget, and actual.

**Commonwealth of Kentucky's Net Assets-Primary Government
(Expressed in Thousands)**

	Governmental Activities		Business-type Activities		Total		Change
	2001	2002	2001	2002	2001	2002	2001-2002
Current Assets	\$ 2,055,210	\$ 2,189,501	\$ 856,785	\$ 720,223	\$ 2,911,995	\$ 2,909,724	-0.1%
Capital Assets	16,470,304	17,097,185	206,484	221,517	16,676,788	17,318,702	3.9%
Other Assets	2,193,162	1,786,505	700,548	625,371	2,893,710	2,411,876	-16.7%
Total Assets	\$ 20,718,676	\$ 21,073,191	\$ 1,763,817	\$ 1,567,111	\$ 22,482,493	\$ 22,640,302	0.7%
Non Current Liabilities	3,972,043	4,326,574	1,633,561	1,627,808	5,605,604	5,954,382	6.2%
Other Liabilities	1,567,832	1,120,533	119,530	182,111	1,687,362	1,302,644	-22.8%
Total Liabilities	\$ 5,539,875	\$ 5,447,107	\$ 1,753,091	\$ 1,809,919	\$ 7,292,966	\$ 7,257,026	-0.5
Invested in Capital Assets							
Net of Related Debt	15,022,791	15,678,028	220,546	220,996	15,243,337	15,899,024	4.3%
Restricted	1,176,705	1,524,926	1,252,635	451,761	2,429,340	1,976,687	-18.6%
Unrestricted	(1,020,695)	(1,576,870)	(1,462,455)	(915,565)	(2,483,150)	(2,492,435)	0.4%
Total Net Assets	\$ 15,178,801	\$ 15,626,084	\$ 10,726	\$ (242,808)	\$ 15,189,527	\$ 15,383,276	1.3%

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. Because the Commonwealth of Kentucky is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$15.4 billion at the end of 2002, compared to \$15.2 billion at the end of the previous year.

The current assets of the Commonwealth, 12.9 percent of total assets, are used to maintain the daily operations and provide services to the citizens. A portion of the current assets, (19.9%) have externally applied restrictions and are not available to meet the Commonwealth's ongoing obligations to citizens and creditors.

Changes in Net Assets

The Commonwealth's net assets increased by \$193.7 million or 1.3 percent. Approximately 49.0 percent of the Commonwealth's total revenue came from taxes, while 34.4 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 14.0 percent of the total revenues. The Commonwealth's expenses cover a range of services. The largest expenses were for common public schools, higher education and humanities, human resources, and transportation. In fiscal year 2002, governmental activity expenses exceeded program revenues, resulting in the use of \$7.58 billion in general revenues (mostly taxes). On the other hand, net expenses from business-type activities in Fiscal Year 2002 exceeded revenues by \$69.45 million, after transfers.

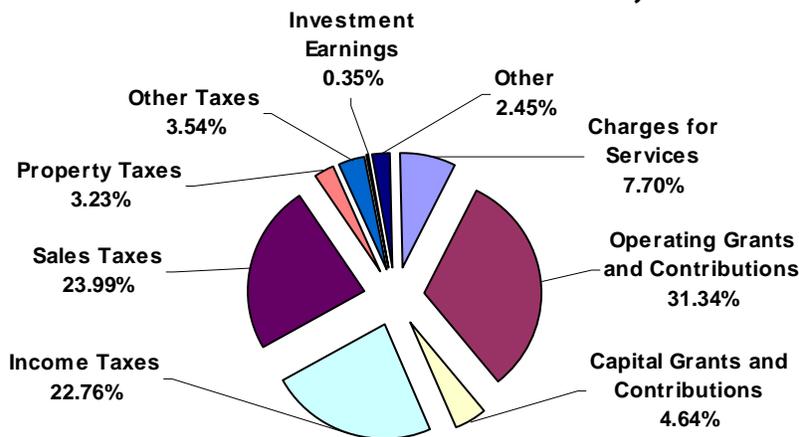
**Commonwealth of Kentucky's Changes in Net Assets-Primary Government
(Expressed in Thousands)
For Fiscal Year 2002**

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for Services	\$ 1,072,378	\$ 1,052,258	\$ 2,124,636
Operating Grants and Contributions	4,366,372	220,812	4,587,184
Capital Grants and Contributions	646,847		646,847
General Revenues:			
Income Taxes	3,171,395		3,171,395
Sales Taxes	3,343,082		3,343,082
Property Taxes	450,134		450,134
Other Taxes	493,042		493,042
Investment Earnings	49,259		49,259
Other	340,718	6,808	347,526
Total Revenues	13,933,227	1,279,878	15,213,105
Expenses:			
Governmental Activities:			
General Government	1,917,289		1,917,289
Legislative and Judicial	243,571		243,571
Commerce	88,229		88,229
Education and Humanities	3,639,130		3,639,130
Human Resources	5,576,596		5,576,596
Justice	611,350		611,350
Natural Resources and Environmental Protection	114,496		114,496
Public Protection and Regulation	50,798		50,798
Transportation	1,093,070		1,093,070
Unallocated Depreciation			
Interest Expense	335,499		335,499
Business Activities:			
State Parks		97,706	97,706
Lottery Corporation		475,944	475,944
Horse Park		6,715	6,715
Insurance Administration		156,851	156,851
Unemployment Compensation		612,112	612,112
Total Expenses	13,670,028	1,349,328	15,019,356
Increase (Decrease) in Net Assets Before Transfers	263,199	(69,450)	193,749
Transfers	184,084	(184,084)	
Change in Net Assets	447,283	(253,534)	193,749
Net Assets, Beginning of Year	15,178,801	10,726	15,189,527
Net Assets, End of Year	\$ 15,626,084	\$ (242,808)	\$ 15,383,276

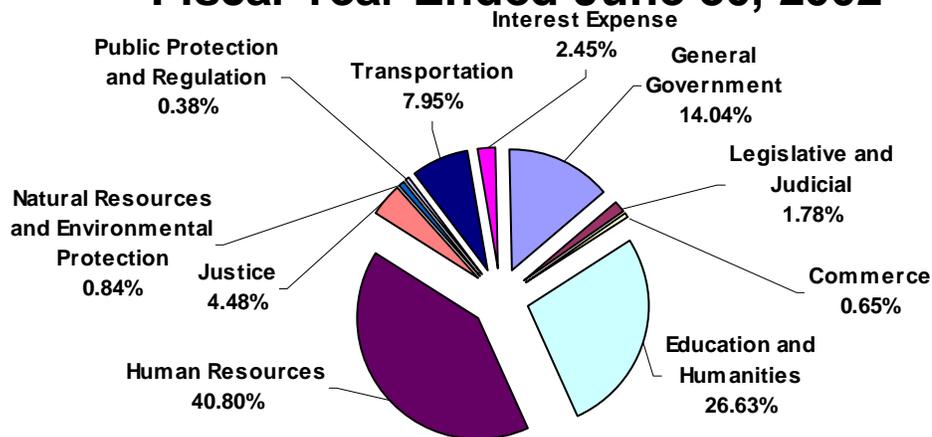
Business-Type Activities

The business-type activities decreased the Commonwealth's net assets by \$253.5 million. This resulted from a \$85.3 million decrease in net assets by the Insurance Administration, and increases in the net assets of \$2.2 million by the Commonwealth's Lottery Corporation, \$1.3 million decrease by State Parks, \$3.6 million increase by the Kentucky Horse Park and \$172.7 decrease million by Unemployment Compensation.

Revenues - Governmental Activities Fiscal Year Ended June 30, 2002



Expenses - Governmental Activities Fiscal Year Ended June 30, 2002



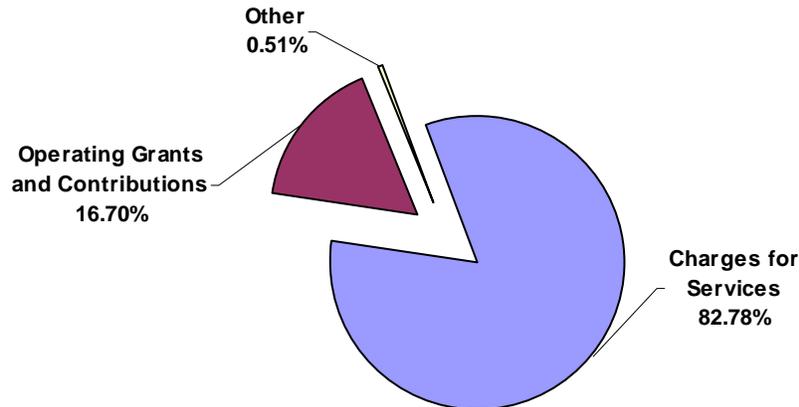
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

As noted earlier, the Commonwealth uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements.

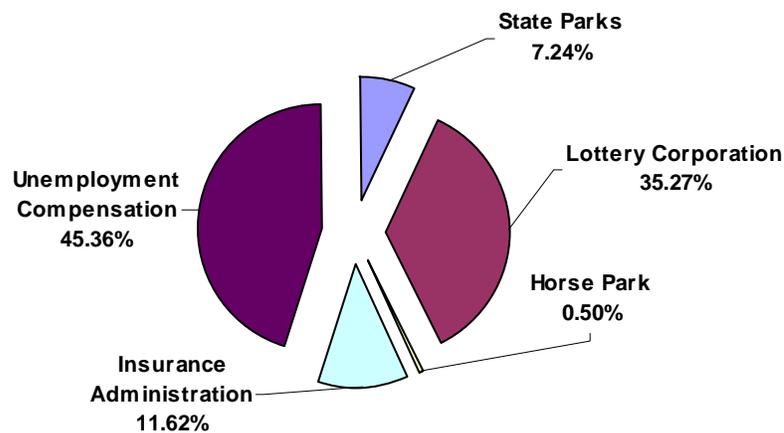
Governmental Funds - The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commonwealth's financing requirements. Because the Commonwealth of Kentucky is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.42 billion, a decrease of \$186.5 million in comparison with the prior year. Just over one-half (\$1.23 billion or 51%) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending. The reserves have been established: (1) to fund statutory obligations (\$835.5

Revenues - Business Activities Fiscal Year Ended June 30, 2002



Expenses - Business Activities Fiscal Year Ended June 30, 2002



million), (2) for inventory on hand at year end (\$66.9 million), (3) to fund capital outlay (\$260.1 million), or (4) for other restricted purposes (\$25.8 million).

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, unreserved fund balance of the general fund was a negative \$36.0 million, while the total fund balance reached \$87.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents -.54 percent of total general fund expenditures, while total fund balance represents 1.32 percent of that same amount.

The fund balance of the Commonwealth's general fund decreased by \$311.4 million during the current fiscal year. This is a 78.66 percent decrease from the prior year.

Due to the downturn in the economy, the General Fund experienced an increased number of interfund transfers out, leading to a decline in the General Fund's fund balance. In fiscal year 2002, the General Fund increased the amount of transfers out from \$303.0 million in fiscal year 2001 to \$468 million in fiscal year 2002. This is an increase of about \$165 million or a 54.5 percent rise from the previous year.

Proprietary Funds - The Commonwealth's Proprietary funds are used to account for activities which charge for services it provides whether to outside customers (enterprise funds) or to other agencies within the government (internal service funds). The Commonwealth's proprietary funds statements provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed in the business-type activities, the Commonwealth's net assets decreased by \$253.5 million as a result of operations in the enterprise funds. This resulted from a \$172.7 million decrease (28.3% from prior year) in net assets by Unemployment Insurance and a decrease of net assets of \$85.3 million (9.8) by the Commonwealth's Insurance Administration program.

GENERAL FUND BUDGETARY HIGHLIGHTS

Due to the downturn in the economy, the Commonwealth decreased estimated General Fund Revenues by \$171.5 million. Taxes collected still fell short of the revised estimate by \$161.1 million.

The original appropriations were reduced by \$254.0 million due to the shortfall in revenues. Appropriations were cut for all agencies, excluding elementary and secondary education.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$18 billion, with accumulated depreciation of \$737 million, leaving a net book value of \$17.3 billion. This investment in capital assets includes land, improvements, buildings, equipment, construction in progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 3.7 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$703 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$74 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the "Notes to the Financial Statements" of this report.

Infrastructure Assets - The Commonwealth has elected to utilize the "Modified Approach" option as it relates to guidelines set forth in the GASB (Government Accounting Standards Board), Statement Number 34. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 61,500 lane miles of roads and approximately 8,900 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition levels of the infrastructure assets.
- The asset condition level established by the Commonwealth has been met and exceeded for the past two years.
- There have been no significant differences between the amounts estimated to be necessary to maintain and preserve infrastructure assets at target condition levels and the actual amounts of expense incurred for that purpose during the current fiscal period.

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

Debt Administration - The authority of the Commonwealth to incur debt is described in Article X, Section 25, of the Kentucky Constitution. In 1987, the Commonwealth created the Executive Bond Oversight Commission and the Legislative Bond Oversight Commission. The commissions meet jointly to review all proposed debt issuance. Both commissions must approve each financing plan before obligations are issued. The legislation that created the bond oversight commissions also created the position of Commonwealth Bond Advisor, who advises the commissions, and must approve the pricing and fees associated with any debt issuance.

General obligation bonds are backed by the full faith and credit of the Commonwealth including the Commonwealth's power to levy additional taxes to ensure repayment of the debt.

The Commonwealth of Kentucky's total liabilities increased by \$257 million (a 3.7% increase) during the current fiscal year; however, long-term debt increased by \$502 million, a 9.2 percent increase. No general obligation bonds were authorized or outstanding at June 30, 2002. The key factor in this increase was the issuance of \$976 million in Revenue Bonds (a 15.6% increase).

Additional information on the Commonwealth's long-term debt obligations can be found in Note 15 of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Kentucky is currently 5.5 percent, which is an increase from a rate of 4.1 percent a year ago. This compares to the nation's average unemployment rate of 4.8 percent.

Inflationary trends in the region compare favorably to national indices as well. These factors are considered by legislative leaders and management in preparing the Commonwealth's budget for future years.

During the current fiscal year, unreserved fund balance in the governmental funds decreased to \$1.23 billion, with \$1.22 billion of this in the Special Revenue Fund and \$316.6 million in the Commonwealth's Debt Service Fund leaving a negative \$36.00 million in the General Fund and a negative \$265.50 million in the Capital Projects Fund. This \$1.23 billion is roughly 8.3 percent of the total governmental fund expenditures for the year.

On July 1, 2001, a revenue shortfall was declared for fiscal year 2002. The Consensus Forecast Group adopted a reduced revenue projection prompting budget cutbacks amounting to \$326.7 million in the General Fund and \$85.4 million in the Road Fund. Further budget cutbacks effected by a Budget Reduction Order in December resulted in an additional reduction of \$200.1 million in the General Fund and \$37.9 million in the Road Fund. Then again, in the last few days of the fiscal year, a third Budget Reduction Order was executed designed to conform total spending to actual receipts for fiscal year 2002. This amounted to an additional \$155 million. A more comprehensive budgetary dissertation is located in the "Letter of Transmittal – Major Initiatives" section of this report.

The General Assembly of the Commonwealth has not yet passed a Budget for the fiscal year 2003 although there are very few significant differences between the House and Senate versions of the biennial Appropriations Bill. The Commonwealth is presently functioning under a "Spending Plan," as set forth by an executive order of the Governor, for fiscal year 2003 only. A more comprehensive budgetary dissertation is located in the "Letter of Transmittal – Major Initiatives" section of this report.

Pursuant to Continuing Disclosure requirements and Rule 15c2-12, a "Material Event Notice," representing an S&P bond rating downgrade, has been made to the Nationally Recognized Municipal Securities Information Repositories (NRMSIR) and Trustees for the affected bonds including State Property Building Commission (SPBC), Kentucky Infrastructure Authority (KIA), Turnpike Authority of Kentucky (TAK), and Asset/Liability Commission (ALCo). The downgrade is due to the current downturn in the economy. A more comprehensive bond downgrade dissertation is located in the Note 18, "Subsequent Events" section of this report.

As a result of all of the present combined economic factors, the overall economic condition of the Commonwealth has declined. However, the Commonwealth looks forward to a slow, yet more favorable outlook for the coming year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth of Kentucky's finances for all of Kentucky's citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Kentucky, Finance and Administration Cabinet, Office of the Controller, 702 Capitol Avenue, Frankfort, KY 40601.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2002
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	\$ 601,118	\$ 72,155	\$ 673,273	\$ 741,234
Cash with fiscal agents	12,707		12,707	
Investments, net of amortization (Note 5)	1,786,505	625,371	2,411,876	1,444,848
Receivables, net (Note 4)	1,472,327	73,268	1,545,595	2,603,019
Due from component units (Note 7)				62
Due from fiduciary funds (Note 7)	1,000		1,000	
Internal balances	(3,554)	3,554		
Inventories	70,526	3,648	74,174	26,632
Prepaid expenses	8,483	505	8,988	2,926
Deferred charges	14,778		14,778	36,441
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)	12,116	567,093	579,209	456,840
Capital assets (Note 6):				
Land	95,178	18,443	113,621	129,036
Improvements other than buildings	7,116	67,963	75,079	100,115
Buildings	755,456	165,395	920,851	2,759,427
Machinery and equipment	481,510	51,252	532,762	993,385
Other fixed assets	13,569		13,569	43,564
Easements and other intangibles		2,321	2,321	6,277
Less: Accumulated depreciation and amortization	(594,715)	(142,370)	(737,085)	(1,997,003)
Construction in progress	2,324,621	58,513	2,383,134	374,438
Infrastructure	14,014,450		14,014,450	
Total Capital Assets	17,097,185	221,517	17,318,702	2,409,239
Other assets				120,890
Total Assets	21,073,191	1,567,111	22,640,302	7,842,131
Liabilities				
Accounts payable (Note 4)	849,906	168,196	1,018,102	223,301
Tax refunds payable	222,734		222,734	
Accrued liabilities				3,925
Due to fiduciary funds (Note 7)	390		390	
Deferred revenue	47,503	13,915	61,418	131,265
Other liabilities				49,592
Liabilities from restricted assets				2,465
Noncurrent liabilities:				
Due within one year (Note 15)	388,511	189,308	577,819	221,623
Due in more than one year (Note 15)	3,938,063	1,438,500	5,376,563	3,524,386
Total Liabilities	5,447,107	1,809,919	7,257,026	4,156,557
Net Assets				
Invested in capital assets, net of related debt	15,678,028	220,996	15,899,024	1,765,334
Restricted for:				
Debt service	329,267		329,267	318,764
Other purposes (Note 1)	1,195,659	451,761	1,647,420	1,050,384
Unrestricted	(1,576,870)	(915,565)	(2,492,435)	551,092
Total Net Assets	\$ 15,626,084	\$ (242,808)	\$ 15,383,276	\$ 3,685,574

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 1,917,289	\$ 249,343	\$ 221,361	\$ 38,065
Legislative and judicial	243,571	8,752	3,545	
Commerce	88,229	27,918	14,797	241
Education and humanities	3,639,130	9,298	564,824	234
Human resources	5,576,596	419,916	3,404,258	3
Justice	611,350	32,730	45,727	701
Natural resources and environmental protection	114,496	21,547	55,540	
Public protection and regulation	50,798	55,609	6,543	
Transportation	1,093,070	247,265	49,777	607,603
Interest expense	335,499			
Total Governmental Activities	<u>13,670,028</u>	<u>1,072,378</u>	<u>4,366,372</u>	<u>646,847</u>
Business-Type Activities:				
State Parks	97,706	47,640	720	
Lottery Corporation	475,944	638,728	8,322	
Kentucky Horse Park	6,715	5,379	498	
Insurance Administration	156,851	133,749	(4,937)	
Unemployment Compensation	612,112	226,762	216,209	
Total Business-Type Activities	<u>1,349,328</u>	<u>1,052,258</u>	<u>220,812</u>	
Total Primary Government	<u>\$ 15,019,356</u>	<u>\$ 2,124,636</u>	<u>\$ 4,587,184</u>	<u>\$ 646,847</u>
Component Units:				
Authorities:				
Kentucky Housing Corporation	\$ 226,426	\$ 98,394	\$ 136,962	\$
Kentucky Higher Education Student Loan Corporation	43,721	56,101		
Other authorities	291,656	175,407	171,193	3,375
Universities and Colleges:				
University of Kentucky	1,181,743	538,954	309,153	12,628
University of Louisville	489,511	244,945	86,348	2,514
Kentucky Community and Technical College System	355,864	36,657	147,367	
Other universities and colleges	697,154	232,229	129,640	23,647
Total Component Units	<u>\$ 3,286,075</u>	<u>\$ 1,382,687</u>	<u>\$ 980,663</u>	<u>\$ 42,164</u>
General Revenues (Note 1):				
Taxes:				
Sales and gross receipt				
Individual income				
Corporate income				
Property				
License and privilege				
Severance				
Inheritance and estate				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Special items				
Extraordinary items				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated				
Net Assets at June 30				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (1,408,520)	\$	\$ (1,408,520)	\$
(231,274)		(231,274)	
(45,273)		(45,273)	
(3,064,774)		(3,064,774)	
(1,752,419)		(1,752,419)	
(532,192)		(532,192)	
(37,409)		(37,409)	
11,354		11,354	
(188,425)		(188,425)	
(335,499)		(335,499)	
<u>(7,584,431)</u>		<u>(7,584,431)</u>	
	(49,346)	(49,346)	
	171,106	171,106	
	(838)	(838)	
	(28,039)	(28,039)	
	<u>(169,141)</u>	<u>(169,141)</u>	
	<u>(76,258)</u>	<u>(76,258)</u>	
<u>(7,584,431)</u>	<u>(76,258)</u>	<u>(7,660,689)</u>	
			8,930
			12,380
			58,319
			(321,008)
			(155,704)
			(171,840)
			<u>(311,638)</u>
			<u>(880,561)</u>
3,343,082		3,343,082	
2,564,182		2,564,182	
607,213		607,213	
450,134		450,134	
92,953		92,953	
158,354		158,354	
94,609		94,609	
147,126		147,126	
2		2	171,629
49,259		49,259	1,747
(3,768)	(370)	(4,138)	3,080
344,484	7,178	351,662	900,021
			178,668
			(1,194)
184,084	(184,084)		1,929
<u>8,031,714</u>	<u>(177,276)</u>	<u>7,854,438</u>	<u>1,255,880</u>
447,283	(253,534)	193,749	375,319
15,178,801	10,726	15,189,527	3,310,255
<u>\$ 15,626,084</u>	<u>\$ (242,808)</u>	<u>\$ 15,383,276</u>	<u>\$ 3,685,574</u>

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Major Funds

GENERAL FUND

The General Fund is the State's operating fund and accounts for financial resources appropriated by the General Assembly that are not required to be accounted for in other funds.

TRANSPORTATION FUND

The Transportation Fund Accounts for activities related to the construction, preservation, and maintenance of roads.

FEDERAL FUND

The Federal Fund accounts for monies received from the federal government to be spent on specific programs and operations.

AGENCY REVENUE FUND

The Agency Revenue Fund accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity. The General Assembly usually appropriates this fund.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment other than that financed by proprietary funds, certain trust funds, and university and college funds.

Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page 140

COMMONWEALTH OF KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>Federal</u>	<u>Agency Revenue</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash and cash equivalents (Note 5)	\$ 168,689	\$ 28,199	\$ 147	\$ 18,317	\$ 95,582	\$ 284,696	\$ 595,630
Cash with fiscal agents (Note 5)						12,707	12,707
Restricted cash (Note 5)				12,116			12,116
Investments, net of amortization (Note 5)	342	522,451		227,256	435,063	564,323	1,749,435
Receivables, net (Note 4)	558,803	99,559	637,600	69,874	23,409	82,455	1,471,700
Interfund receivables (Note 7)	57,659	153,649	115,394	198,765	4,147	283,940	813,554
Interfund loan receivable	1,000						1,000
Inventories	15,314	50,158	77	1,276		55	66,880
Total Assets	\$ 801,807	\$ 854,016	\$ 753,218	\$ 527,604	\$ 558,201	\$ 1,228,176	\$ 4,723,022
Liabilities and Fund Balances							
Liabilities:							
Accounts payable (Note 4)	\$ 289,212	\$ 110,695	\$ 398,920	\$ 36,580	\$ 26,167	\$ 11,260	\$ 872,834
Tax refunds payable	222,734						222,734
Interfunds payable (Note 7)	54,581	145,361	255,770	101,609	392	261,878	819,591
Obligations under securities lending (Note 15)	25,000						25,000
Deferred revenue	122,811	23,260	104,162	40,273	20,902	48,170	359,578
Total Liabilities	714,338	279,316	758,852	178,462	47,461	321,308	2,299,737
Fund Balances:							
Reserved for:							
Statutory obligations	107,188	212,191			516,148		835,527
Inventories	15,314	50,157	77	1,276		55	66,879
Deposit with fiscal agents				12,116		12,707	24,823
Loans receivable	1,000						1,000
Capital outlay					260,102		260,102
Unreserved, reported in:							
General fund	(36,033)						(36,033)
Special revenue funds		312,352	(5,711)	335,750		577,546	1,219,937
Debt service fund						316,560	316,560
Capital projects fund					(265,510)		(265,510)
Total Fund Balances	87,469	574,700	(5,634)	349,142	510,740	906,868	2,423,285
Total Liabilities and Fund Balances	\$ 801,807	\$ 854,016	\$ 753,218	\$ 527,604	\$ 558,201	\$ 1,228,176	\$ 4,723,022

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

**Reconciliation of the Balance Sheet- Governmental Funds
To the Statement of Net Assets
June 30, 2002
(Expressed In Thousands)**

Total Fund Balances - Governmental Funds \$ 2,423,285

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and other non-depreciable assets	88,862	
Buildings, equipment, and other depreciable assets	925,358	
Infrastructure	14,014,450	
Accumulated depreciation	(412,990)	
Construction in progress	<u>2,317,660</u>	16,933,340

Certain revenues are earned but not available, and therefore, are deferred in the funds. 314,815

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 18,224

Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 82,104

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease obligations	(19,463)	
Compensated absences	(236,874)	
Long-term accounts payable	(3)	
Judgements and contingencies	(280,832)	
Net pension obligations	<u>(78,016)</u>	(615,188)

Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement.

Bonds payable	(3,405,046)	
Notes payable	(81,535)	
Unamortized premiums and discounts	(12,242)	
Less deferred amounts on refundings	6,272	
Accrued interest payable	<u>(37,945)</u>	<u>(3,530,496)</u>

Net Assets of Governmental Activities \$ 15,626,084

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>Federal</u>	<u>Agency Revenue</u>	<u>Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues							
Taxes	\$ 6,271,045	\$ 952,808	\$	\$ 180,291	\$	\$ 70,565	\$ 7,474,709
Licenses, fees, and permits	25,197	109,560	3	107,904		65,545	308,209
Intergovernmental	9,370	168	4,739,672	19,000	42,029	11,517	4,821,756
Charges for services	6,662	23,092	651	458,012		18,507	506,924
Fines and forfeits	44,760	(47)		2,971		6,485	54,169
Interest and other investment income	33,848	33,416	445	6,195	61,461	53,020	188,385
Increase (decrease) in fair value of investments	674	6,082	126	1,840	2,987	1,839	13,548
Other revenues	118,918	2,238	68,488	203,687	(34,753)	48,291	406,869
Total Revenues	<u>6,510,474</u>	<u>1,127,317</u>	<u>4,809,385</u>	<u>979,900</u>	<u>71,724</u>	<u>275,769</u>	<u>13,774,569</u>
Expenditures							
Current:							
General government	1,482,785		81,881	97,676		374,456	2,036,798
Legislative and judicial	229,408		3,470	6,516		121	239,515
Commerce	21,732		7,616	29,071		322	58,741
Education and humanities	2,910,511		616,019	45,505		12,377	3,584,412
Human resources	1,417,171		3,419,812	703,548		22,556	5,563,087
Justice	463,093		41,799	59,415		120	564,427
Natural resources and environmental protection	65,473		48,312	19,679		10,460	143,924
Public protection and regulation	52,702		5,486	64,315		(1,739)	120,764
Transportation	7,748	1,075,283	547,433	52,285		41,312	1,724,061
Debt service:							
Principal retirement						227,648	227,648
Interest and fiscal charges						124,625	124,625
Other expenditures						(14,727)	(14,727)
Capital outlay:							
Buildings					483,145		483,145
Total Expenditures	<u>6,650,623</u>	<u>1,075,283</u>	<u>4,771,828</u>	<u>1,078,010</u>	<u>483,145</u>	<u>797,531</u>	<u>14,856,420</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(140,149)</u>	<u>52,034</u>	<u>37,557</u>	<u>(98,110)</u>	<u>(411,421)</u>	<u>(521,762)</u>	<u>(1,081,851)</u>
Other Financing Sources (Uses)							
Transfers in	294,389	1,967	10,241	351,421	47,784	992,871	1,698,673
Transfers out	(468,035)	(181,139)	(21,275)	(206,081)	(74,257)	(572,923)	(1,523,710)
Capitalized leases	2,354	1,219	1,846	995			6,414
Notes payable					19,135		19,135
Proceeds from the sale of bonds:							
New issues					653,696		653,696
Refunding issues						322,659	322,659
Premiums					44,824		44,824
Payments to refunded bond escrow agent						(321,565)	(321,565)
Discounts					(4,798)		(4,798)
Total Other Financing Sources (Uses)	<u>(171,292)</u>	<u>(177,953)</u>	<u>(9,188)</u>	<u>146,335</u>	<u>686,384</u>	<u>421,042</u>	<u>895,328</u>
Net Change in Fund Balances	(311,441)	(125,919)	28,369	48,225	274,963	(100,720)	(186,523)
Fund Balances at July 1, as Restated (Note 2)							
	395,929	696,914	(34,017)	300,996	235,777	1,007,588	2,603,187
Increase (decrease) in inventories	2,981	3,705	14	(79)			6,621
Fund Balances at June 30	<u>\$ 87,469</u>	<u>\$ 574,700</u>	<u>\$ (5,634)</u>	<u>\$ 349,142</u>	<u>\$ 510,740</u>	<u>\$ 906,868</u>	<u>\$ 2,423,285</u>

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

**Reconciliation of the Statement of Revenues, Expenditures, Changes in Fund Balances- Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2002
(Expressed In Thousands)**

Net change in fund balances-total governmental funds \$ (186,523)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Assets disposed of, net book value	(4,469)	
Donated assets, fair market value	6,073	
Buildings, equipment, and other depreciable assets	2,943	
Infrastructure	124,443	
Accumulated depreciation	(48,323)	
Construction in progress	533,241	613,908

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 487,023

Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities

Prepaid Expenses	3,447	
Inventories	6,621	10,068

Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities. (9,805)

Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.

Long-term accounts payable	(3)	
Excess contributions to pension funds	(285)	
Capital lease payments	5,835	
Compensated absence payments	(401)	
Litigation payments	46,551	51,697

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond proceeds and premiums received	(1,035,516)	
Repayment of bond principal	227,648	
Payment to refunded bond escrow agent	321,565	
Accrued interest	(46,023)	
Deferred issue costs	13,149	
Loss on refundings	92	(519,085)

Change in net assets of governmental activities \$ 447,283

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Major Funds

STATE PARKS FUND

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

KENTUCKY LOTTERY CORPORATION

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

KENTUCKY HORSE PARK FUND

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

INSURANCE ADMINISTRATION FUND

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

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

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

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

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

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

UNEMPLOYMENT COMPENSATION FUND

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

Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page152

COMMONWEALTH OF KENTUCKY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities -		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 11,092	\$ 23,410	\$ 722
Cash on deposit with the Federal government (Note 5)			
Investments, net of amortization (Note 5)		27,665	
Receivables, net (Note 4)	514	17,889	363
Interfund receivables (Note 7)	96		231
Inventories	2,663	519	466
Prepaid expenses	35	462	8
Total Current Assets	14,400	69,945	1,790
Noncurrent assets:			
Investments, net of amortization (Note 5)	23,739	225,498	1,544
Receivables, net		3,606	
Capital assets (Note 6):			
Land	13,567	423	4,453
Improvements other than buildings	52,499	327	15,137
Buildings	142,475	7,143	15,777
Machinery and equipment	13,800	32,360	2,668
Easements and other intangibles	2,321		
Less: Accumulated depreciation and amortization	(91,997)	(27,094)	(22,106)
Construction in progress	57,089		1,424
Total Capital Assets	189,754	13,159	17,353
Total Noncurrent Assets	213,493	242,263	18,897
Total Assets	227,893	312,208	20,687
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	6,898	9,416	491
Interfund payables (Note 7)	691		
Claims liability			
Claims adjustment liability			
Capital lease obligations (Note 10)	62		18
Notes payable (Note 15)		339	
Prize liability		47,802	
Compensated absences (Note 15)	2,521	717	284
Deferred revenue	3,451		12
Total Current Liabilities	13,623	58,274	805
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	94		9
Prize liability		205,019	
Compensated absences (Note 15)	2,909		293
Other liabilities (Note 15)	102		
Total Noncurrent Liabilities	3,105	205,019	302
Total Liabilities	16,728	263,293	1,107
Net Assets			
Invested in capital assets, net of related debt	189,598	12,820	17,326
Restricted for:			
Other purposes (Note 1)	13,223		1,659
Unrestricted	8,344	36,095	595
Total Net Assets	\$ 211,165	\$ 48,915	\$ 19,580

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

<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>	
<u>Insurance Administration</u>	<u>Unemployment Compensation</u>	<u>Totals June 30, 2002</u>		
\$ 34,434	\$ 2,497	\$ 72,155	\$	5,488
	567,093	567,093		
30,957	19,939	27,665		627
237	8,077	69,662		4,785
		8,641		3,648
		3,648		5,036
		505		
<u>65,628</u>	<u>597,606</u>	<u>749,369</u>		<u>19,584</u>
344,152	2,773	597,706		37,070
		3,606		
		18,443		6,316
		67,963		3,163
2,424		165,395		200,683
		51,252		128,447
		2,321		
(1,173)		(142,370)		(181,725)
		58,513		6,961
<u>1,251</u>		<u>221,517</u>		<u>163,845</u>
<u>345,403</u>	<u>2,773</u>	<u>822,829</u>		<u>200,915</u>
<u>411,031</u>	<u>600,379</u>	<u>1,572,198</u>		<u>220,499</u>
2,390	149,018	168,213		7,399
367	4,029	5,087		2,693
128,617		128,617		21,137
7,927		7,927		
		80		2,108
		339		
		47,802		
1,003		4,525		3,416
	10,453	13,916		2,739
<u>140,304</u>	<u>163,500</u>	<u>376,506</u>		<u>39,492</u>
1,159,612		1,159,612		92,249
69,683		69,683		
		103		3,143
		205,019		
779		3,981		3,511
		102		
<u>1,230,074</u>		<u>1,438,500</u>		<u>98,903</u>
<u>1,370,378</u>	<u>163,500</u>	<u>1,815,006</u>		<u>138,395</u>
1,252		220,996		158,912
	436,879	451,761		
(960,599)		(915,565)		(76,808)
<u>\$ (959,347)</u>	<u>\$ 436,879</u>	<u>\$ (242,808)</u>	<u>\$</u>	<u>82,104</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities		
	<u>State Parks</u>	<u>Kentucky Lottery Corporation</u>	<u>Kentucky Horse Park</u>
Operating Revenues:			
Charges for sales and services:			
State parks sales and services	\$ 47,640	\$	\$
Lottery sales		638,728	
Horse park admissions and sales			5,379
Insurance receipts			
Unemployment insurance receipts			
Internal Service Fund Receipts			
Other services	1,027		501
Total Operating Revenues	<u>48,667</u>	<u>638,728</u>	<u>5,880</u>
Operating Expenses:			
Personnel expenses	48,250	11,480	3,935
Utilities, rental, and other services	12,316		1,425
Commodities and supplies	30,861		771
Grants and subsidies			
Depreciation and amortization	5,981	2,627	554
Travel	274		24
Claims expense			4
Reinsurance expense			
Claims adjustment expense			
Prize expense		384,227	
Other expenses		73,918	
Total Operating Expenses	<u>97,682</u>	<u>472,252</u>	<u>6,713</u>
Operating Income	<u>(49,015)</u>	<u>166,476</u>	<u>(833)</u>
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of fixed assets	(350)		(3)
Interest and other investment income	(184)	23,449	(19)
Increase (decrease) in fair value of investments	236		15
Interest expense	(11)	(15,127)	(2)
Other revenues (expenses)	(13)	(3,517)	
Total Nonoperating Revenues (Expenses)	<u>(322)</u>	<u>4,805</u>	<u>(9)</u>
Income (Loss) before Transfers	(49,337)	171,281	(842)
Transfers in	48,320		4,491
Transfers out	(413)	(169,000)	(43)
Change in Net Assets	<u>(1,430)</u>	<u>2,281</u>	<u>3,606</u>
Net Assets at July 1, as Restated	212,595	46,634	15,974
Net Assets at June 30, as Restated	<u>\$ 211,165</u>	<u>\$ 48,915</u>	<u>\$ 19,580</u>

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

<u>Enterprise Funds</u>			<u>Governmental Activities - Internal Service Funds</u>
<u>Insurance Administration</u>	<u>Unemployment Compensation</u>	<u>Totals June 30, 2002</u>	
\$	\$	\$	\$
		47,640	
		638,728	
		5,379	
133,749		133,749	
	137,850	137,850	
			156,281
1,921	273,792	277,241	270
<u>135,670</u>	<u>411,642</u>	<u>1,240,587</u>	<u>156,551</u>
18,497	1,063	83,225	53,123
2,724		16,465	37,825
819		32,451	18,272
	611,013	611,013	1,421
437		9,599	17,323
384		682	508
128,873		128,877	42,057
			1,733
1,286		1,286	
		384,227	
329	35	74,282	
<u>153,349</u>	<u>612,111</u>	<u>1,342,107</u>	<u>172,262</u>
<u>(17,679)</u>	<u>(200,469)</u>	<u>(101,520)</u>	<u>(15,711)</u>
(17)		(370)	(1,623)
17,004	36,033	76,283	(188)
(21,941)	20	(21,670)	286
		(15,140)	(497)
(3,503)		(7,033)	(1,194)
<u>(8,457)</u>	<u>36,053</u>	<u>32,070</u>	<u>(3,216)</u>
(26,136)	(164,416)	(69,450)	(18,927)
4,761	2,032	59,604	12,992
(63,954)	(10,278)	(243,688)	(3,871)
<u>(85,329)</u>	<u>(172,662)</u>	<u>(253,534)</u>	<u>(9,806)</u>
(874,018)	609,541	10,726	91,909
<u>\$ (959,347)</u>	<u>\$ 436,879</u>	<u>\$ (242,808)</u>	<u>\$ 82,103</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Business-Type Activities -	
	State Parks	Kentucky Lottery Corporation
Cash Flows from Operating Activities		
Cash received from customers - public	\$ 50,482	\$ 642,209
Cash received from customers - state	1,272	
Cash payments to suppliers for goods and services	(41,496)	(483,837)
Cash payments for employee salaries and benefits	(48,433)	(11,480)
Cash payments for claims expense		
Cash payments from other sources	1,027	
Cash payments to other sources		
Net Cash Provided by Operating Activities	<u>(37,148)</u>	<u>146,892</u>
Cash Flows from Noncapital Financing Activities		
Transfers from other funds	48,320	
Transfers to other funds	(413)	(174,145)
Net Cash Provided by Noncapital Financing Activities	<u>47,907</u>	<u>(174,145)</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(18,034)	(4,059)
Principal paid on revenue bond maturities and equipment contracts	(46)	(1,358)
Interest paid on revenue bonds and equipment contracts	(11)	(73)
Proceeds from the sale of capital assets		9
Net Cash Used for Capital and Related Financing Activities	<u>(18,091)</u>	<u>(5,481)</u>
Cash Flows from Investing Activities		
Purchase of investment securities	13,626	(1,053)
Proceeds from the sale of investment securities		29,188
Interest and dividends on investments	39	788
Net Cash Used in Investing Activities	<u>13,665</u>	<u>28,923</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,333	(3,811)
Cash and Cash Equivalents at July 1	4,759	27,221
Cash and Cash Equivalents at June 30	<u>\$ 11,092</u>	<u>\$ 23,410</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ (49,015)	\$ 166,476
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	5,981	2,627
Interest and other investment income		
Miscellaneous nonoperating income (expense)		
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	548	3,375
Interfund receivables	104	
Inventories	(57)	(179)
Prepaid expenses	(25)	226
Increase (decrease) in liabilities:		
Accounts payable	1,774	(1,787)
Interfund payables	374	
Claims liability		
Claims adjustment liability		
Compensated absences	214	
Deferred revenue	3,463	
Other liabilities	(509)	(23,846)
Net Cash Provided by Operating Activities	<u>\$ (37,148)</u>	<u>\$ 146,892</u>
Noncash Investing, Capital, and Financing Activities		
Change in fair value of investments	\$ 236	\$
Capital assets acquired through leases	191	
Accretion of investments held to fund grand prizes, which increased prize liability		15,054
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 427</u>	<u>\$ 15,054</u>

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

Enterprise Funds				Governmental Activities - Internal Service Funds
Kentucky Horse Park	Insurance Administration	Unemployment Compensation	Totals June 30, 2002	
\$ 5,145	\$ 127,440	\$	\$ 825,276	\$ 7,757
	127	180,286	181,685	146,630
(2,465)	(3,212)	49,518	(481,492)	(58,749)
(3,964)	(18,469)	(1,063)	(83,409)	(49,948)
(4)	(124,844)		(124,848)	(29,957)
501	2,429	273,792	277,749	271
	(16,895)	(607,019)	(623,914)	(2,357)
(787)	(33,424)	(104,486)	(28,953)	13,647
4,491	4,761	2,032	59,604	13,194
(43)	(63,954)	(10,278)	(248,833)	(4,073)
4,448	(59,193)	(8,246)	(189,229)	9,121
(2,069)	(197)		(24,359)	(22,917)
(17)			(1,421)	(2,060)
(2)			(86)	(497)
			9	69
(2,088)	(197)		(25,857)	(25,405)
(1,167)	(4,831)	1,773	8,348	935
	73,392		102,580	1,635
(4)	18,957	36,053	55,833	(299)
(1,171)	87,518	37,826	166,761	2,271
402	(5,296)	(74,906)	(77,278)	(366)
320	39,730	644,496	716,526	5,854
\$ 722	\$ 34,434	\$ 569,590	\$ 639,248	\$ 5,488
\$ (833)	\$ (17,679)	\$ (200,469)	\$ (101,520)	\$ (15,710)
554	437		9,599	17,323
	(1,093)		(1,093)	
	(3,691)		(3,691)	
63	(3,444)	40,058	40,600	599
(228)	(1,090)	(8,075)	(9,289)	955
70			(166)	392
(8)			193	(2,608)
(329)	(880)	49,517	48,295	(1,188)
	(12,093)	4,029	(7,690)	3,826
	957		957	10,381
	5,124		5,124	
(6)	28		236	(24)
(70)		10,454	13,847	(242)
			(24,355)	(57)
\$ (787)	\$ (33,424)	\$ (104,486)	\$ (28,953)	\$ 13,647
\$ 15	\$ (21,941)	\$ 20	\$ (21,670)	\$ 286
			191	3,087
			15,054	
\$ 15	\$ (21,941)	\$ 20	\$ (6,425)	\$ 3,373

FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

**KENTUCKY EMPLOYEES RETIREMENT SYSTEM
COUNTY EMPLOYEES RETIREMENT SYSTEM
JUDICIAL RETIREMENT SYSTEM
STATE POLICE RETIREMENT SYSTEM
KENTUCKY TEACHERS' RETIREMENT SYSTEM
LEGISLATORS' RETIREMENT SYSTEM
DEFERRED COMPENSATION SYSTEM**

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

**COMMONWEALTH CHOICE
SPECIAL DEPOSIT TRUST FUND
COUNTY SINKING FUND**

Private-purpose trust funds are used to report trust arrangements under which principal and interest benefit individuals, private organizations or other governments. Kentucky uses the following private-purpose trust funds:

**KENTUCKY EDUCATIONAL SAVINGS PLAN TRUST
KENTUCKY'S AFFORDABLE PREPAID TUITION PLAN TRUST**

COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds	Private - Purpose Trust Funds	Totals June 30, 2002
Assets				
Cash and cash equivalents (Note 5)	\$ 1,757,083	\$ 85,900	\$ 5,051	\$ 1,848,034
Cash with fiscal agents (Note 5)		22,864		22,864
Investments, net of amortization (Note 5)	26,656,908	113,926	40,260	26,811,094
Receivables, net	274,787	4,962	27,037	306,786
Interfund receivables (Note 7)		2,705		2,705
Prepaid expenses	155			155
Buildings	3,802			3,802
Total Assets	<u>28,692,735</u>	<u>230,357</u>	<u>72,348</u>	<u>28,995,440</u>
Liabilities				
Accounts payable	26,970	143,023	138	170,131
Interfund payables (Note 7)		2,314		2,314
Amounts held in custody for others		85,020		85,020
Interfund loans payable			1,000	1,000
Other liabilities	3,507,959		52,200	3,560,159
Total Liabilities	<u>3,534,929</u>	<u>230,357</u>	<u>53,338</u>	<u>3,818,624</u>
Net Assets				
Held in trust for:				
Employee retirement systems	23,815,386			23,815,386
Retiree's health insurance	1,342,420			1,342,420
Other purposes			19,010	19,010
Total Net Assets	<u>\$ 25,157,806</u>	<u>\$</u>	<u>\$ 19,010</u>	<u>\$ 25,176,816</u>

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Pension Trust Funds	Private- Purpose Trust Funds	Totals June 30, 2002
Additions			
Contributions:			
Employer	\$ 697,637	\$	\$ 697,637
Member	678,416	34,841	713,257
Total Contributions	<u>1,376,053</u>	<u>34,841</u>	<u>1,410,894</u>
Investment income:			
Net increase (decrease) in fair value of investments	(1,963,141)	(3,025)	(1,966,166)
Interest	695,423	155	695,578
Dividends	95,029	716	95,745
Real estate operating income, net	29,207		29,207
Securities income	79,914		79,914
Total Investment Income	<u>(1,063,568)</u>	<u>(2,154)</u>	<u>(1,065,722)</u>
Less: Investment expense	11,979	186	12,165
Less: Securities lending expense	68,047		68,047
Net Investment Income	<u>(1,143,594)</u>	<u>(2,340)</u>	<u>(1,145,934)</u>
Other additions		85	85
Total Additions	<u>232,459</u>	<u>32,586</u>	<u>265,045</u>
Deductions			
Benefit payments	1,487,371	1,730	1,489,101
Refunds	27,100	10	27,110
Administrative expenses	195,349	1,265	196,614
Other deductions, net	3,495	25,319	28,814
Total Deductions	<u>1,713,315</u>	<u>28,324</u>	<u>1,741,639</u>
Change in Net Assets	<u>(1,480,856)</u>	<u>4,262</u>	<u>(1,476,594)</u>
Net Assets Held In Trust			
Net Assets at July 1, as Restated	26,638,662	14,748	26,653,410
Net Assets at June 30	<u>\$ 25,157,806</u>	<u>\$ 19,010</u>	<u>\$ 25,176,816</u>

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

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

KENTUCKY HOUSING CORPORATION

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

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

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

UNIVERSITY AND COLLEGE FUNDS

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

- UNIVERSITY OF KENTUCKY**
- UNIVERSITY OF LOUISVILLE**
- KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

Non-Major Component Units

The non-major component units are presented beginning on page176

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2002
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Non-Major Component Units Authorities
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 50,630	\$ 37,659	\$ 194,435
Restricted cash (Note 5)			3,603
Investments, net of amortization (Note 5)	148,296	43,511	66,537
Accounts receivable, net	36,637	754	45,428
Interest receivable		19,919	4,125
Due from component units			62
Inventories			579
Prepaid expenses		171	903
Other current assets			9,287
Total Current Assets	<u>235,563</u>	<u>102,014</u>	<u>324,959</u>
Noncurrent assets:			
Restricted cash (Note 5)		68,332	9,129
Long-term investments (Note 5)	179,312		175,047
Long-term receivables, net	1,079,690	716,069	390,814
Deferred charges	16,848	11,525	3,381
Capital assets (Note 6):			
Land	942		14,719
Improvements other than buildings			83
Buildings	4,409		282,054
Machinery and equipment	6,164	4,521	67,858
Other fixed assets			12,880
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(5,956)	(3,011)	(153,448)
Construction in progress	364		9,271
Total Capital Assets	<u>5,923</u>	<u>1,510</u>	<u>233,417</u>
Other assets			4,657
Total Noncurrent Assets, Net	<u>1,281,773</u>	<u>797,436</u>	<u>816,445</u>
Total Assets	<u>1,517,336</u>	<u>899,450</u>	<u>1,141,404</u>
Liabilities			
Current liabilities:			
Accounts payable	30,912	3,825	19,211
Accrued liabilities			3,925
Current portion of long-term debt:			
Notes payable (Note 15)	2,525		99
Bonds payable (Note 15)	27,060	30,540	64,294
Capital lease obligations (Note 10)			
Compensated absences (Note 17)		269	1,709
Claims liability			5,531
Deferred revenues	8,794		6,453
Payable from restricted assets			
Other current liabilities	22,368		2,695
Total Current Liabilities	<u>91,659</u>	<u>34,634</u>	<u>103,917</u>
Noncurrent liabilities:			
Notes payable (Note 15)			
Bonds payable (Note 15)	1,160,713	758,230	801,398
Capital lease obligations (Note 10)			
Compensated absences (Note 17)			109
Other long-term liabilities	1,359	27,986	
Total Noncurrent Liabilities	<u>1,162,072</u>	<u>786,216</u>	<u>801,507</u>
Total Liabilities	<u>1,253,731</u>	<u>820,850</u>	<u>905,424</u>
Net Assets			
Invested in capital assets, net of related debt	5,923	1,510	231,483
Restricted for:			
Debt service	200,248	64,520	
Other purposes (Note 1)	23,723		67,323
Unrestricted	33,711	12,570	(62,826)
Total Net Assets	<u>\$ 263,605</u>	<u>\$ 78,600</u>	<u>\$ 235,980</u>

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

UNIVERSITIES and COLLEGES

University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units Universities	All Component Units Total June 30, 2002
\$ 245,567	\$ 31,772	\$ 54,936	\$ 126,235	\$ 741,234
	64,615	26	4,305	7,908
124,485	42,723	18,787	27,325	350,310
10,299			41,738	310,552
			2,406	36,749
14,689	1,659	3,718	5,987	62
			1,852	26,632
	16,551		1,959	2,926
<u>395,040</u>	<u>157,320</u>	<u>77,467</u>	<u>211,807</u>	<u>1,504,170</u>
110,776	45,318	105,307	110,070	448,932
615,881	29,035	26,178	69,085	1,094,538
25,143	23,309	6,486	14,207	2,255,718
	4,687			36,441
30,936	37,052	16,358	29,029	129,036
45,552	6,863	12,911	34,706	100,115
902,384	482,934	285,541	802,105	2,759,427
437,604	209,091	68,661	199,486	993,385
			30,684	43,564
	500	5,777		6,277
(721,622)	(304,266)	(182,842)	(625,858)	(1,997,003)
140,750	29,739	80,206	114,108	374,438
<u>835,604</u>	<u>461,913</u>	<u>286,612</u>	<u>584,260</u>	<u>2,409,239</u>
	6,998		81,438	93,093
<u>1,587,404</u>	<u>571,260</u>	<u>424,583</u>	<u>859,060</u>	<u>6,337,961</u>
<u>1,982,444</u>	<u>728,580</u>	<u>502,050</u>	<u>1,070,867</u>	<u>7,842,131</u>
95,210	35,539	6,154	32,450	223,301
				3,925
	229		1,278	4,131
17,515	10,926	8,020	19,055	177,410
5,940	1,535	1,410	3,266	12,151
380	1,161	7,087	9,742	20,348
			2,052	7,583
42,624	27,959	15,115	30,320	131,265
			2,465	2,465
12,433		7,728	4,368	49,592
<u>174,102</u>	<u>77,349</u>	<u>45,514</u>	<u>104,996</u>	<u>632,171</u>
1,425	8,329		4,723	14,477
193,751	119,264	59,675	157,092	3,250,123
42,866	1,464		40,082	84,412
1,870	8,613		415	11,007
61,004	19,579	3,164	51,275	164,367
<u>300,916</u>	<u>157,249</u>	<u>62,839</u>	<u>253,587</u>	<u>3,524,386</u>
<u>475,018</u>	<u>234,598</u>	<u>108,353</u>	<u>358,583</u>	<u>4,156,557</u>
607,663	328,326	217,507	372,922	1,765,334
14,132	21,811	2,409	15,644	318,764
498,747	68,389	144,656	247,546	1,050,384
386,884	75,456	29,125	76,172	551,092
<u>\$ 1,507,426</u>	<u>\$ 493,982</u>	<u>\$ 393,697</u>	<u>\$ 712,284</u>	<u>\$ 3,685,574</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Authorities					
Kentucky Housing Corporation	\$ 226,426	\$ 98,394	\$ 136,962	\$	\$ 8,930
Kentucky Higher Education Student Loan Corporation	43,721	56,101			12,380
Other authorities	291,656	175,407	171,193	3,375	58,319
Universities and Colleges					
University of Kentucky	1,181,743	538,954	309,153	12,628	(321,008)
University of Louisville	489,511	244,945	86,348	2,514	(155,704)
Kentucky Community and Technical College System	355,864	36,657	147,367		(171,840)
Other universities and colleges	697,154	232,229	129,640	23,647	(311,638)
Total Component Units	<u>\$ 3,286,075</u>	<u>\$ 1,382,687</u>	<u>\$ 980,663</u>	<u>\$ 42,164</u>	<u>(880,561)</u>
General Revenues:					
Unrestricted grants and contributions					171,629
Unrestricted investment earnings					1,747
Gain on sale of capital assets					3,080
Miscellaneous general					900,021
Special items					178,668
Extraordinary items					(1,194)
Transfers					1,929
Total General Revenues and Transfers					<u>1,255,880</u>
Change in Net Assets					375,319
Net Assets at July 1, as Restated					3,310,255
Net Assets at June 30					<u>\$ 3,685,574</u>

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

NOTES TO FINANCIAL STATEMENTS

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Note 1

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational entities comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and those which are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable or whose exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. All other component units are discretely presented.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, the Kentucky Grain Insurance Corporation and the Kentucky School Facilities Construction Commission. (See pages 110 and 111 for a complete list of component units' addresses.)

Blended Component Units

The following legally separate organizations provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, that benefit the State, and therefore, these organizations'

balances and transactions are reported as though they are part of the State's primary government using the blending method.

Kentucky Lottery Corporation (KRS 154A.020)

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

Turnpike Authority of Kentucky (KRS 175.430)

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

Kentucky Teachers' Retirement System (KRS 161.220)

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

Kentucky Retirement System (KRS 61.645)

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

Judicial Form Retirement System (KRS 21.530)

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

Administrative Entities

The State Property and Buildings Commission, Kentucky Asset/Liabilities Commission, Kentucky Tobacco Settlement Trust

Corporation, Kentucky Savings Bond Authority, and the Board of Agriculture are legally separate entities of an administrative nature. They are comprised of elected and appointed officials from various state agencies, and have no cost associated with them. Therefore, there is no separate presentation for these entities.

State Property and Buildings Commission (KRS 56.450)

This commission is a public body corporate created to issue all revenue bonds for state agencies, unless those agencies are specifically authorized by other provisions of the Kentucky Revised Statutes to issue bonds. The commission is composed of six ex officio members.

Kentucky Asset/Liability Commission (KRS 56.861)

The commission is a public body corporate, created to take a comprehensive view of the Commonwealth's finances and develop policies and strategies to minimize the impact of fluctuating revenue receipts and interest rates on the Commonwealth's interest-sensitive assets and liabilities. The commission consists of five ex officio members.

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

The Kentucky Tobacco Settlement Trust Corporation is a public body corporate created to perform essential governmental and public functions by assisting in the implementation of the national tobacco grower settlement trust agreement. The board of directors is comprised of nine members appointed by the Governor with the advice and consent of the Senate and House of Representatives.

Kentucky Savings Bond Authority (KRS 293.030)

The authority is a body corporate and politic created to promote investment by the general public in bonds of the Commonwealth and to reduce interest costs to the Commonwealth or its agencies. The authority consists of seven commissioners, three ex officio members and four members appointed by the Governor.

Board of Agriculture (KRS 246.120)

The board is a body corporate created to act as an advisory board to the Commissioner of Agriculture and to aid in the collection of information concerning crops and in the promulgation of industrial information and act as an immigration committee. The board consists of nine members, two ex officio members and seven citizens of the Commonwealth appointed by the Governor.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported

in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the Commonwealth's primary government.

Kentucky River Authority (KRS 151.710)

The Kentucky River Authority possesses the corporate powers that would distinguish it as being legally separate from the Commonwealth. This authority's purpose is the maintenance of the Commonwealth's locks and dams on the Kentucky River. The Governor appoints the twelve members of this authority.

Kentucky Housing Corporation (KRS 198A.030)

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

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

KHESLC is a body corporate and politic created to perform essential governmental and public functions and purposes in improving and promoting the educational opportunities of the citizens of the Commonwealth. The board of directors consists of seven members, three ex officio members and four members appointed by the Governor.

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation was created and established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skills, training and education. The board of directors consists of eighteen members, five ex officio members and thirteen members appointed by the Governor.

Kentucky School Facilities Construction Commission (KRS 157.617)

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

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate created to account for revenues earned and expenses incurred in the commercial operations of the

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Notes to Financial Statements

June 30, 2002

State Fair Board. Twelve members compose the board. Three are ex officio members and the Governor appoints the other nine.

Kentucky Center for the Arts Corporation (KRS 153.410)

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

Kentucky Educational Television Authority (KET) (KRS 168.030)

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

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

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

Kentucky Higher Education Assistance Authority (KRS 164.742)

This authority is a body corporate and politic created to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans.

Kentucky Educational Savings Plan Trust (KRS 164A.310)

This trust was established to encourage citizens to invest funds for future educational use, and to create an endowment fund, the income from which will be available to participants' savings.

Kentucky Infrastructure Authority (KRS 224A.030)

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

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

KAFC is a corporation created to improve and promote the health and general welfare of the people through the promotion of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor.

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

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

Kentucky Healthcare Improvement Authority (Kentucky Access) (KRS 304.17B-003)

The Kentucky Health Care Improvement Authority was created as a body corporate and politic funded by assessments on insurers, enrollment fees and Tobacco Settlement Trust Funds. Consisting of 15 board members, this authority exists for administrative purposes in the Department of Insurance and administers the Kentucky Access program.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor.

C. Government-Wide Financial Statements

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2002

component units are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting as do the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance (unearned revenues). Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

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

- (1) **Invested in capital assets, net of related debt**, consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets.

- (2) **Restricted net assets**, resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
- (3) **Unrestricted net assets** are those net assets that do not meet the definition of restricted net assets or invested in capital assets.

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

Restricted Net Assets
(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government		Total Primary Government	Component Units-Major
	Governmental Type Activities	Business Type Activities		
Capital projects	\$ 510,740	\$ 14,882	\$ 525,622	\$ 211,949
Turnpike Authority special revenue	110,219		110,219	
Transportation	574,700		574,700	
Unemployment benefits		436,879	436,879	
Loans				22,798
Education				283,106
Research				166,119
Operation and maintenance of plant				75
Other				51,468
Totals	\$ 1,195,659	\$ 451,761	\$ 1,647,420	\$ 735,515

A significant feature of the government-wide **Statement of Activities** is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permit both direct and indirect expenses to be presented together in

an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

Program revenues are resources originating outside the government that are solely available for use by a particular program. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions.

Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

D. Fund Financial Statements

Primary Government - The accompanying financial statements are structured into three fund categories including governmental funds, proprietary funds and fiduciary funds. Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (governmental or enterprise funds), and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Commonwealth's major funds are identified herein.

Governmental Funds

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial resources. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are either collected within the current period or their collection is expected shortly after the end of the current period in time to meet current liabilities. The State generally includes those revenues to be received up to 30 days following the end of the accounting period. Revenues expected to be collected after 30 days beyond the end of the accounting period are considered unavailable and are reported as deferred revenues. Deferred revenues also include amounts received but unearned as of June 30.

Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

In governmental funds, where the focus is on the flow of current resources, expenditures are recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; and principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

A description of significant governmental funds follows:

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

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

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

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

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

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

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

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

Capital Projects Fund - a major fund that accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

Debt Service Fund - a non-major fund that accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related administrative costs.

Proprietary Funds

Proprietary funds use the full accrual basis of accounting, recognizing revenues and expenses when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net assets, "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes decreases in economic benefits and emphasizes the accrual basis of accounting.

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Notes to Financial Statements

June 30, 2002

Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expenses are further characterized by object (personal services, depreciation expense, travel expense, etc.).

Furthermore, the State has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's proprietary funds have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. Each proprietary component unit has individually made this election as disclosed in their separate audit reports.

Enterprise Funds - a category of proprietary funds used to account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of the Commonwealth and the operations of State agencies that provide goods or services to the general public on a user charge basis. Also included are the operations of the State's risk management pools.

State Parks Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

Kentucky Lottery Corporation - a blended component unit presented as a major fund, empowered by KRS 154A to administer the Kentucky state lottery created pursuant to amended Section 226 of the Constitution of Kentucky as ratified by the voters of the Commonwealth.

Kentucky Horse Park Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

Insurance Administration Fund - a major fund that accounts for insurance risk pools operated by the State, including the Workers' Compensation Special Fund, Coal Workers Pneumoconiosis Fund, Petroleum Storage Tank Environmental Assurance Program, Mine Subsidence Insurance Program, and Bond Pool Program.

Unemployment Compensation Fund - a major fund that accounts for assessed employer contributions and related unemployment compensation payments.

Internal Service Funds - a category of proprietary funds that accounts for financing goods and services provided by one agency

of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis. All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and become measurable. Expenses are recognized at the time liabilities are incurred.

Since internal service funds usually exist to support governmental activities, they are normally included as part of the governmental activities reported in the government-wide statements, rather than being presented separately.

Specific activities reported under Internal Service Funds are:

1. Management/maintenance of State motor vehicle fleet
2. Industrial prison operations
3. Rental and maintenance operations for buildings
4. Computer and related data processing services
5. Printing services
6. Fire and tornado insurance programs
7. State worker's compensation program
8. Transportation Cabinet self insured worker's compensation trust program

Fiduciary Funds

Private-Purpose Trust Funds - account for monies (principal and interest) held for individuals, private organizations, or other governments, that would not be properly reported in a pension or investment trust fund.

Specific activities reported under the Commonwealth's Private-Purpose Trust Funds are:

1. Prepaid tuition
2. Investment for education and endowments

Pension Trust Funds and Other Employee Benefit - account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems. This fund type also accounts for monies held in deferred compensation plans. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

Agency Funds - account for monies held by the Commonwealth for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. However, the agency fund uses the accrual basis of accounting when recognizing payables and receivables.

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Notes to Financial Statements

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Specific activities listed under the Commonwealth's Agency Funds are:

1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Sinking Fund monies from the sale of bonds

As discussed in Note 1 C, because the fiduciary fund resources are not available to support government programs, fiduciary funds (and component units that are fiduciary in nature) are excluded from the government-wide financial statements. Inclusion of these funds would create a misleading view of the government's position and results of activities.

E. Presentation of Component Units

Presentation of the underlying fund types of the individual component units (described previously) reported in the discrete column is available from each respective component unit's separately issued financial statements.

The Major Discretely Presented Component Units, including Colleges and Universities are:

- Kentucky Community and Technical College System
- Kentucky Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- University of Kentucky
- University of Louisville

The Non-Major Discretely Presented Component Units including Colleges and Universities are:

- Kentucky Agricultural Finance Corporation
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky Educational Television Authority
- Kentucky Grain Insurance Corporation
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky River Authority
- Kentucky State Fair Board
- Bluegrass State Skills Corporation
- Kentucky School Facilities Construction Commission
- Kentucky Access
- Eastern Kentucky University
- Kentucky State University
- Morehead State University
- Murray State University
- Northern Kentucky University
- Western Kentucky University

For the Colleges and Universities, each board of regents or board of trustees is appointed by the Governor, and constitute a body corporate with the power to receive and administer revenue and property (KRS 164.350).

Kentucky Educational Savings Plan Trust is presented as a Private Purpose Trust Fund with the fiduciary type funds.

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities. During fiscal year 2002, the primary government provided \$1,005,736,628 to the University of Kentucky, \$198,466,584 to the University of Louisville, and \$265,259,882 to the Kentucky Community and Technical College System. In addition, the State received \$169,000,000 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with a maturity of 90 days or less, from date of purchase. Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2002 are \$1,773,608,158.

G. Investments

This classification includes long-term investments that are stated at fair value. Investments of the Deferred Compensation Plan are reported at fair value. See Note 5 for investment details.

H. Receivables

Receivables in the Commonwealth's governmental and fiduciary funds primarily consist of Federal revenues, taxes, and interest on investments. Some governmental fund revenues are not susceptible to accrual prior to receipt, including licenses, fees, permits, and similar revenues that are recognized on the cash basis. Receivables in all other funds have arisen in the ordinary course of business. Receivables in the governmental funds are reported net of allowances for uncollectibles. Disaggregation of current accounts receivable and current taxes receivable are shown in Note 4.

I. Interfund Transactions

The Commonwealth has the following types of interfund transactions:

Quasi-External Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements - Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

The composition of the interfund transactions is presented in Note 7. Note that at the entity-wide level, the majority of interfund activity has been eliminated. This is to avoid the "doubling up" of such transactions so that revenues and expenses will not be reported more than once.

Transfers and receivables and payables between governmental activities and business-type activities have not been eliminated. Also remaining are the results of activities between different functional categories. For example, services provided and used are not eliminated because doing so would misstate the expenses of purchasing function and the program revenues of the selling function.

J. Inventories and Prepaid Expenses

Inventories in the governmental funds and similar trust funds consist of expendable supplies held for consumption, the costs of which are recorded as an expenditure at the time of purchase.

Prepaid expenses, including the prepayment of services to vendors (e.g., prepaid insurance), are recorded similarly in the governmental fund statements.

Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies

held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used.

Inventories are valued at cost (first-in, first-out, or average cost). In the Governmental Activities column of the government-wide Statement of Net Assets, inventory and prepaid expenses are reported as an asset at cost when purchased, then expensed as used.

K. Capital Assets and Depreciation

Capital assets, which include property, equipment, intangibles and infrastructure (e.g. roads, bridges, ramps, and similar items), are reported in the governmental activities or business-type activities column of the government-wide financial statements. Fund financial statements for governmental and similar trust funds expense capital assets when purchased.

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is \$5,000 or greater. Intangible fixed assets are capitalized when the cost is \$100,000 or more. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

The Kentucky Historical Society, Kentucky Horse Park and Kentucky Department of Parks hold and care for the State's historical treasures. Among these are historical clothing; china; furniture and other furnishings; a variety of art and decorative art; political memorabilia; pioneer tools and equipment; guns and similar military artifacts; books, manuscripts, and photographs; musical instruments from Kentucky's musical legends; Native American artifacts; fossilized bones and prehistory artifacts. These assets are not capitalized or depreciated as the assets could not be valued and have inexhaustible useful lives.

Cost by Asset type

(Expressed in Thousands)

Governmental Activities:	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
	Land	\$ 41,618	\$ 26,512	\$ 27,048
Improvements other than buildings	7,091	25		7,116
Buildings	436,109	54,532	264,815	755,456
Equipment	436,791	1,945	42,774	481,510
Infrastructure	14,014,450			14,014,450
Totals	\$ 14,936,059	\$ 83,014	\$ 334,637	\$ 15,353,710

Business-Type Activities:	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
	Land	\$ 5,409	\$ 831	\$ 12,203
Improvements other than buildings	67,963			67,963
Buildings	115,329	834	49,232	165,395
Equipment	50,963	289		51,252
Totals	\$ 239,664	\$ 1,954	\$ 61,435	\$ 303,053

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The primary government values fixed assets at historical cost, estimated historical cost or fair market value at the time of donation. At June 30, 2002, the table, on the preceding page, shows cost by asset type. The estimate of historical cost for the primary government was based on appraised value as of June 30 1986, indexed to the date of acquisition.

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

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

It is the Commonwealth's policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB 62.

The Kentucky Center for the Arts' discretely presented component unit financial statements for Fiscal Year 2002, do not contain the Center's fixed assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report for fiscal year 2002 to include the fixed assets and depreciation of the Center in order to satisfy GAAP requirements.

L. Fund Equity Reserves and Designations

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

Reserved Fund Balance for Other Specific Purposes
(Expressed in Thousands)

	Primary Government			
	General	Special Revenue	Debt Service	Capital Projects
Inventories	\$ 15,314	\$ 51,565	\$	\$
Statutory obligations	107,188	212,191		516,148
Deposits with fiscal agents		12,116	12,707	
Loans receivable	1,000			
Capital outlay				260,102
Totals	\$ 123,502	\$ 275,872	\$ 12,707	\$ 776,250

M. Deferred Revenue

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

N. Long-Term Obligations

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

1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.
2. Compensated absences including accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective

funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 17.

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

There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 17

for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

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

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

Long-term liabilities of all proprietary and pension trust funds are reported in respective fund statements. Long-term liabilities of proprietary funds are also presented in the government-wide Statement of Net Assets in the Business-type Activities column as a single total. Fiduciary funds' long-term liabilities are not displayed on the government-wide Statement of Activities.

O. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$ 1,816,730,395.47 of conduit debt, the proceeds of which are used to promote economic development in the Commonwealth.

Note 2

CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR-PERIOD ADJUSTMENTS

During fiscal year 2001-2002, the State implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions,

No. 34, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments,

No. 35, Basic Financial Statements – and Management's Discussion and Analysis-for Public Colleges and Universities,

No. 36, Recipient Reporting for Certain Shared Non-exchange Revenues,

No. 37, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments: Omnibus, and

No. 38, Certain Financial Statement Note Disclosures.

The provisions of these new standards have been incorporated into the Commonwealth's financial statements and notes. The following paragraphs summarize the changes to fund equities as previously reported on the Combined Balance Sheet. The changes resulted primarily from the implementation of the above mentioned GASB Statements.

The fund balances/net assets as previously reported have been restated or reclassified to conform to generally accepted accounting principles and to correct balances for erroneously recorded transactions.

General Fund – The General Fund was restated to include \$142,000 removed in error last year. Transfer of start up funds of \$600,000 from the General Fund to Kentucky's Affordable Prepaid Tuition Plan Trust (KAPT) have been reclassified to an interfund loan. (See discussion under Special Revenue Funds). The net effect of these adjustments to fund balance is an increase of \$742,000.

Capital Projects Fund – The Capital Projects Fund was restated in order to correct prior period errors and to remove contributed capital cash balances in accordance with GASB 34. The cash balances are now reflected in the appropriate proprietary fund. The effect of these transactions on fund balance is a net decrease of \$74,952,000.

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Debt Service Fund – The Debt Service Fund was restated to include amounts that were removed in error last year. The effect on fund balance is an increase of \$69,000.

Special Revenue Fund – The Agency Revenue Fund and the Other Special Revenue Fund within the Special Revenue Fund were restated for prior period errors. The restatements decreased fund balances by \$79,479,000 and \$1,400,000 respectively. The Special Benefits Fund within the Special Revenue Fund was restated by \$321,352,000, an increase resulting from the implementation of GASB 34. The net effect of all restatements on the Special Revenue fund balance is an increase of \$240,473,000.

Enterprise Funds – The Insurance Administration Fund within the Enterprise Funds was restated. Kentucky KARE is not being reported this year, as the fund has been dissolved. The effect on net assets is a decrease of \$613,000. The Unemployment Compensation Fund within the Enterprise Funds was restated as a result of implementation of GASB 34. This change increased net assets by \$43,695,000. The State Parks and the Kentucky Horse Park within the Enterprise Funds were restated to include contributed capital balances in accordance with GASB 34. Corrections to the prior year were also made. The effect on net assets is an increase of \$35,264,000 and \$331,000 respectively. The net effect of these restatements on the Enterprise Funds net assets is an increase of \$78,677,000.

Internal Service Funds – The Fleet Management Fund within the Internal Service Funds was restated to include amounts omitted in the prior year. The effect on net assets is an increase of \$4,556,000. The Computer Services Fund within the Internal Service Funds was restated to include amounts previously omitted in error. The effect on net assets is an increase of \$11,801,000. The Property Management Fund within the Internal Service Funds was restated to correct a prior year error. The effect on net assets is an increase of \$20,000. The Risk Management Fund within the Internal Service Funds was restated. The effect on net assets is a decrease of \$26,000.

Expendable Trust Funds – This type of fund was removed from the financial statements. Therefore, to properly account for items previously included in this category, the Unemployment Compensation Fund has been reclassified as an Enterprise Fund and the Special Benefits Fund has been reclassified as a Special Revenue Fund, with the related Deferred Compensation portion reclassified as a Pension (And Other Employee Benefit) Trust Fund.

Fiduciary Funds – Pension Trust Funds-Deferred Compensation was reclassified from a Special Benefits Fund under Expendable Trust Funds per GASB 34. This resulted in an increase of \$860,614,000 to net assets of the Pension (And Other Employee Benefit) Trust Funds. (See Expendable Trust Funds restatement.)

Account Groups – The General Fixed Assets Account Group, which accounted for fixed assets acquired or constructed for general governmental purposes other than those of the proprietary and fiduciary fund types, has been removed from the financial statements. These assets are now included in the government-wide Statement of Net Assets in the Governmental Activities column. Similarly, the General Long-Term Obligations Account Group, which accounted for unmatured general long-term liabilities of the Commonwealth other than those of the proprietary and fiduciary fund types, has been removed from the financial statements. These liabilities are now included in the Governmental Activities column of the government-wide Statement of Net Assets.

Component Units – Authorities:

Kentucky Economic Development Finance Authority (KEDFA) – KEDFA restated net assets to account for cash and cash equivalents and accrued interest receivable, which was incorrectly included in financial statements last year. The effect on net assets is a decrease of \$2,680,000.

Kentucky Higher Education Assistance Authority (KHEAA) – KHEAA's governmental activities net assets were restated to reflect implementation of GASB 33 and GASB 34. The effect on net assets is an increase of \$3,383,000. Net assets were also restated to reflect the reclassification of certain activities from governmental to fiduciary. The effect on net assets is a decrease of \$37,623,000. The effect of these adjustments to net assets is a net decrease of \$34,240,000.

Kentucky School Facilities Construction Commission – The Commission restated net assets to reflect implementation of GASB 33 and GASB 34. The effect on net assets is a decrease of \$648,999,000.

Bluegrass State Skills Corporation (BSSC) – BSSC restated net assets to account for amounts included in error last year. The effect on net assets is an increase of \$389,000.

Kentucky Housing Corporation (KHC) – KHC restated net assets to reflect implementation of GASB 33 and GASB 34. The effect on net assets is an increase of \$17,430,000.

Kentucky Grain Insurance Corporation – The Kentucky Grain Insurance Corporation restated net assets to include interest income omitted in error last year. The effect on net assets is an increase of \$132,000.

Kentucky State Fair Board – The Kentucky State Fair Board restated net assets to reflect implementation of GASB 33 and GASB 34. The effect on net assets is an increase of \$126,823,000.

Kentucky Center for the Arts Corporation – The Kentucky Center for the Arts restated net assets to reflect implementation of GASB

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33 and GASB 34. The effect on net assets is an increase of \$14,338,000.

Kentucky Access – Kentucky Access was reported within the Expendable Trust Funds last year. The effect of inclusion in Component Units-Authorities is an increase in net assets of \$40,733,000.

Kentucky River Authority – Kentucky River Authority was a Blended Component Unit last year. Now reported under Component Units-Authorities, Kentucky River Authority restated net assets. The effect on net assets for this individual component unit is a decrease of \$2,318,000. The effect of inclusion in Component Units-Authorities is an increase in net assets of \$16,095,000.

Restatement of all Component Units-Authorities results in an overall decrease in net assets of \$469,979,000.

Component Units – Universities and Colleges:

University of Kentucky – To reflect implementation of GASB 35, net assets for the University of Kentucky were restated. The effect on net assets is a decrease of \$738,516,000.

University of Louisville – To reflect implementation of GASB 35, net assets for the University of Louisville were restated. The effect on net assets is a decrease of \$295,891,000.

Eastern Kentucky University – To reflect implementation of GASB 35, net assets for Eastern Kentucky University were restated. The effect on net assets is a decrease of \$182,069,000.

Western Kentucky University – To reflect implementation of GASB 35, net assets for Western Kentucky University were restated. The effect on net assets is a decrease of \$136,090,000.

Morehead State University – To reflect implementation of GASB 35, net assets for Morehead State University were restated. The effect on net assets is a decrease of \$101,008,000.

Murray State University – To reflect implementation of GASB 35, net assets for Murray State University were restated. The effect on net assets is a decrease of \$128,276,000.

Northern Kentucky University – To reflect the implementation of GASB 35 and the change in the University’s capitalization policy, net assets were restated for Northern Kentucky University. The effect on net assets is a decrease of \$93,982,000.

Kentucky State University – To reflect implementation of GASB 35, net assets for Kentucky State University were restated. The effect on net assets is a decrease of \$91,894,000.

Kentucky Community and Technical College System (KCTCS) – To reflect implementation of GASB 35, net assets for KCTCS were restated. The effect on net assets is a decrease of \$201,635,000.

Restatement of all Component Units-Universities and Colleges results in an overall decrease in net assets of \$1,969,361,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Federal Fund** – The Federal Fund has a fund balance deficit of \$5,634,000. The deficit is a result of expenditure accruals, which will be funded in future periods.
- B. Enterprise Funds** – The Insurance Administration Fund has a net assets deficit of \$959,347,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.
- C. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$94,343,000. The deficit is the result of accumulated claims liabilities of the Commonwealth’s self-insured worker’s compensation programs, and is to be funded in future periods.
- D. Private-Purpose Trust Funds** – Kentucky’s Affordable Prepaid Tuition Plan Trust has a fund balance deficit of \$6,433,000 resulting from liabilities which will be funded in future periods.
- E. Component Units – Authorities** – The Kentucky School Facilities Construction Commission has a net assets deficit of \$591,261,000. The Commission finances local school district projects, and carries the liabilities but not the assets. The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of \$5,491,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

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Note 4

**DISAGGREGATION OF ACCOUNTS PAYABLE
AND ACCOUNTS RECEIVABLE**

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2002. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable

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

	<u>Personal Services</u>	<u>Utilities, Rentals and Other Services</u>	<u>Commodities and Supplies</u>
Governmental activities:			
Major funds	\$ 7,309	\$ 1,718	\$ 2,680
Non-major funds	49	370	5
Internal service funds	54	1	
Total Governmental Activities	<u>7,412</u>	<u>2,089</u>	<u>2,685</u>
Business-Type activities:			
Major funds	13	188	356
Total Business-Type Activities	<u>13</u>	<u>188</u>	<u>356</u>
Total Primary Government	<u>\$ 7,425</u>	<u>\$ 2,277</u>	<u>\$ 3,041</u>

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

	<u>Charges for Services</u>	<u>Taxes Receivable</u>
Governmental activities:		
Major funds	\$ 4,015	\$ 492,380
Non-major funds	3,942	1,164
Internal service funds	426	
Total Governmental Activities	<u>8,383</u>	<u>493,544</u>
Business-Type activities:		
Major funds	340	
Total Business-Type Activities	<u>340</u>	
Total Primary Government	<u>\$ 8,723</u>	<u>\$ 493,544</u>

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are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" consist of the following:

<u>Grants and Subsidies</u>	<u>Capital Outlay</u>	<u>Travel</u>	<u>Other</u>	<u>Total Payables</u>
\$ 414,637	\$ 126,909	\$ 630	\$ 277,364	\$ 831,247
1,705		7	9,124	11,260
<u>416,342</u>	<u>126,909</u>	<u>2</u>	<u>7,342</u>	<u>7,399</u>
		639	293,830	849,906
		<u>1</u>	<u>167,638</u>	<u>168,196</u>
		1	167,638	168,196
<u>\$ 416,342</u>	<u>\$ 126,909</u>	<u>\$ 640</u>	<u>\$ 461,468</u>	<u>\$ 1,018,102</u>

<u>Investment Receivable</u>	<u>Intergovernmental Revenue</u>	<u>Allowances For Uncollectables</u>	<u>Other</u>	<u>Total Receivables</u>
\$ 35,972	\$ 375,334	\$ (650,150)	\$ 1,131,694	\$ 1,389,245
18,148		(3,750)	62,951	82,455
200			1	627
<u>54,320</u>	<u>375,334</u>	<u>(653,900)</u>	<u>1,194,646</u>	<u>1,472,327</u>
4,236		(5,071)	73,763	73,268
4,236		(5,071)	73,763	73,268
<u>\$ 58,556</u>	<u>\$ 375,334</u>	<u>\$ (658,971)</u>	<u>\$ 1,268,409</u>	<u>\$ 1,545,595</u>

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Amounts reported as “Taxes Receivable” are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2002. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The “Current Taxes Receivable” for Governmental Activities and Business-Type Activities are as follows:

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

Taxes Receivable
(Expressed in Thousands)

	Sales and Gross Receipts	Individual Income Tax	Coal Severance Tax	License and Privileges Tax	Taxes Receivable
Governmental activities:					
Major funds	\$ 286,536	\$ 186,882	\$ 11,501	\$ 7,461	\$ 492,380
Non-major funds				1,164	1,164
Total Governmental Activities	<u>286,536</u>	<u>186,882</u>	<u>11,501</u>	<u>8,625</u>	<u>493,544</u>
Total Primary Government	<u>\$ 286,536</u>	<u>\$ 186,882</u>	<u>\$ 11,501</u>	<u>\$ 8,625</u>	<u>\$ 493,544</u>

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Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

The Commonwealth maintains a cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. In addition, investments are separately held by several of the State's funds and Component Units. Legally authorized investments vary by fund but generally include: obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. In addition to these, pension plans and certain Component Units are permitted to purchase common stocks, corporate bonds and real

property and mineral rights. The Commonwealth is also eligible to invest in reverse repurchase agreements.

Deposits - At year end, the carrying amount of the Commonwealth's deposits for the Primary Government was \$2,086,473,311 and \$1,052,271,987 for the Component Units. At year end, the bank balance was \$2,085,598,026 and \$1,054,342,868 for the Primary Government and Component Units, respectively. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. The following table categorizes the Primary Government's and Component Units' deposits as: (1) insured or collateralized with securities by the entity or by its agent in the entity's name; (2) collateralized with securities held by the pledging institution's trust department or agent in the entity's name; or (3) uncollateralized where securities are held by the pledging institution but not in the entity's name.

Cash - Primary Government

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 604,442,381	\$	\$	\$ 604,292,701	\$ 604,442,381
Cash with fiscal agents	35,571,073			36,035,460	35,571,073
Imprest & change	7,379,510			7,379,510	7,379,510
Money market	721,764,249		150,223,242	870,797,499	871,987,491
Total	<u>\$ 1,369,157,213</u>	<u>\$</u>	<u>\$ 150,223,242</u>	1,518,505,170	1,519,380,455
Cash on deposit with federal government				567,092,856	567,092,856
Total Cash				<u>\$ 2,085,598,026</u>	<u>\$ 2,086,473,311</u>

Cash - Component Units

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 872,932,945	\$ 42,363,026	\$ 21,972,482	\$ 939,339,334	\$ 937,268,453
Money market	8,116,517	78,238,560	28,148,457	114,503,534	114,503,534
Nonnegotiable certificates of deposit	500,000			500,000	500,000
Total Cash	<u>\$ 881,549,462</u>	<u>\$ 120,601,586</u>	<u>\$ 50,120,939</u>	<u>\$ 1,054,342,868</u>	<u>\$ 1,052,271,987</u>

Investments - The Commonwealth holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the Commonwealth are administered by the Office of Financial Management. The credit risk of those investments held in the Commonwealth's investment pool is all Category (1). The credit risk mix of the retirement systems, component units, and other Commonwealth agencies is disclosed in the financial statement footnotes of the individual entities. The following tables categorize the Primary Government's and Component Units' investments as: Category (1) those investments which are insured or registered, or

held by the Commonwealth of Kentucky or its agent in the Commonwealth's name; Category (2) those investments which are uninsured and unregistered with securities held by the counterparty's trust department or agent in the Commonwealth's name; and Category (3) those investments which are uninsured and unregistered for which the securities are held by the counterparty or by its trust department or agent but not in the Commonwealth's name.

Statutes require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the

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June 30, 2002

Investments - Primary Government

	Categories			Net	
	1	2	3	Investment	Fair Value
Collateralized mortgage obligations	\$ 131,513,213	\$	\$	\$ 130,217,287	\$ 131,513,213
Commercial paper	6,189,038		58,707,864	64,835,916	64,896,902
Common stocks	11,861,214,958	106,975,862	254	11,920,403,136	11,968,191,074
Corporate bonds	3,247,611,224	61,471,710		3,308,132,746	3,309,082,934
Government securities	3,979,095,832	54,434,036	137,437,422	4,160,512,787	4,170,967,290
Negotiable certificates of deposit	620,477			614,362	620,477
Open-end mutual funds	849,459,162	1,087,319		850,533,822	850,546,481
Repurchase agreements	1,042,230,744			1,041,806,719	1,042,230,744
Securities lending collateral			593,934,649	593,934,649	593,934,649
State and municipal obligations	507,957,574	2,960,429		506,179,187	510,918,003
Totals	\$ 21,625,892,222	\$ 226,929,356	\$ 790,080,189	22,577,170,611	22,642,901,767
Government securities				48,661,174	48,661,174
Securities lending collateral				2,709,530,436	2,709,530,436
Mortgages				762,184,532	762,184,532
Real estate				359,829,377	359,829,377
State investment pool				228,996,581	229,948,449
Held by brokers/dealers					
under securities loaned:					
Common stocks				834,693,583	834,693,583
Corporate bonds				236,261,134	236,261,134
Government securities				2,423,074,577	2,423,074,577
Total Investments				\$ 30,180,402,005	\$ 30,247,085,029

Investments - Component Units

	Categories			Net	
	1	2	3	Investment	Fair Value
Collateralized mortgage obligations	\$ 1,736,140	\$	\$	\$ 1,736,140	\$ 1,736,140
Commercial paper		8,342,574		8,342,574	8,342,574
Common stocks	173,964,815			190,592,810	173,964,815
Corporate bonds	71,925,488	58,765,000		128,927,720	130,690,488
Equity in Health Care Corps	31,082,111			31,082,000	31,082,111
Government securities	263,748,507	260,637,236		521,761,523	524,385,743
Negotiable certificates of deposit	2,799,850			2,799,850	2,799,850
Mutual funds	17,863,143		226,083	18,080,093	18,089,226
Repurchase agreements	243,988,296	2,835,000		246,823,296	246,823,296
Other	132,165,416		29,035,000	151,736,820	161,200,416
Totals	\$ 939,273,766	\$ 330,579,810	\$ 29,261,083	1,301,882,826	1,299,114,659
Guaranteed investment contracts				141,976	141,976
Mortgages				45,909,000	45,909,000
Mutual funds				147,514,115	146,115,402
State investment pool				124,020,186	124,870,135
Total Investments				\$ 1,619,468,103	\$ 1,616,151,172

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Notes to Financial Statements

June 30, 2002

repurchase agreement. The fair value of securities underlying repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

Securities Lending Program - State statutes authorize the Commonwealth to enter into securities lending agreements. Collateral received in the transfer are of the type which the Commonwealth is legally authorized to hold. The Commonwealth does not have the ability to pledge or sell collateral securities without a borrower default. The fair value of the securities received in the agreement is 102 percent of the value of the securities transferred. The securities transferred are a part of the total investments reported above. The securities being held are not reported as a part of the total investments. The Commonwealth retains the interest income on the securities being transferred and receives 75 percent of the profit earned by the agent with a floor of 10.0 basis points. During the year, the Commonwealth earned \$5,443,124 in securities lending income. On June 30, 2002, the fair value of the securities transferred was \$1,618,771,059 and the fair value of the securities the Commonwealth was holding was \$1,652,073,981. The collateralization

requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth had no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

Options - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation, should the option be exercised. On June 30, 2002, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

The following chart shows current and noncurrent cash and investments for the governmental, business type, and fiduciary activities. Discretely presented component units are not included in this chart.

Cash and Investment Summary

As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets

	Current Cash And Investments	Noncurrent Investments	Total
Governmental activities	\$ 613,825,480	\$ 1,798,621,307	\$ 2,412,446,787
Business-type activities	72,154,755	1,192,464,555	1,264,619,310
Fiduciary activities	1,870,898,358	26,811,093,830	28,681,992,188
	<u>\$ 2,556,878,593</u>	<u>\$ 29,802,179,692</u>	<u>\$ 32,359,058,285</u>

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June 30, 2002

Note 6

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002

(Expressed in Thousands):

	Primary Government			Ending Balance
	Beginning Balance	Additions	Decreases	
Primary Government:				
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 90,953	\$ 4,583	\$ (358)	\$ 95,178
Construction in progress	3,062,505	638,128	(1,376,012)	2,324,621
Infrastructure	12,687,653	1,326,797		14,014,450
Total capital assets not being depreciated	15,841,111	1,969,508	(1,376,370)	16,434,249
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	7,172		(56)	7,116
Buildings	710,923	46,562	(2,029)	755,456
Machinery and Equipment	457,082	56,075	(31,647)	481,510
Easements and Other Intangibles	10,626	2,943		13,569
Total capital assets, being depreciated/amortized	1,185,803	105,580	(33,732)	1,257,651
<i>Less accumulated depreciation/amortization:</i>				
Improvements other than buildings	(3,674)	(499)	29	(4,144)
Buildings	(282,198)	(17,120)	2,029	(297,289)
Machinery and Equipment	(270,297)	(46,620)	24,385	(292,532)
Easements and Other Intangibles	(441)	(309)		(750)
Total accumulated depreciation	(556,610)	(64,548)	26,443	(594,715)
Total capital assets, being depreciated/amortized, net	629,193	41,032	(7,289)	662,936
Governmental activities capital assets, net	\$ 16,470,304	\$ 2,010,540	\$ (1,383,659)	\$ 17,097,185
Business-type activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 15,344	\$ 3,099	\$	\$ 18,443
Construction in progress	68,506	12,078	(22,071)	58,513
Total Assets, not being depreciated	83,850	15,177	(22,071)	76,956
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	63,864	4,099		67,963
Buildings	145,773	20,121	(499)	165,395
Machinery and Equipment	46,729	5,251	(728)	51,252
Easements and Other Intangibles		2,321		2,321
Total capital assets, being depreciated/amortized	256,366	31,792	(1,227)	286,931
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(42,491)	(1,381)		(43,872)
Buildings	(55,404)	(4,528)	294	(59,638)
Machinery and Equipment	(35,837)	(3,628)	667	(38,798)
Easements and Other Intangibles		(62)		(62)
Total accumulated depreciation	(133,732)	(9,599)	961	(142,370)
Total capital assets, being depreciated/amortized, net	122,634	22,193	(266)	144,561
Business-type activities capital assets, net	\$ 206,484	\$ 37,370	\$ (22,337)	\$ 221,517

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2002

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

	<u>Governmental activities</u>	<u>Business-type activities</u>
General Government	\$ 4,873	\$
Legislative and Judicial	1,232	
Commerce	2,851	
Education and Humanities	3,946	
Human Resources	3,288	
Justice	16,023	
Natural Resources and Environmental Protection	3,262	
Public Protection and Regulation	652	
Transportation	11,098	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	17,323	
State Parks		5,981
Lottery Corporation		2,627
Horse Park		554
Insurance Administration		437
Unemployment Insurance		
Total depreciation expense by activities	<u>\$ 64,548</u>	<u>\$ 9,599</u>

Discretely presented major component units

Capital asset activity for the year ended June 30, 2002
(Expressed in Thousands):

	<u>Component Units</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	
<i>Capital assets, not being depreciated:</i>				
Land	\$ 77,843	\$ 7,445	\$	\$ 85,288
Construction in progress	151,609	119,112	(19,662)	251,059
Totals, capital assets not being depreciated	<u>229,452</u>	<u>126,557</u>	<u>(19,662)</u>	<u>336,347</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	57,872	7,551	(97)	65,326
Buildings	1,617,571	67,941	(10,244)	1,675,268
Machinery and Equipment	728,101	66,938	(68,998)	726,041
Easements and Other Intangibles	6,277			6,277
Total capital assets, being depreciated/amortized	<u>2,409,821</u>	<u>142,430</u>	<u>(79,339)</u>	<u>2,472,912</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(38,945)	(2,013)	5	(40,953)
Buildings	(672,390)	(43,279)	4,356	(711,313)
Machinery and Equipment	(418,543)	(58,956)	17,938	(459,561)
Easements and Other Intangibles	(5,849)	(21)		(5,870)
Total accumulated depreciation	<u>(1,135,727)</u>	<u>(104,269)</u>	<u>22,299</u>	<u>(1,217,697)</u>
Total capital assets, being depreciated/amortized, net	<u>1,274,094</u>	<u>38,161</u>	<u>(57,040)</u>	<u>1,255,215</u>
Component units capital assets, net	<u>\$ 1,503,546</u>	<u>\$ 164,718</u>	<u>\$ (76,702)</u>	<u>\$ 1,591,562</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2002

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

Kentucky Housing Corporation	\$	1,362
Kentucky Higher Education Student Loan Corporation		631
University of Kentucky		64,688
University of Louisville		26,781
Kentucky Community and Technical College System		<u>10,807</u>
Total depreciation expense by activities	\$	<u>104,269</u>

INTENTIONALLY LEFT BLANK

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2002

Note 7

Interfund Transactions

The table below shows the interfund operating transfers for the fiscal year 2002
(Expressed in Thousands):

Transfers In	Transfers Out				
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	\$	\$	\$ 688	\$ 23,126	\$ 11,562
Transportation Fund				543	286
Federal Fund				4,073	
Agency Revenue Fund	32,725	333	13,668		1,898
Capital Projects		6,254	3,368	9,344	
Non-Major Governmental Funds	399,495	174,552	3,336	168,374	26,635
State Parks Fund	27,917			578	19,779
Kentucky Horse Park Fund	1,893				2,598
Insurance Administration Fund	4,750		11		
Unemployment Compensation Fund				9	
Internal Service Funds	1,255		204	34	11,499
Total	\$ 468,035	\$ 181,139	\$ 21,275	\$ 206,081	\$ 74,257

Reasons for transfers:

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

Interfund Receivables and Payables

The table below shows the interfund receivables and payables for the fiscal year 2002 (Expressed in Thousands):

Interfund Receivables	Interfund Payables			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$ 1	\$ 3,372	\$ 13,015
Transportation Fund	2,749		85,782	65,077
Federal Fund	5,673	86,758		19,094
Agency Revenue Fund	26,706	57,582	18,304	
Capital Projects Fund	125		1,419	1,054
Non-Major Governmental Funds	16,998	16	146,513	2,684
State Parks Fund	26	6	15	22
Kentucky Horse Park Fund				
Insurance Administration Fund	5		1	28
Unemployment Compensation Fund				20
Internal Service Funds	2,113	965	364	615
Fiduciary Funds	186	33		
Totals	\$ 54,581	\$ 145,361	\$ 255,770	\$ 101,609

Reasons for interfund payables and receivables:

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

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Transfers Out

Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Total
\$ 27,919	\$ 23	\$ 169,000	\$	\$ 58,400	\$	\$ 3,671	\$ 294,389
1,138							1,967
4,150					2,018		10,241
297,255				5,542			351,421
28,705	43					70	47,784
211,687	347		43	12	8,260	130	992,871
46							48,320
							4,491
							4,761
2,023							2,032
							12,992
<u>\$ 572,923</u>	<u>\$ 413</u>	<u>\$ 169,000</u>	<u>\$ 43</u>	<u>\$ 63,954</u>	<u>\$ 10,278</u>	<u>\$ 3,871</u>	<u>\$ 1,771,269</u>

Interfund Payables

Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 21	\$ 39,353	\$ 364	\$	\$	\$ 1,447	\$ 86	\$ 57,659
8						33	153,649
44	3,501		34			290	115,394
138	94,121	12	45		86	1,771	198,765
	873	4			672		4,147
126	112,815	289	222	4,029	157	91	283,940
19	7				1		96
					231		231
	163					40	237
	8,057						8,077
36	502	22	66		99	3	4,785
	2,486						2,705
<u>\$ 392</u>	<u>\$ 261,878</u>	<u>\$ 691</u>	<u>\$ 367</u>	<u>\$ 4,029</u>	<u>\$ 2,693</u>	<u>\$ 2,314</u>	<u>\$ 829,685</u>

Note 8

PENSION PLANS

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

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System’s administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The Commonwealth is the predominant employer for KERS and for note disclosure purposes will be considered as a single employer plan.

CERS, a multiple employer cost sharing defined benefit pension plan, provides for retirement, disability, and death benefits to plan members.

SPRS is a single-employer defined benefit plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However,

formal commitment to provide the contributions by the employer is made through the biennial budget. The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature.

The allocation of insurance premiums paid by the Fund and amounts withheld from members’ benefits is based on years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>	<u>Percent Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502)564-4646.

The Judicial Retirement Plan is a single employer defined benefit plan, which provides retirement, disability and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125 percent benefit rate and the 60 month average earnings of the position held by the member at retirement. Contribution rates are established by KRS 21.525.

The Legislators’ Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that

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a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925 percent benefit rate and the 60 month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

The financial statements are prepared using the accrual basis of accounting. Plan member contributions to the plan are recognized when due and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plans.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

The Judicial Form Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing to the Judicial Form Retirement System, P.O. Box 791, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-5310.

The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161

Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for local school districts and other educational agencies in the state.

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Plan investments are reported at fair value. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and security pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

COLA are one and one-half percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

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	<u>Kentucky Legislators' Retirement Plan</u>	<u>Kentucky Judicial Retirement Plan</u>
Contribution rates:		
State	15.74%	15.62%
Plan members	5.00%	5.00%
Portion of State contribution for health insurance		
Annual pension costs (Thousands)	\$692	\$3,878
Contributions made (Thousands)	\$692	\$3,878
Actuarial valuation date	June 30, 2002	June 30, 2002
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Interest + 1% Unfunded past liability	Interest + 1% Unfunded past liability
Remaining amortization period	25 years	25 years
Asset valuation method	Five-year average of market to book value	Five-year average of market to book value
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Inflation rate		
Projected salary increases	4.00%	4.00%
Increases in health insurance cost	6% - 10%	6% - 10%
(Dollar amounts in thousands)		
ARC	\$ 692	\$ 3,878
Interest on NPO		295
Adjustment to ARC		(295)
Annual pension cost	<u>692</u>	<u>3,878</u>
Contributions made	<u>692</u>	<u>4,095</u>
Increase (decrease) in NPO		(217)
NPO at July 1		3,682
NPO at June 30	<u>\$</u>	<u>\$ 3,465</u>

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<u>State Police Retirement System</u>	<u>Kentucky Employees Retirement System</u>	<u>Kentucky Teachers' Retirement System</u>
21.58%	5.89% - 18.84%	13.105% - 13.840%
8.00%	5% - 7%	6.160% - 9.855%
21.58%	5.89% - 12.66%	0.75%
\$10,211	\$119,655	\$284,795
\$9,562	\$119,493	\$284,795
June 30, 2002	June 30, 2002	June 30, 2002
Entry age normal	Entry age normal	Projected unit credit
Level percent closed	Level percent closed	Level percent open
30 years	30 years	30 years
Five-year average of market to book value	Five-year average of market to book value	Five-year average of market to book value
8.25%	8.25%	7.50%
3.50%	3.50%	4.00%
6.50%	6.50%	4.00% - 8.10%
7.5% - 10%	7.5% - 10%	9% - 13.5%
\$ 9,563	\$ 117,595	\$ 284,795
864	5,246	
(524)	(3,185)	
<u>9,902</u>	<u>119,655</u>	<u>284,795</u>
9,562	119,493	284,795
340	162	
10,467	63,582	
<u>\$ 10,807</u>	<u>\$ 63,744</u>	<u>\$</u>

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Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
June 30, 2000	\$ 6,806,675,460	\$ 4,876,825,772	\$ (1,929,849,688)	1.396	\$ 1,409,504,668	(1.369)
June 30, 2001	6,844,742,687	5,444,035,294	(1,400,707,393)	1.257	1,505,299,220	(0.931)
June 30, 2002	6,654,084,196	6,026,094,764	(627,989,432)	1.104	1,595,809,458	(0.394)
<u>Hazardous</u>						
June 30, 2000	\$ 336,213,464	\$ 243,365,557	\$ (92,847,907)	1.382	\$ 115,639,439	(0.803)
June 30, 2001	361,677,475	285,193,761	(76,483,714)	1.268	122,857,992	(0.623)
June 30, 2002	376,384,302	322,069,164	(54,315,138)	1.169	125,275,925	(0.434)
<u>State Police Retirement System</u>						
June 30, 2000	\$ 459,168,574	\$ 336,579,763	\$ (122,588,811)	1.364	\$ 43,619,383	(2.810)
June 30, 2001	456,160,709	356,211,860	(99,948,849)	1.281	44,646,678	(2.239)
June 30, 2002	438,955,465	380,790,346	(58,165,119)	1.153	44,314,696	(1.313)
<u>Judicial Retirement Plan</u>						
June 30, 2000	\$ 271,044,593	\$ 179,117,938	\$ (91,926,655)	1.513	\$ 24,031,129	(3.825)
June 30, 2001	280,506,852	172,720,874	(107,785,978)	1.624	25,520,504	(4.224)
June 30, 2002	265,693,347	185,310,835	(80,382,512)	1.434	26,208,973	(3.067)
<u>Legislators' Retirement Plan</u>						
June 30, 2000	\$ 66,971,719	\$ 45,253,158	\$ (21,718,561)	1.480	\$ 2,887,500	(7.522)
June 30, 2001	70,853,489	47,068,104	(23,785,385)	1.505	5,075,759	(4.686)
June 30, 2002	67,892,070	51,095,992	(16,796,078)	1.329	4,879,301	(3.442)
<u>Kentucky Teachers' Retirement System</u>						
June 30, 2000	\$ 12,759,600,000	\$ 13,330,400,000	\$ 570,800,000	0.957	\$ 2,133,700,000	0.268
June 30, 2001	13,299,200,000	14,642,100,000	1,342,900,000	0.908	2,213,772,000	0.607
June 30, 2002	13,588,847,000	15,695,574,000	2,106,727,000	0.866	2,313,663,000	0.911

Membership of the retirement systems, at June 30, 2002, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Fund
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous		
Retirees and beneficiaries receiving benefits	26,703	1,208	26,147	3,483	897	221
Terminated plan members - vested	3,415	127	4,470	148	20	23
Terminated plan members - non-vested	14,299	946	26,508	552	83	
Active plan members	48,555	4,211	79,850	8,949	1,002	252
Total Members	<u>92,972</u>	<u>6,492</u>	<u>136,975</u>	<u>13,132</u>	<u>2,002</u>	<u>496</u>
Number of participating employers	404		1,314		1	1

Three year trend for contributions
(Expressed in thousands):

	Annual Required Contribution	Percentage Contributed
<u>Kentucky Employees Retirement System</u>		
<u>Non-Hazardous</u>		
2000	\$ 113,183	101.7%
2001	88,662	101.9%
2002	93,993	101.8%
<u>Hazardous</u>		
2000	\$ 21,578	100.3%
2001	23,146	103.1%
2002	23,601	100.9%
<u>State Police Retirement System</u>		
2000	\$ 10,211	100.0%
2001	9,634	99.9%
2002	9,563	99.9%
<u>Judicial Retirement Plan</u>		
2000	\$ 5,984	102.2%
2001	3,878	100.0%
2002	3,878	105.6%
<u>Legislator's Retirement Plan</u>		
2000	\$ 1,547	109.7%
2001	692	100.0%
2002	692	110.0%
<u>Kentucky Teachers' Retirement System</u>		
2000	\$ 311,300	100.0%
2001	262,800	100.0%
2002	284,795	100.0%

Note 9

EMPLOYEE BENEFIT PLAN

Deferred Compensation

Employees of the Commonwealth, its cities, counties, and local school districts are eligible to participate in two deferred compensation plans as authorized by the United States Internal Revenue Code. These plans, labeled 457 and 401(k), after sections of the Code, are administered by the Personnel Cabinet and an independent Plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.245, selects the administrator to oversee the daily operations and technical compliance of the Plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the plan administrators holding fixed and variable annuity contracts (carriers). Both Plans permit employees to defer collecting a portion of their salary until future years. This deferment is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the 457 Plan and the 401(k) Plan are reported in a Pension Trust Fund within the fiduciary fund type, in compliance with Internal Revenue Code and GASB 32 requirements.

Of the \$428,799,820 (net of cash surrender value of \$65,355) in the 457 Plan at June 30, 2002, \$253,218,572 was applicable to the Commonwealth, while the remaining \$175,581,248 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$417,185,137 (net of cash surrender value of \$64,281) at June 30, 2002, of which \$186,189,663 was applicable to the state while the remaining \$230,995,474 represents other participating jurisdictions.

Note 10

LEASE OBLIGATIONS

The Commonwealth has entered into various leases for buildings and equipment. Generally, leases contain termination clauses providing for cancellation after a 30-, 60-, or 90-days written notice. In addition, certain leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

A portion of the capital lease liability for the University and College Fund is applicable to leases with the Commonwealth.

Changes in leases payable for the year ended June 30, 2002, are summarized in Note 15, Changes in Long-Term Obligations.

Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TOTAL
114	33,457	92,230
59	5,995	14,257
		42,388
119	54,175	197,113
<u>292</u>	<u>93,627</u>	<u>345,988</u>
1	202	1,923

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At June 30, 2002, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units-Major
Buildings and Equipment acquired through capital leases are recorded at the lesser of fair market value or present value of future minimum lease payments.			
Buildings	\$	\$	\$ 62,827
Equipment	39,717	312	24,902
Total	39,717	312	87,729
Less: Accumulated depreciation	(9,771)	(138)	(24,133)
Total Net of Depreciation	\$ 29,946	\$ 174	\$ 63,596

Future minimum rental commitments for capitalizable leases as of June 30, 2002, are as follows (Expressed in Thousands):

	Primary Government		Component Units-Major	Total
	Governmental Activities	Business-Type Activities	University and College Funds	
2003	\$ 9,138	\$ 95	\$ 11,173	\$ 20,406
2004	8,545	52	13,191	21,788
2005	3,791	41	5,036	8,868
2006	2,550	25	3,507	6,082
2007	1,746		3,099	4,845
2008-2012	1,741		15,511	17,252
2013-2017			15,489	15,489
2018-2022			5,583	5,583
Total minimum lease payments	27,511	213	72,589	100,313
Less: Amount representing interest (4.0-26.49%)	(2,799)	(30)	(19,374)	(22,203)
Present value of future minimum lease payments	\$ 24,712	\$ 183	\$ 53,215	\$ 78,110

Note 11

RISK MANAGEMENT

The Commonwealth is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commonwealth utilizes the Risk Management Fund to account for these activities.

Fire and Tornado Insurance:

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$300,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance

Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$1,900,000 reported in the Program at June 30, 2002, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2002 and 2001 were:

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	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 1,127,623	\$ 893,225
Incurred claims	13,053,967	1,941,963
Changes in estimates		
Claims payments	<u>(12,281,590)</u>	<u>(1,707,565)</u>
Balance at Fiscal Year End	<u>\$ 1,900,000</u>	<u>\$ 1,127,623</u>

Self-Insured Workers' Compensation:

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

The actuarially determined aggregate claims liability of \$90,306,276 reported in the Program at June 30, 2002, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 80,696,544	\$ 60,517,697
Claims and claims adjustments incurred:		
Current year	19,500,795	19,097,065
Prior year	<u>4,598,172</u>	<u>14,647,811</u>
Total Claims and Claims Adjustments Incurred:	24,098,967	33,744,876
Claims and claims adjustment payments:		
Current year	(3,845,874)	(3,790,048)
Prior year	<u>(10,643,361)</u>	<u>(9,775,981)</u>
Total Claims and Claims Adjustment Payments	(14,489,235)	(13,566,029)
Balance at Fiscal Year End	<u>\$ 90,306,276</u>	<u>\$ 80,696,544</u>

Transportation Cabinet Workers' Compensation:

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 19,823,557	\$ 19,491,107
Claims and claims adjustments incurred	4,816,083	3,653,895
Changes in estimates	26,232	
Claims and claims adjustment payments	<u>(3,486,911)</u>	<u>(3,321,445)</u>
Balance at Fiscal Year End	<u>\$ 21,178,961</u>	<u>\$ 19,823,557</u>

Note 12

RISK POOLS

The Commonwealth's risk pools are the Insurance Administration Fund (enterprise fund) and the Grain Insurance Corporation and Kentucky Access (component units). The Insurance Administration Fund includes the operations of five risk pools as follows: Workers' Compensation Insurance, Coal Workers Pneumoconiosis, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Corporation is reported as part of the primary government. Kentucky Access and the Grain Insurance Corporation are risk pools reported as discrete component units.

**Risk Pools - Enterprise Funds
Workers' Compensation Insurance:**

The Kentucky Workers' Compensation Insurance Program, a risk sharing pool, covers preexisting conditions to protect employers from having to pay for injuries not sustained while under their employment, or more than once for disabilities resulting from the same accident. This Program encourages reemployment of injured workers at adequate wages by relieving the employer of the requirement of paying disability compensation in addition to full wages. The Program also covers claims against uninsured employers.

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The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$995,911,041 as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$2,305,406,379, discounted at 7.0 percent, and the net of the estimated realizable value of reimbursements. The claims adjusted liability of \$37,896,652, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$87,725,890, discounted at 7.0 percent.

The actuarially determined liabilities described above arise from projections included in an actuarial report dated June 30, 2002. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 2,373,940,088	\$ 2,314,558,183
Claims and claims adjustments incurred	150,487,831	159,377,394
Changes in estimates	(7,749,377)	
Claims and claims adjustment payments	(123,546,273)	(99,995,489)
Balance at Fiscal Year End	<u>\$ 2,393,132,269</u>	<u>\$ 2,373,940,088</u>

Coal Workers' Pneumoconiosis Fund:

The Coal Workers' Pneumoconiosis Fund (CWPF) was created within the Labor Cabinet through the enactment of House Bill No. 1 by the December 1996 Special Session of the General Assembly. The CWPF is liable for one-half of the income benefits and retraining incentive benefits for occupational pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal. The employer is liable for the remaining half.

In accordance with House Bill No. 1 from the December 1996 Special Session, the Kentucky Workers' Compensation Funding Commission shall impose a pneumoconiosis assessment to pre-fund the liabilities of the CWPF and to finance its administration. The assessment is 3 percent of workers' compensation premiums received on or after January 1, 1997, from employers engaged in the severance or processing of coal and an additional assessment of \$0.025 per ton imposed upon coal severed on or after January 1, 1997. All pneumoconiosis assessments collected by the Funding Commission are to be credited to a separate account within the Benefit Reserve

Fund and to be transferred as necessary to pay administrative expenses and current claims of the CWPF.

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$985,505, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,403,494 discounted at 7.0 percent. The claims adjustment liability of \$851,353, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,212,444, discounted at 7.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 2,987,707	\$ 11,135,285
Claims and claims adjustments incurred	319,238	(8,027,078)
Changes in estimates	(371,769)	
Claims and claims adjustment payments	(319,238)	(120,500)
Balance at Fiscal Year End	<u>\$ 2,615,938</u>	<u>\$ 2,987,707</u>

As stated above, the Coal Workers' Pneumoconiosis Fund was created by the December 1996 Special Session of the General Assembly. Therefore, there are no provisions for claims prior to 1997.

Petroleum Storage Tank Environmental Assurance Program:

The Office of the Petroleum Storage Tank Environmental Assurance Program, a risk sharing pool, was created in the 1990 regular session of the Kentucky General Assembly. The purpose of the Program is to assist petroleum storage tank owners or operators in complying with federal financial responsibility requirements relating to petroleum storage tanks and in cleaning up contamination caused by leaking tanks. A fee paid (at a rate of one and four-tenths cents per gallon) by dealers on each gallon of gasoline and special fuels received in the Commonwealth funds the Program.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims

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GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. However, on June 30, 2002, the ending balance for claims liability was zero. Changes in the Program’s claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 36,000	\$ 100,000
Claims and claims adjustments incurred	(35,809)	(1,892)
Changes in estimates		
Claims and claims adjustment payments	(191)	(62,108)
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 36,000</u>

Risk Pools - Component Units

Kentucky Access:

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

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

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

A third-party administrator chosen through the state bidding process administers Kentucky Access. The administrator develops and establishes policies and procedures for enrolled participants and potential enrollees. However, premium rates charged do not fully

cover health care costs; thus, claims exceeding premium rates shall be covered by the Kentucky Access Fund.

Changes in the Program’s claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 889,402	\$ 0
Claims and claims adjustments incurred	1,061,879	2,038,439
Changes in estimates		
Claims and claims adjustment payments	(1,945,750)	(1,149,037)
Balance at Fiscal Year End	<u>\$ 5,531</u>	<u>\$ 889,402</u>

Grain Insurance:

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

No claims liability was reported in the Program at June 30, 2002, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2001 was also zero.

	Fiscal Year 2002	Fiscal Year 2001
Beginning of fiscal year liability	\$ 0	\$ 0
Claims and claims adjustments incurred	0	0
Changes in estimates	0	0
Claims and claims adjustment payments	0	0
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 0</u>

Note 13**DEFEASANCE OF LONG-TERM DEBT**

The State Property and Buildings Commission issued \$223,730,000 of Revenue and Revenue Refunding Bonds, Project 72, dated October 1, 2001. The net proceeds of this issue were \$229,741,561 with a premium of \$7,854,157 and issuance costs and underwriter's discount of \$1,842,595. The net proceeds were placed in an escrow account to advance refund a portion of Project 32 (Third Series), and Project 40 (Second Series) bonds. The net savings (reduction in cash flow) for the Refunding Bonds will be \$480,555. The present value is \$423,733 at a rate of 2.30430%.

The State Property and Buildings Commission issued \$41,270,000 of Revenue Refunding Bonds, Project 73 (Second Series), dated April 1, 2002. The net proceeds of this issue were \$41,254,126 with a premium of \$445,179 and issuance costs and underwriters' discounts of \$461,053. The net proceeds were placed in an escrow account to advance refund the 2008, 2009, 2010, and 2011 maturities of Project 73 bonds. The net savings (reduction in cash flow) for the Refunding Bonds will be \$4,502,297. The present value is \$2,755,939 at a rate of 6.75144%.

The State Property and Buildings Commission issued \$305,145,000 of Revenue and Revenue Refunding Bonds, Project 74, dated January 30, 2002. The net proceeds of this issue were \$313,485,403 with a premium of \$10,672,386 and issuance costs and underwriter's discounts of \$2,331,983. \$101,892,403 of the net proceeds was placed in an escrow account to advance refund Project 54, Project 55, Project 56, Project 57, Project 59, Project 60, Project 63, Project 64, Project 65, Project 67, Project 68, and Project 72 bonds. The net savings (reduction in cash flow) for the Refunding Bonds will be \$2,907,426. The present value is \$1,869,910 at a rate of 1.964811%.

The State Property and Buildings Commission issued \$66,815,000 of Revenue and Revenue Refunding Bonds, Project 76, dated February 1, 2002. The net proceeds of this issue were \$71,444,976 with a premium of \$5,255,615 and issuance costs and underwriter's discounts of \$625,639. Net proceeds of \$65,509,976 was placed in an escrow account to advance refund Project 71 bonds maturing August 1, 2008, 2009, 2010, and 2011. The net savings (reduction in cash flow) for the Refunding Bonds will be \$7,301,647. The present value is \$3,838,115 at a rate of 6.15477%.

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

Proceeds from the refunding issues are placed in escrow accounts to pay the future debt service on the issue(s) being refunded. During the fiscal year ended June 30, 2002 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated July 1, 2001, were issued for the Bullitt County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$3,131,213 maturing May 1, 2002 through May 1, 2012 and carrying interest rates from 2.70% to 4.35%.

Revenue refunding bonds dated July 15, 2001, were issued for the Hardin County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$666,840 maturing June 1, 2002 through June 1, 2011 and carrying interest rates from 3.75% to 4.25%.

Revenue refunding bonds dated August 1, 2001, were issued for the Williamsburg Independent School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$76,107 maturing February 1, 2002 through February 1, 2012 and carrying interest rates from 2.75% to 4.20%.

Revenue refunding bonds dated August 1, 2001, were issued for the Metcalfe County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$1,006,852 maturing February 1, 2002 through February 1, 2012 and carrying interest rates of 2.70% to 4.20%.

Revenue refunding bonds dated September 1, 2001, were issued for the Perry County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$129,110 maturing March 1, 2002 through March 1, 2020 and carrying interest rates of 3.50% to 4.75%.

Revenue refunding bonds dated September 1, 2001, were issued for the Letcher County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$1,708,636 maturing April 1, 2002 through October 1, 2014 and carrying interest rates of 2.50% to 4.125%.

Revenue refunding bonds dated October 1, 2001, were issued for the Rockcastle County School District Finance Corporation to refund a 1993A issue. The Commission's portion of the refunding issue was \$1,674,284 maturing April 1, 2002 through April 1, 2013 and carrying interest rates of 2.50% to 4.25%.

Revenue refunding bonds dated October 1, 2001, were issued for the Lyon County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$377,093 maturing April 1, 2002 through April 1, 2012 and carrying interest rates of 2.20% to 3.95%.

Revenue refunding bonds dated November 1, 2001, were issued for the Henry County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$172,540 maturing February 1, 2002 through February 1, 2015 and carrying interest rates of 3.05% to 4.30%.

Revenue refunding bonds dated October 1, 2001, were issued for the Carter County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the issue was \$393,162 maturing January 1, 2002 through January 1, 2013 and carrying interest rates of 2.25% to 4.10%.

Revenue refunding bonds dated November 1, 2001, were issued for the Breathitt County School District Finance Corporation to refund a 1990 issue. The Commission's portion of the refunding issue was \$845,338 maturing February 1, 2002 through August 1, 2005 and carrying interest rates of 2.50% to 2.75%.

Revenue refunding bonds dated October 1, 2001, were issued for the Madison County School District Finance Corporation to refund 1992, 1993, and 1994 issues. The Commission's portion of the refunding issue was \$1,583,188 maturing February 1, 2002 through February 1, 2014 and carrying interest rates of 3.00% to 4.25%.

Revenue refunding bonds dated November 1, 2001, were issued for the Scott County School District Finance Corporation to refund a 1992 issue and a 1995 issue. The Commission's portion of the refunding issue was \$2,163,915 maturing May 1, 2002 through May 1, 2015 and carrying interest rates of 3.125% to 4.50%.

Revenue refunding bonds dated October 1, 2001, were issued for the Meade County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$109,644 maturing February 1, 2002 through February 1, 2013 and carrying interest rates of 3.50% to 4.00%.

Revenue refunding bonds dated January 1, 2002, were issued for the Walton Verona Independent School District Finance Corporation to refund 1989 and 1990 issues. The Commission's portion of the refunding issue was \$273,598 maturing April 1, 2002 through April 1, 2011 and carrying interest rates of 2.00% to 3.75%.

Revenue refunding bonds dated January 1, 2002, were issued for the Graves County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$985,000 maturing February 1, 2003 through February 1, 2005 and carrying interest rates of 2.00% to 3.25%.

Revenue refunding bonds dated March 1, 2002, were issued for the Daviess County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was

\$205,104 maturing December 1, 2002 through December 1, 2011 and carrying interest rates of 2.10% to 4.30%.

Revenue refunding bonds dated February 1, 2002, were issued for the Whitley County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$151,709 maturing September 1, 2002 through September 1, 2012 and carrying interest rates of 1.75% to 4.125%.

Revenue refunding bonds dated April 15, 2002, were issued for the Fayette County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$1,083,757 maturing January 1, 2003 through July 1, 2012 and carrying interest rates of 1.90% to 4.125%.

Revenue refunding bonds dated June 1, 2002, were issued for the Middlesboro School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$88,188 maturing February 1, 2003 through August 1, 2012 and carrying interest rates of 2.30% to 4.00%.

Revenue refunding bonds dated June 1, 2002, were issued for the Russell County School District Finance Corporation to refund 1992 and 1994 issues. The Commission's portion of the refunding issue was \$1,049,971 maturing October 1, 2002 through October 1, 2014 and carrying interest rates of 1.40% to 4.10%.

Note 14

RELATED ORGANIZATIONS

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the Commonwealth's financial statements. They are the East Kentucky Corporation, Eastern Kentucky Exposition Center Corporation, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority, Kentucky Wood Products Competitiveness Corporation and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

Several of the Commonwealth's universities receive funding from independent foundations specifically created to benefit the respective universities. Financial information pertaining to these foundations is not presented as part of the Commonwealth's reporting entity because they are considered independent entities.

Note 15

SHORT-TERM AND LONG-TERM OBLIGATIONS

Short-Term Obligations

Short-term debt is comprised of tax revenue anticipation notes that are issued to smooth the cash flow from tax receipts.

The following chart shows changes in short-term debt during the period ending June 30, 2002:

Short-term Debt on July 1, 2001	Additions	Repayments	Short-term Debt on June 30, 2002
\$	\$ 650,000,000	\$ 650,000,000	\$
\$	\$ 650,000,000	\$ 650,000,000	\$

Long-Term Obligations

General Obligation Bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2002.

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

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure

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

The debt issuing authorities of the Commonwealth issued revenue and revenue refunding bonds during fiscal year 2002. The entities and the related debt issued are described on the following pages.

The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2002, are as follows
(Expressed in Thousands):

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 2,186,353	2.3%-7.65%	2022
Turnpike Authority of KY	1,218,693	4.2%-9.625%	2020
Total	<u>\$ 3,405,046</u>		

Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2002, are as follows (Expressed in Thousands):

Year Ending June 30,	Principal	Interest	Totals
2003	\$ 239,824	\$ 174,102	\$ 413,926
2004	256,721	164,650	421,371
2005	216,255	152,738	368,993
2006	216,529	138,656	355,185
2007	223,544	128,002	351,546
2008-12	1,083,913	430,084	1,513,997
2013-17	680,085	217,794	897,879
2018-22	488,175	57,099	545,274
Total	<u>\$ 3,405,046</u>	<u>\$ 1,463,125</u>	<u>\$ 4,868,171</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky School Facilities Construction Corporation	\$ 602,608	1.25-5.4%	2022
Kentucky Housing Corporation *	1,190,237	1.9-7.39%	2038
Kentucky Infrastructure Authority *	224,860	3.0-8.4%	2021
Kentucky Higher Education Student Loan Corporation	788,770	5.1-7.1%	2031
Kentucky Local Correctional Facilities Construction Authority *	32,710	4.75-5.5%	2014
University of Kentucky	211,266	3.0-6.4%	2025
University of Louisville	130,191	1.4-10.0%	2018
Eastern Kentucky University	47,410	3.0-6.3%	2022
Western Kentucky University	20,705	2.6-6.1%	2012
Murray State University *	19,932	3.0-6.2%	2019
Morehead State University	33,540	2.75-7.15%	2021
Kentucky State University	13,780	3.0-7.8%	2021
Northern Kentucky University	41,040	3.0-7.8%	2021
Kentucky Community and Technical College System *	69,105	4.6-7.2%	2011
Total Component Unit Revenue Bonds Payable	<u><u>\$ 3,426,154</u></u>		

* Amounts reflect original issue

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Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2002, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2003	\$ 178,859	\$ 156,695	\$ 335,554
2004	169,734	148,666	318,400
2005	192,947	140,465	333,412
2006	162,208	131,368	293,576
2007	167,050	123,416	290,466
2008-12	720,809	503,430	1,224,239
2013-17	444,644	347,894	792,538
2018-22	282,091	248,681	530,772
2023-27	370,360	182,455	552,815
2028-32	669,845	72,878	742,723
2033-37	67,167	949	68,116
2038-43	440	23	463
Total	<u>\$ 3,426,154</u>	<u>\$ 2,056,920</u>	<u>\$ 5,483,074</u>

The Kentucky State Property and Buildings Commission is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of the Finance and Administration Cabinet, Secretary of the Revenue Cabinet, and Secretary of the Economic Development Cabinet.

The Commission is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

The Commission issued \$976,355,000 in project revenue bonds as follows:

\$22,870,000, Project 69 Series B, dated July 3, 2001, maturing serially each August 1, 2003 through 2011 at 4.00% to 5.50%; and

\$27,030,000, Project 69 Series C, dated August 3, 2001, maturing serially each August 1, 2002 through 2007 at 4.00% to 5.50%; and

\$39,320,000, Project 69 Series D, dated June 5, 2002, maturing serially each August 1, 2005 through 2012 at 5.50%; and

\$152,860,000, Project 71, dated August 1, 2001, with serial maturities each August 1, 2002, through 2015, at 3.00% to 5.50%; and

\$223,730,000, Project 72, dated October 1, 2001, maturing serially each October 1, 2002, through 2021 at 3.00% to 5.375%; and

\$90,240,000 Project 73, dated November 1, 2001, maturing serially each November 1, 2002 through 2014, at 2.30% to 5.50%; and

\$41,270,000, Project 73 (Second Series), dated April 1, 2002, maturing serially each November 1, 2002 through 2021, interest due each May 1 and November 1, at 4.875% to 5.625%; and

\$66,815,000, Project 76, dated February 1, 2002, maturing serially each August 1, 2002 through 2021, interest due biennially each February 1 and August 1, at 3.00% to 5.50%; and

\$305,145,000, Project 74, dated January 30, 2002, maturing serially each February 1, 2002 through 2022, interest due each February 1 and August 1, at 2.00% to 5.375%; and

\$7,075,000, Project 75, (Agency Fund Revenue Bonds), dated January 30, 2002, maturing serially each May 1, 2002 through 2021, at interest payable each May 1 and November 1, at 2.00% to 5.00%.

State Universities - The Board of Trustees of the University of Kentucky and the Boards of Regents of the University of Louisville, Eastern Kentucky University, Western Kentucky University, Murray State University, Morehead State University, Kentucky State University, and Northern Kentucky University are authorized under KRS 56.495 to issue debt for the purpose of constructing educational buildings and housing and dining facilities. In addition, the University of Louisville is specifically authorized to issue debt for educational buildings under KRS 64.860 but is limited to \$16 million of refunding debt.

State supported universities issued \$24,505,000 in revenue and refunding revenue bonds as follows:

Eastern Kentucky University issued \$14,505,000 in Housing System Revenue Bonds and Consolidated Educational Buildings Revenue Bonds as follows:

\$5,470,000, Housing System Revenue Bonds, Series O, dated June 1, 2002, \$4,000,000 maturing serially each August 1 and February 1, through 2018, at 3.0% to 4.375%; and \$705,000 term bond due February 1, 2020 at 4.50%; and \$765,000 term bond due February 1, 2022 at 4.50%; and

\$9,035,000, Consolidated Educational Buildings Revenue Bonds, Series U, dated September 1, 2001, due serially and annually each May 1, 2002, through 2011 at 3.50% to 4.00% interest; and

Morehead State University issued \$10,000,000 in Housing and Dining System Revenue Bonds and Refunding Revenue Bonds as follows:

\$5,125,000, Series P, Housing and Dining System Revenue Bonds, due serially and semi-annually each May 1 and November 1, commencing November 1, 2001 through 2020 at 2.75% to 4.9% interest. The bond proceeds will pay the costs of installing fire safety equipment at West Mignon Hall and East Mignon Hall and

construction of a 28 unit Lakewood Terrace Family Housing Complex; and

\$4,875,000 Series L, Consolidated Educational Buildings Refunding Revenue Bonds, due serially each May 1, 2002 through 2012 at 2.25% to 4.30%.

The Kentucky Housing Corporation, established in 1972 under KRS Chapter 198A, is a municipal corporation and political subdivision of the Commonwealth governed by a board of directors comprised of the Secretary of the Finance and Administration Cabinet, Commissioner of the Department for Local Government, Secretary of the Revenue Cabinet, Attorney General, Secretary of the Economic Development Cabinet, Lieutenant Governor, and eight additional members appointed by the Governor. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued Housing Revenue Bonds in the aggregate principal amount of \$176,220,000 to continue the Corporation's program of purchasing qualified mortgage loans made to eligible borrowers to finance owner occupied single family residences, and refinance certain borrowings, Prior Bonds and Notes of the Corporation as more fully described in the Official Statement. The Series were issued as follows:

\$41,880,000, 2001 Series F (AMT) with term maturities of \$10,290,000, due January 1, 2021 at 5.35%, \$4,000,000, due July 1, 2021, at 5.35%, \$17,590,000, due January 1, 2032, at 5.45%, and \$10,000,000, due July 1, 2032, at 5.45%; and

\$8,120,000, Serial Bond, dated August 2, 2001, with serial maturities each January 1, 2003 and July 1, 2003, through 2011, at 3.375% to 4.65%; and

The corporation also issued two series (Series C and Series A), dated June 13, 2002, aggregate principal \$76,220,000 as follows:

\$21,220,000, 2002 Series C (NON-AMT), having term maturities each January 1 and July 1, beginning January 1, 2003 through July 1, 2017, \$9,575,000 at 1.90% to 4.95%; and \$5,050,000 due July 1, 2022, at 5.20%; and \$6,595,000 due July 1, 2027, at 5.375%; and

\$55,000,000 2002 Series A (AMT), with maturities each July 1 and January 1, beginning January 1, 2004 through July 1, 2016, \$14,095,000 at 2.65% to 5.20%. Term bonds include \$10,145,000 due July 1, 2022, at 5.45%; \$13,185,000 due January 1, 2028, at 4.50%; \$7,335,000 due January 1, 2030 at 5.50%; and \$6,305,000 due July 1, 2033, at 5.60%; \$3,935,000 due July 1, 2033, at 5.60%; and

The corporation also issued a 2002 Series D (AMT), term bond as follows:

\$50,000,000 due July 1, 2014, at 1.90% to 4.60%.

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

The Authority issued a \$68,020,000 Composite Issue, Revenue Bond, 2001 Series for the purpose of (1) providing monies which will assist certain Governmental Agencies to finance waste water, drinking water and water service programs of those Governmental Agencies and (2) paying costs of issuance as described in the Official Statement dated December 1, 2001, as follows:

\$12,440,000, 2001 Series G, Waste Water Revolving Fund Program Revenue Bond, maturing serially each June 1, 2002, through 2021 at 2.50% to 5.00%; and

\$6,420,000, 2001 Series B, Drinking Water Revolving Fund Program Revenue Bond, maturing serially each June 1, 2002 through 2021 at 2.50% to 5.00%; and

\$49,160,000, 2001 Series A, 2020 Water Service Revolving Fund Program Revenue Bond, maturing each June 1, 2003 through 2021 at 4.00% to 5.25%.

The Kentucky Higher Education Student Loan Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by a seven member board of directors consisting of the Chairman of the Council on Postsecondary Education, the Secretary of the Finance and Administration Cabinet, the Chairman of the Kentucky Higher Education Assistance Authority, and four members chosen from the general public. The Corporation is limited to a maximum principal outstanding of \$553 million.

The Corporation issued \$150,000,000 in Student Loan Revenue Bonds, dated on the expected date of delivery on or about July 27,

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2001. These bonds, which were issued as two Senior Series and one Subordinate Series, Auction Rate Certificates, bear interest as described in the Official Statement, described as follows:

\$59,850,000, Senior Series 2001A-1, are due May 1, 2031, and \$59,850,000, Series 2001A-2, due May 1, 2031; and

\$30,300,000, Subordinate Series 2001B, also due May 1, 2031.

The corporation issued three series, expected date of delivery on or about August 7, 2002, aggregate principal \$150,000,000 as follows:

\$55,450,000 Taxable Student Loan Revenue Bonds, Senior Series 2002A-1 due May 1, 2032, at 1.89% to the lesser of 15% per annum or the highest rate then permitted in conformance with applicable Commonwealth law; and

\$55,450,000 Taxable Student Loan Revenue Bonds, Senior Series 2002A-2 due May 1, 2032, at 1.9% to the lesser of 15% per annum or the highest rate then permitted in conformance with applicable Commonwealth law; and

\$39,100,000 Student Loan Revenue Bonds, Senior Series 2002A-3 due May 1, 2032, at 1.35% to the lesser of 15% per annum or the highest rate then permitted in conformance with applicable Commonwealth law.

The Kentucky Higher Education Assistance Authority is the Commonwealth of Kentucky's agency for improving higher education opportunities by insuring eligible student loans and providing other financial aid and related services to eligible students. The Authority is an issuer of student loans pursuant to the Federal Higher Education Act of 1965, as amended (the ACT) in Kentucky and Alabama. As such, the Authority is responsible for issuing loan insurance, providing collection assistance to lenders for delinquent loans, paying lender claims for loans, and collecting defaulted loans on which claims have been paid.

The Authority issued no bonds during the year ended June 30, 2002.

The Kentucky Local Correctional Facilities Construction Authority is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

The Authority issued no bonds during the year ended June 30, 2002.

The Kentucky School Facilities Construction Commission was created by act of the 1985 Extraordinary Session of the Kentucky General Assembly as the successor agency to the Kentucky School

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

During the fiscal year ended June 30, 2002, the Commission sold 25 school building revenue bond issues having aggregate state participation of \$17,769,205 maturing through October 1, 2023, at interest rates of 1.25% to 5.40%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2002, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

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

The Corporation issued no bonds during the year ended June 30, 2002.

The Kentucky Economic Development Finance Authority, established in 1958 under KRS Chapter 154, is an independent agency of the Commonwealth that operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no bonds during the fiscal year ended June 30, 2002.

NOTES PAYABLE:

At June 30, 2002, the following entities had notes payable as follows:

The Office of Financial Management floated a \$25 million securities lending trade, using \$25 million of internally held corporate bonds as collateral. The bonds were converted by Goldman Sachs to liquid cash and then reinvested in public securities to essentially lock in the underlying interest rate. This transaction was subsequently liquidated on July 11, 2002.

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

\$19,135,000 was issued on Commission Notes as follows:

\$6,360,000 is outstanding on Project Notes, 2002 Agency Fund Series A, dated June 24, 2002, and is due serially each May 1 through November 1, 2003, at 3.50%; and

\$12,775,000 is outstanding on Project Notes, 2002 General Fund Series A, dated June 24, 2002, and is due serially each May 1 through November 1, 2003, at 3.50%.

The Kentucky Housing Corporation reported \$2,525,000 in Notes Payable for the current portion of long-term debt/Notes Payable during Fiscal Year 2002. The Corporation has two uncollateralized lines of credit with commercial banks. One of the lines of credit is used only to preserve tax-exempt bond issuing capacity, and borrowings are usually expected to be repaid upon the next issuance of Housing Revenue Bonds. The line provides for borrowings up to \$6,500, bears interest at the federal funds rate plus 50 basis points and matures March 31, 2003.

The second line of credit is used only for the purchase of single-family mortgage loans and borrowings are repaid upon the next issuance of Housing Revenue Bonds. The line provides for borrowings up to \$30,000, bears interest at one-month LIBOR plus 20 basis points and matures March 1, 2004.

The Kentucky Lottery Corporation borrowed \$6,787,000 in December 1996 to fund renovation of real estate purchased to be used as new corporate headquarters. Monthly interest payments include 6.66% annual interest. Principal payments began in October 1997 and are due in 60 monthly installments. Current principal outstanding on the Note is \$339,000.

The University of Kentucky reported \$1,425,000 in Notes Payable as follows: Kentucky Technology, Incorporated has a \$1,425,000 note due 2003 at 2.0% annual interest. (See Note 8 to UK Research Foundation's audited financial statements.)

The University of Louisville reported \$7,467,000 in Notes Payable to the University of Louisville Foundation Inc. for the construction of Cardinal Park on an unsecured, non-interest bearing basis due upon receipt of pledges by the Association, and \$1,091,000 in Notes Payable for various other purposes .

Morehead State University had Notes Payable of \$680,000, which include \$600,000 in a 5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2010; and \$80,000 in a 5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2010.

Murray State University reported Notes Payable of \$1,683,765, including \$22,064 for the Ohio Valley Conference assessment program notes maturing in 2003 at 6.0%, \$5,220 in GE Capital Public Finance, Inc., notes maturing in 2002 at 5.86%, \$132,134 in Murray State University Foundation notes due in 2008 for various academic equipment and \$1,524,347 for various Masterlease notes payable.

Northern Kentucky University reported \$1,367,000 in Notes Payable for various installment purchase contracts to acquire property and equipment during fiscal year 2002.

Western Kentucky University reported Notes Payable of \$2,269,668 related to the payment of debt service on substantially all the University's residence halls, which have been transferred to the WKU Student Life Foundation, Inc.

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

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Future debt service requirements for aggregated Notes Payable at June 30, 2002, are as follows (Expressed in Thousands)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2003	\$ 11,840	\$ 3,297	\$ 15,137
2004	31,475	2,562	34,037
2005	12,875	1,697	14,572
2006	13,420	1,149	14,569
2007	5,830	547	6,377
2008-12	6,095	283	6,378
Total	<u>\$ 81,535</u>	<u>\$ 9,535</u>	<u>\$ 91,070</u>

Changes in long-term liabilities for the fiscal year ended June 30, 2002, are summarized as follows (Expressed in Thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>	<u>Due Thereafter</u>
Governmental Activities						
Compensated absences	\$ 242,720	\$ 164,284	\$ (163,205)	\$ 243,799	\$ 132,273	\$ 111,526
Capital leases	22,294	10,313	(7,895)	24,712	7,947	16,765
Claims liability	101,648	56,261	(44,520)	113,389	21,137	92,252
Obligations under security lending		25,000		25,000	25,000	
Long-term accounts payable		3		3	3	
Notes payable	73,875	19,135	(11,475)	81,535	11,840	69,695
Bonds payable	2,944,839	976,355	(516,148)	3,405,046	118,733	3,286,313
Unamortized premiums	17,221	44,824	(4,880)	57,165	8,185	48,980
Unamortized discounts	(48,310)	(4,798)	8,185	(44,923)	(4,879)	(40,044)
Deferred amount on refunding	9,012	(15,192)	(92)	(6,272)		(6,272)
Judgments and contingent liabilities	377,905	77,429	(106,230)	349,104	68,272	280,832
Unfunded employer pension contributions	77,731	502	(217)	78,016		78,016
Total Governmental Activities	<u>\$ 3,818,935</u>	<u>\$ 1,354,116</u>	<u>\$ (846,477)</u>	<u>\$ 4,326,574</u>	<u>\$ 388,511</u>	<u>\$ 3,938,063</u>
Business-Type Activities						
Compensated absences	\$ 8,280	\$ 3,687	\$ (3,461)	\$ 8,506	\$ 4,525	\$ 3,981
Capital leases	76	191	(84)	183	80	103
Claims and claims adjustment liability	1,359,758	136,240	(130,159)	1,365,839	136,544	1,229,295
Notes payable	1,697		(1,358)	339	339	
Prize liability	263,240		(10,419)	252,821	47,802	205,019
Judgments and contingent liabilities	511	127	(518)	120	18	102
Total Business-Type Activities	<u>\$ 1,633,562</u>	<u>\$ 140,245</u>	<u>\$ (145,999)</u>	<u>\$ 1,627,808</u>	<u>\$ 189,308</u>	<u>\$ 1,438,500</u>
Total Primary Government	<u>\$ 5,452,497</u>	<u>\$ 1,494,361</u>	<u>\$ (992,476)</u>	<u>\$ 5,954,382</u>	<u>\$ 577,819</u>	<u>\$ 5,376,563</u>
Component Units (Major)						
Compensated absences	\$ 10,005	\$ 16,590	\$ (7,215)	\$ 19,380	\$ 8,897	\$ 10,483
Capital leases	50,759	11,321	(8,865)	53,215	8,885	44,330
Notes payable	11,570	43,164	(42,226)	12,508	2,754	9,754
Bonds payable	2,291,844	539,058	(445,208)	2,385,694	94,061	2,291,633
Total Component Units	<u>\$ 2,364,178</u>	<u>\$ 610,133</u>	<u>\$ (503,514)</u>	<u>\$ 2,470,797</u>	<u>\$ 114,597</u>	<u>\$ 2,356,200</u>

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COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2002

Note 16

SEGMENT INFORMATION

Segment financial information for the Commonwealth's Non-Major Colleges and Universities and Non-Major Component Units - Authorities for the year June 30, 2002, is presented below (Expressed in Thousands):

CONDENSED STATEMENT OF NET ASSETS

	Non-Major Component Units-Colleges and Universities						Totals June 30,2002
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	
Assets							
Current assets	\$ 74,785	\$ 34,337	\$ 28,478	\$ 26,417	\$ 29,363	\$ 18,427	\$ 211,807
Capital assets	165,679	100,407	89,895	84,870	112,887	30,522	584,260
Other assets	7,051	81,791	47,292	83,657	31,987	23,022	274,800
Total Assets	<u>247,515</u>	<u>216,535</u>	<u>165,665</u>	<u>194,944</u>	<u>174,237</u>	<u>71,971</u>	<u>1,070,867</u>
Liabilities							
Capital lease obligations	910	539	689	158	970		3,266
Other liabilities	23,874	19,167	11,426	22,536	17,870	6,857	101,730
Noncurrent liabilities	72,458	52,976	37,831	25,574	51,803	12,945	253,587
Total Liabilities	<u>97,242</u>	<u>72,682</u>	<u>49,946</u>	<u>48,268</u>	<u>70,643</u>	<u>19,802</u>	<u>358,583</u>
Net Assets							
Investment in capital assets net of related debt	92,757	46,895	68,128	85,180	56,286	23,676	372,922
Restricted for:							
Debt service	8,016	3,982		3,646			15,644
Other purposes	37,791	76,921	30,981	41,936	31,728	28,189	247,546
Unrestricted	11,709	16,055	16,610	15,914	15,580	304	76,172
Total Net Assets	<u>\$ 150,273</u>	<u>\$ 143,853</u>	<u>\$ 115,719</u>	<u>\$ 146,676</u>	<u>\$ 103,594</u>	<u>\$ 52,169</u>	<u>\$ 712,284</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2002

CONDENSED STATEMENT OF NET ASSETS

(Expressed in Thousands):

	Non-Major Component Units- Authorities				Total June 30, 2002
	Kentucky School Facilities Construction Commission	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Local Correctional Facility	
Assets					
Current assets	\$ 1,506	\$ 22,166	\$ 148,388	\$ 17,338	\$ 189,398
Capital assets		10,236	50		10,286
Other assets	21,539	23,584	442,218	9,949	497,290
Total Assets	23,045	55,986	590,656	27,287	696,974
Liabilities					
Current liabilities	59,824	3,477	17,213	2,191	82,705
Noncurrent liabilities	554,482	8,240	208,118	30,587	801,427
Total Liabilities	614,306	11,717	225,331	32,778	884,132
Net Assets					
Investment in capital assets net of related debt		3,827	50		3,877
Unrestricted	(591,261)	40,442	365,275	(5,491)	(191,035)
Total Net Assets	\$ (591,261)	\$ 44,269	\$ 365,325	\$ (5,491)	\$ (187,158)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(Expressed in Thousands):

	Non-Major Component Units-Colleges and Universities						Total June 30, 2002
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	
Goods or services provided	Education	Education	Education	Education	Education	Education	
Operating Revenues:							
Charges for services	\$ 41,392	\$ 57,619	\$ 31,420	\$ 45,689	\$ 45,400	\$ 10,709	\$ 232,229
Operating grants and contributions	60,676	1,682	25,865	10,877	14,997	15,543	129,640
Capital grants and contributions	14,311				540	8,796	23,647
Total Operating Revenues	116,379	59,301	57,285	56,566	60,937	35,048	385,516
Operating Expenses:							
Operating and other expenses	170,411	165,992	97,254	107,599	95,930	49,201	686,387
Depreciation and amortization				6,145	4,622		10,767
Total Operating Expenses	170,411	165,992	97,254	113,744	100,552	49,201	697,154
Operating Income (Loss)	(54,032)	(106,691)	(39,969)	(57,178)	(39,615)	(14,153)	(311,638)
Nonoperating Revenues:							
(Expenses)	72,317	132,507	53,290	63,344	58,176	25,827	405,461
Net Income (Loss)	18,285	25,816	13,321	6,166	18,561	11,674	93,823
Change in Net Assets	18,285	25,816	13,321	6,166	18,561	11,674	93,823
Net Assets at July 1, as Restated	131,988	118,037	102,398	140,510	85,033	40,495	618,461
Net Assets at June 30	\$ 150,273	\$ 143,853	\$ 115,719	\$ 146,676	\$ 103,594	\$ 52,169	\$ 712,284

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COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2002

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(Expressed in Thousands):

	Non-Major Component Units- Authorities				Total June 30, 2002
	Kentucky School Facilities Construction Commission	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Local Correctional Facility	
Goods or services provided	School construction	Education improvements	Infrastructure projects	Jail facility improvement	
Operating Revenues:					
Charges for services	\$ 89,873	\$ 18,275	\$ 12,995	\$ 5,382	\$ 126,525
Operating grants and contributions	1,784	96,912	36,865	280	135,841
Total Operating Revenues	<u>91,657</u>	<u>115,187</u>	<u>49,860</u>	<u>5,662</u>	<u>262,366</u>
Operating Expenses:					
Operating and other expenses	<u>24,197</u>	<u>111,971</u>	<u>25,169</u>	<u>3,378</u>	<u>164,715</u>
Total operating expenses	<u>24,197</u>	<u>111,971</u>	<u>25,169</u>	<u>3,378</u>	<u>164,715</u>
Operating Income (Loss)	67,460	3,216	24,691	2,284	97,651
Nonoperating Revenues (Expenses)	(33,998)	687	14,665		(18,646)
Transfers:					
From component units		3,000			3,000
Change in Net Assets	<u>33,462</u>	<u>6,903</u>	<u>39,356</u>	<u>2,284</u>	<u>82,005</u>
Net Assets at July 1, as Restated	<u>(624,723)</u>	<u>37,366</u>	<u>325,969</u>	<u>(7,775)</u>	<u>(269,163)</u>
Net Assets at June 30	<u><u>\$(591,261)</u></u>	<u><u>\$ 44,269</u></u>	<u><u>\$ 365,325</u></u>	<u><u>\$(5,491)</u></u>	<u><u>\$(187,158)</u></u>

CONDENSED STATEMENT OF CASH FLOWS

(Expressed in Thousands):

	Non-Major Component Units- Colleges and Universities			
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University
Net cash provided (used) by:				
Operating activities	\$ (55,399)	\$ (81,255)	\$ (34,208)	\$ (50,775)
Noncapital financing activities	68,587	89,224	43,747	58,003
Capital and related financing activities	(9,036)	27,077	(3,379)	(1,410)
Investing activities	<u>1,642</u>	<u>1,496</u>	<u>(3,156)</u>	<u>1,605</u>
Net Increase (Decrease)	5,794	36,542	3,004	7,423
Beginning Cash and Cash Equivalent Balances	<u>34,255</u>	<u>48,220</u>	<u>16,901</u>	<u>32,798</u>
Ending Cash and Cash Equivalent Balances	<u><u>\$ 40,049</u></u>	<u><u>\$ 84,762</u></u>	<u><u>\$ 19,905</u></u>	<u><u>\$ 40,221</u></u>

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June 30, 2002

CONDENSED STATEMENT OF CASH FLOWS
(Expressed in Thousands):

	Non-Major Component Units- Authorities				Total June 30, 2002
	Kentucky School Facilities Construction Commission	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Local Correctional Facility	
Net cash provided (used) by:					
Operating activities	\$ 39,717	\$ 5,038	\$ (11,610)	\$ 4,106	\$ 37,251
Noncapital financing activities		(3,086)	88,703		85,617
Capital and related financing activities	(43,674)	(9,176)		(3,541)	(56,391)
Investing activities	1,167	(5,698)	(69,171)	339	(73,363)
Net Increase (Decrease)	(2,790)	(12,922)	7,922	904	(6,886)
Beginning Cash and Cash Equivalent Balances	4,296	20,907	116,586	17,718	159,507
Ending Cash and Cash Equivalent Balances	\$ 1,506	\$ 7,985	\$ 124,508	\$ 18,622	\$ 152,621

Northern Kentucky University	Kentucky State University	Total June 30, 2002
\$ (33,128)	\$ (17,542)	\$ (272,307)
44,970	23,521	328,052
(6,225)	348	7,375
2,718	(2,423)	1,882
8,335	3,904	65,002
41,519	1,915	175,608
\$ 49,854	\$ 5,819	\$ 240,610

Note 17

COMMITMENTS AND CONTINGENCIES

Litigation - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities or may impair future revenue sources or may require the refund of prior collections. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the Commonwealth.

Judgments and Contingencies – A claim is a suit that has been filed but there has been no decision rendered by the court systems. Amounts reported include claims made against the Commonwealth during the period preceding June 30 of the current fiscal year. Claims are classified according to their chance of occurrence as either remote, possible, or probable. Claims are further classified as payable within one year, within future periods, or a combination of the two periods.

A judgment is any amount that is to be repaid as the result of a court decision or an award for the condemnation of private property. Reasons for such amounts also arise from employment, contracts, and government involvement of personnel or property. The General Fund, the Agency Revenue Fund, the Transportation Fund, and the State Parks Fund generally pay claims and judgments. These amounts are classified as either payable within one year, in future periods, or a combination of the two periods if they remain unpaid after June 30 of the current fiscal year.

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice

to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2002 and 2001 amounted to \$72.8 million and \$65.6 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences – Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2002, the estimated liability for annual and compensatory leave was \$243,799,008 for the governmental funds, and \$8,505,892 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$19,380,000 at June 30, 2002.

Sick Leave - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability for sick leave at June 30, 2002. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was \$336,241,291 and \$21,680,035 respectively.

Construction Projects - The Transportation Cabinet, at June 30, 2002, had contractual commitments of approximately \$829,146,183 for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 46 percent State funds, 48 percent Federal funds, and the remaining 6 percent with proceeds from the sale of revenue bonds.

Deferred Revenue – Deferred revenue may result from the recognition of assets before the earnings process is complete (unearned revenue), or if using the modified accrual basis of accounting, deferred revenue may represent unavailable revenues. "Unavailable" means that the assets are not available to finance expenditures of the current fiscal

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2002

period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

Note 18

SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2002, and prior to December 20, 2002, and reported other subsequent events for the same period, as described below.

The Kentucky Economic Development Finance Authority established during the 2000 Regular Session of the Kentucky General Assembly. House Bill No. 572 created the Office of the Commissioner for the New Economy within the Cabinet for Economic Development. House Bill No. 572 also created a High-Tech Construction Pool and a High Tech Investment pool which were funded by the Authority in the amount of \$20,000,000 each. The duties of the Office of the Commissioner for the New Economy include the recommendation of projects to the Authority for approval and funding through the High-Tech Construction and Investment Pools. Funding for the operation of the Office consists of the interest earned on the balances in the High-Tech Construction and Investment Pools.

In August 2002, the Authority's Committee Members approved a loan for an amount up to \$10,950,000 to Hardin County, Kentucky to help finance the purchase of an approximately 1,600 acre tract of land for future industrial development. Hardin County and the Elizabethtown-Hardin County Industrial Foundation, Inc. along with the Kentucky Cabinet for Economic Development intend to market this property in order to attract a major manufacturing facility. The Cabinet and the Authority along with legislative approval of the Kentucky General Assembly shall have the right to approve the sale or transfer of the property to any such major manufacturing facility.

The non-interest bearing loan was approved for a term of ten years. Collateral for the loan is a first mortgage on the property. No payments are due on the loan unless Hardin County sells the property. There exists the possibility that the loan may be forgiven if a suitable major manufacturer that could create a significant number of jobs decides to locate its facility in Hardin County.

The Kentucky Asset/Liability Commission issued \$500,000,000 new and previously authorized Notes, including:

\$250,000,000, General Fund Tax and Revenue Anticipation Notes, 2002 Series A, dated November 1, 2002, were issued. The proceeds will be used to discharge expenditure demands on the General Fund of the Commonwealth for the fiscal year ending June 30, 2002, in

anticipation of taxes and revenues to be collected during Fiscal Year 2003. The Notes are due June 26, 2003, at 2.75%; and

\$200,000,000, General Fund Tax and Revenue Anticipation Notes, 2002 Series B, dated November 1, 2002, were issued. The proceeds will be used to discharge expenditure demands on the General Fund of the Commonwealth for the fiscal year ending June 30, 2002, in anticipation of taxes and revenues to be collected during Fiscal Year 2003. The Notes are due June 26, 2003, at 100% of BMA Index plus 0.15%; and

\$50,000,000, General Fund Tax and Revenue Anticipation Notes, 2002 Series C, dated November 1, 2002, were issued. The proceeds will be used to discharge expenditure demands on the General Fund of the Commonwealth for the fiscal year ending June 30, 2002, in anticipation of taxes and revenues to be collected during Fiscal Year 2003. The Notes are due June 26, 2003, at 90% of LIBOR.

The Kentucky Housing Corporation issued Housing Revenue Bonds in the aggregate principal amount of \$40,000,000 to continue the Corporation's program of purchasing qualified mortgage loans made to eligible borrowers to finance owner occupied single family residences as more fully described in the Official Statement dated October 24, 2002. The Bonds were issued as follows:

\$40,000,000, Housing Revenue Bonds, Series E (AMT), dated October 24, 2002, \$4,175,000 biannually due each July 1 and January 1, through July 1, 2014 at 1.60% to 4.10% interest; \$3,220,000 term bond due July 1, 2017 at 4.55%; \$5,160,000 term bond due July 1, 2021, at 4.90%; \$9,125,000 term bond due January 1, 2027, at 4.95%; \$2,450,000 term bond due July 1, 2032 at 5.05%; \$11,085,000 term bond due January 1, 2033 at 5.05%.

The Kentucky Higher Education Assistance Authority was established in 1966 as the Commonwealth of Kentucky's agency for improving higher education opportunities by insuring eligible student loans and providing other financial aid and related services to eligible students.

In November 1978, the Authority commenced guaranteeing student loans as the designated guarantee agency for Kentucky pursuant to the Federal Higher Education Act of 1967, as amended. On July 1, 1996, the Authority was designated by the United States Department of Education (U.S.D.E.) as the guarantee agency for Alabama. As such, the Authority is responsible for issuing loan insurance, providing assistance to lenders and lender service, paying lender claims for loans and collecting defaulted loans on which claims have been paid.

In February 1997, the U.S.D.E., Office of the Inspector General, issued a final audit report which included a finding that the Authority had retained excess collection costs on post-default payments

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related to consolidation loans for the period June 1993 through September 1996. According to the U.S.D.E., the Authority should have retained 18.5% of the collections, versus the 27% allowable for other default collections.

The finding was disputed and, in September 1997, the Authority was notified that the Secretary of Education would forego enforcing audit exceptions on guarantors who retained 27% versus 18.5% on those collections prior to December 1995. However, the U.S.D.E. would continue to require agencies to return excess collection costs on consolidation payoffs after that date.

For loans made on or after October 1, 1998, the reinsurance rate will be 95%. In the event of future adverse default experience, the Authority could be liable for up to 25% of such defaulted loans.

While management believes the FSLRF's expected maximum contingent liability is less than 25% of outstanding guaranteed loans, the maximum contingent liability at June 30, 2002, is computed as follows:

Amount of guaranteed student loans outstanding at financial Institutions.	\$ 2,336,677,000
Less minimum federal government share – 75%	1,752,508,000
	<u>\$ 584,169,000</u>

The Kentucky Higher Education Student Loan Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by a seven member board of directors consisting of the Chairman of the Council on Higher Education, the Secretary of the Finance and Administration Cabinet, the Chairman of the Kentucky Higher Education Assistance Authority, and four members chosen from the general public.

The Corporation is limited to a maximum principal outstanding of \$533 million.

The corporation has entered into loan purchase contracts with various eligible lenders. Subject to the terms and conditions of these agreements, the Corporation on June 30, 2002, had plans to purchase approximately \$91 million of loans. These contracts cannot be terminated by either party.

On July 18, 2002, the Governor of the Commonwealth of Kentucky issued Executive Order No 2002-48. The Executive Order had the effect of making the membership of the KHESLC Board and the Authority's Board the same. For the year ended June 30, 2003

KHESLC will be considered a component unit of the Authority as a result of the changes that resulted from the Executive Order.

On July 25, 2002, the Corporation received an additional \$27,580,012 allocation from the Kentucky Private Activity Bond Allocation Committee. This will enable the Corporation to issue additional tax-exempt debt by December 2002 or to carryover for use in early 2003.

On September 27, 2002, the Corporation and Bank of America agreed to extend the Line of Credit Agreement through December 31, 2003.

Kentucky Infrastructure Authority issued \$16,875,000 Composite Issue Revenue Refunding Bonds, 2002 Series for the purpose of (1) providing moneys to refund certain outstanding bonds issued to finance the Authority's wastewater revolving fund, infrastructure revolving fund and solid waste revolving fund programs and (2) paying costs of issuance, each as described in the Official Statement dated October 1, 2002, as follows:

\$11,770,000 Series H, Wastewater Revolving Fund Program Revenue Refunding Bonds, maturing serially each June 1 through 2015, interest due biennially each June 1 and December 1, at 2.00% to 5.00%; \$275,000 Series N, Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing on June 1, 2003 and June 1, 2004 at 2.00%; \$290,000 Series OT, Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing each June 1, 2003 and June 1, 2004, at 2.25% to 2.75%; \$3,865,000 Series O (AMT), Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing each June 1, beginning June 1, 2004 through 2012, at 2.00% to 4.00%; \$675,000, Series F, Solid Waste Revolving Fund Program Revenue Refunding Bonds, maturing each June 1 through 2015, at 2.00% to 5.00%.

The authority also issued \$13,420,000 in Revenue and Revenue Refunding Bonds, 2002 Series K, dated December 19, 2002. The bonds mature each August 1, 2003 through 2022 and bear interest rates from 2.50% to 5.00%. \$5,632,436 will finance new water system projects and \$7,684,395 of the net proceeds will refund 1991 Series D and 1993 Series E bonds.

Eastern Kentucky University has a self-insured health insurance plan. Under this plan, the University pays premiums based on estimated claims and has catastrophe insurance that covers claims in excess of 125% of estimated claims. The University has made a non-discretionary allocation to the healthcare self-insurance reserve, which is the estimated difference between the premiums and the catastrophe insurance coverage, in the current funds.

University of Louisville has been named as defendant in several lawsuits, including several actions initiated by patients involving alleged malpractice. It is the opinion of management and its legal counsel, based in part on the doctrine of sovereign immunity,

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commercial insurance coverages and other statutory provisions, that the ultimate outcome of litigation will not have a material effect on the future operations or financial position of the University beyond the amounts already provided.

Morehead State University has made certain commitments related to the completion of various construction in progress totaling approximately \$9,000,000.

Northern Kentucky University entered into a facilities lease, commencing July 1, 2002, to lease a new student housing facility for biennial terms renewable until final termination on December 1, 2027, or as provided in the lease. Title to the housing facility will transfer to the University upon termination of facilities lease. The future minimum lease payments are to be paid from revenues of the leased facility on parity with the current student housing facilities lease entered into on April 22, 1998. For accounting purposes, the facilities lease represents a capital lease with imputed interest rates ranging from 1.6 percent to 5.1 percent. The present value of the future minimum lease payments for the new housing facility is \$15,205,000.

Western Kentucky University has issued \$6,110,000, in Consolidated Educational Buildings Refunding Revenue Bonds, Series N, dated September 1, 2002, maturing serially each May 1, 2003 through 2012, at 2.0% to 3.375% interest.

Kentucky School Facilities Construction Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2002, and maturing as to principal through 2018 is displayed in the spreadsheet on the next page.

Note to Subsequent Events: Pursuant to Rule 15c2-12 and various Continuing Disclosure Agreements on October 9, 2002, the Commonwealth of Kentucky provided Notice of a Material Event, which includes a rating change of bonds issued by certain entities of the Commonwealth. The state issuers affected include the Kentucky State Property and Buildings Commission (“SPBC”), Kentucky Infrastructure Authority (“KIA”), Turnpike Authority of Kentucky (“TAK”), Kentucky Asset/Liability Commission (“ALCo”), and in general, Kentucky’s issuer credit rating (“ICR”).

Kentucky’s issuer credit rating is lowered to ‘AA-’ from ‘AA’ and removed from CreditWatch with negative implications, where it was placed on June 7, 2002. Kentucky Infrastructure Authority’s bonds secured by appropriations from the commonwealth, are rated ‘A+’, and the commonwealth’s outstanding lease obligation debt is lowered to ‘A+’ from ‘AA-’. Bonds secured by the commonwealth’s moral obligation pledge are lowered to ‘A-’ from ‘A’. The ratings on the currently outstanding bonds are removed from CreditWatch and are assigned stable outlooks.

Jonathan Miller, Treasurer v. T. Kevin Flanery, Secretary, Finance and Administration Cabinet – Franklin Circuit Court, Case No. 02-CI-00855 – Treasurer Miller filed this declaratory judgment action seeking a determination of his rights and responsibilities in the absence of an appropriation by the General Assembly to pay claims or withdraw money from the State Treasury on behalf of the Commonwealth in accordance with the June 26, 2002, Executive Order issued by the Governor following the General Assembly’s failure to pass a state budget for the fiscal year beginning July 1, 2002. The Administrative Office of the Courts, the Kentucky Retirement System and Senator David Williams have all intervened in the case. The case does not seek monetary relief against the Cabinet. However, a declaration that some or all of the provisions of the Executive Spending Plan are unconstitutional could have a serious negative impact on the Commonwealth’s budget.

House Bill 614 passed by the 2002 General Assembly provided for the creation of a tax amnesty program. The Kentucky Revenue Cabinet instituted the program for a two-month period beginning August 1, and terminating September 30, 2002.

The original estimate of revenues to be generated by the amnesty program was \$20 million dollars. It is estimated that the program generated over \$35 million in new revenue and accelerated the collection process of other receivables.

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<u>School District</u>	<u>Sale Date</u>	<u>Principal at Issue</u>	<u>State Share</u>	<u>Interest Rates</u>
Anderson County	10/02/02	\$ 6,205,000	\$ 625,396	1.25%-3.50%
Boone County	09/24/02	13,925,000	1,968,989	1.43%-4.05%
Bourbon County	08/22/02	2,495,000	283,668	1.35%-3.75%
Fulton County	08/29/02	1,520,000	149,998	3.75%-3.75%
Grant County	07/16/02	985,000	217,156	1.45%-3.75%
Hardin County	09/10/02	2,915,000	1,238,696	1.25%-3.20%
Harlan County	09/18/02	2,850,000	1,753,512	1.30%-3.55%
Harrodsburg Independent	08/29/02	1,670,000	668,691	1.40%-3.80%
Hopkins County, Series 2002A	09/18/02	2,625,000	1,982,619	1.50%-3.45%
Hopkins County, Series 2002B	09/18/02	2,915,000	1,218,440	1.50%-3.45%
Knott County	08/28/02	1,820,000	949,522	1.25%-3.85%
Jessamine County	08/15/02	3,290,000	534,195	1.20%-2.25%
Marion County	07/31/02	3,490,000	2,039,148	1.50%-3.85%
McLean County	08/14/02	3,370,000	1,240,683	1.35%-3.80%
Pineville Independent	08/01/02	1,270,000	162,630	1.50%-3.85%
Somerset Independent	08/27/02	1,160,000	353,789	1.45%-4.00%
		<u>\$ 52,505,000</u>	<u>\$ 15,387,132</u>	

Audited financial statements may be requested at the following addresses:

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

Turnpike Authority of Kentucky
 Room 92, Capitol Annex Building
 Frankfort, Kentucky 40601

Kentucky Transportation Cabinet
 501 High Street
 Room 808
 Frankfort, Kentucky 40622

Kentucky Center for the Arts Corporation
 5 Riverfront Plaza
 Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority
 Capital Plaza Tower
 500 Mero Street
 Frankfort, Kentucky 40601

Kentucky Higher Education Student Loan Corporation
 10180 Linn Station Road
 P.O. Box 24266
 Louisville, Kentucky 40224-0266

Kentucky Housing Corporation
 1231 Louisville Road
 Frankfort, Kentucky 40601

Kentucky Retirement Systems
 Perimeter Park West
 1260 Louisville Road
 Frankfort, Kentucky 40601

Teachers' Retirement System
 479 Versailles Road
 Frankfort, Kentucky 40601

University of Louisville
 2301 South 3rd Street
 108 Grawemeyer Hall
 Louisville, Kentucky 40292

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2002

Western Kentucky University
Vice President for Finance and Administration
1 Big Red Way
Bowling Green, Kentucky 42101-3576

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

Kentucky Lottery Corporation
1011 West Main Street
Louisville, Kentucky 40202-2623

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Educational Savings Plan Trust
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority
375 Versailles Rd.
Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority
Suite 261 Capitol Annex
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System
P.O. Box 791
Frankfort, Kentucky 40602

Kentucky Horse Park
4089 Iron Works Parkway
Lexington, Kentucky 40511

University of Kentucky
301 Peterson Service Building
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

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

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

Kentucky Community and Technical College System
PO Box 14092
2760 Research Park Drive
Convention Building
Lexington, Kentucky 40512-4092

KAPT Treasury Department
Capitol Annex, Suite 183
Frankfort, Kentucky 40601

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

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort, Kentucky 40601

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REQUIRED SUPPLEMENTARY INFORMATION

**COMMONWEALTH OF KENTUCKY
 COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2002
 (Expressed in Thousands)**

	General Fund			
	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Budgeted:				
Taxes	\$ 6,620,300	\$ 6,443,700	\$ 6,282,519	\$ (161,181)
Licenses, fees, and permits	24,300	24,400	25,202	802
Intergovernmental	6,200	6,200	7,004	804
Charges for services	2,900	2,900	6,348	3,448
Fines and forfeits	44,200	44,200	44,754	554
Interest and other investment income	15,800	7,900	13,343	5,443
Lottery proceeds	156,000	169,000	169,000	
Other revenues	17,300	17,200	144,824	127,624
Transfers in				
Total Budgeted Revenues	<u>6,887,000</u>	<u>6,715,500</u>	<u>6,692,994</u>	<u>(22,506)</u>
Non-Budgeted				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Employer contributions				
Other revenues				
Escheat				
Transfers in (interfund)			125,501	125,501
Transfers in (intrafund)				
Total Non-Budgeted Revenues			<u>125,501</u>	<u>125,501</u>
Total Revenues	<u>6,887,000</u>	<u>6,715,500</u>	<u>6,818,495</u>	<u>102,995</u>
Expenditures				
General government	2,091,716	1,951,483	1,841,241	110,242
Legislative and judicial	265,271	260,942	228,817	32,125
Commerce	61,054	59,232	52,303	6,929
Education and humanities	3,034,260	2,942,110	2,939,171	2,939
Human resources	1,392,967	1,407,685	1,402,678	5,007
Justice	506,176	488,191	483,458	4,733
Natural resources and environmental protection	62,415	66,942	66,922	20
Public protection and regulation	75,589	60,048	58,294	1,754
Transportation	10,639	9,417	7,742	1,675
Total Expenditures	<u>7,500,087</u>	<u>7,246,050</u>	<u>7,080,626</u>	<u>165,424</u>
Excess of Revenues over (under) Expenditures	<u>(613,087)</u>	<u>(530,550)</u>	<u>(262,131)</u>	<u>268,419</u>
Other Financing Sources (Uses)				
Proceeds from sale of bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(613,087)	(530,550)	(262,131)	268,419
Fund Balance at July 1, as Restated		395,979	395,979	
Non-Budgeted Items			306	306
Fund Balance at June 30	<u>\$ (613,087)</u>	<u>\$ (134,571)</u>	<u>\$ 134,154</u>	<u>\$ 268,725</u>

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

**COMMONWEALTH OF KENTUCKY
 COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2002
 (Expressed in Thousands)**

	Agency Revenue Fund			
	Budgeted Amounts		Actual	Variance
	Original	Final		
Revenues				
Budgeted:				
Taxes	\$	\$	\$	\$
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Lottery proceeds				
Other revenues				
Transfers in				
Total Budgeted Revenues				
Non-Budgeted				
Taxes			179,200	
Licenses, fees, and permits			107,123	
Intergovernmental			26,828	
Charges for services			1,732,340	
Fines and forfeits			3,029	
Interest and other investment income			32,653	
Employer contributions			2	
Other revenues			278,983	
Escheat			91	
Transfers in (interfund)			455,107	
Transfers in (intrafund)			1,062,370	
Total Non-Budgeted Revenues			3,877,726	
Total Revenues			3,877,726	
Expenditures				
General government	2,091,346	2,151,620	1,455,666	695,954
Legislative and judicial	14,908	17,193	6,628	10,565
Commerce	31,570	33,438	31,053	2,385
Education and humanities	58,306	76,805	53,826	22,979
Human resources	515,759	778,555	729,106	49,449
Justice	63,156	69,905	61,324	8,581
Natural resources and environmental protection	34,757	37,641	23,703	13,938
Public protection and regulation	74,173	80,023	65,799	14,224
Transportation	291,548	314,951	104,369	210,582
Total Expenditures	3,175,523	3,560,131	2,531,474	1,028,657
Excess of Revenues over (under) Expenditures			1,346,252	
Other Financing Sources (Uses)				
Proceeds from sale of bonds			2,207	
Total Other Financing Sources (Uses)			2,207	
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses			1,348,459	
Fund Balance At July 1, As Restated			680,654	
Non-Budgeted Items			(1,257,050)	
Fund Balance At June 30	\$	\$	\$ 772,063	\$

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

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COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Budgeted:				
Taxes	\$ 6,620,300	\$ 6,443,700	\$ 6,282,519	\$ (161,181)
Licenses, fees, and permits	24,300	24,400	25,202	802
Intergovernmental	6,200	6,200	7,004	804
Charges for services	2,900	2,900	6,348	3,448
Fines and forfeits	44,200	44,200	44,754	554
Interest and other investment income	15,800	7,900	13,343	5,443
Lottery proceeds	156,000	169,000	169,000	
Other revenues	17,300	17,200	144,824	127,624
Total Budgeted Revenues	<u>6,887,000</u>	<u>6,715,500</u>	<u>6,692,994</u>	<u>(22,506)</u>
Non-Budgeted:				
Other revenues				
Transfers in (interfund)			125,501	125,501
Total Non-Budgeted Revenues			<u>125,501</u>	<u>125,501</u>
Total Revenues	<u>6,887,000</u>	<u>6,715,500</u>	<u>6,818,495</u>	<u>102,995</u>
Expenditures				
Cabinet of the General Government:				
Governor's Office	8,521	8,072	7,788	284
Department of Veterans Affairs	14,140	12,595	12,594	1
Governor's Office for Policy and Management	4,308	3,719	3,646	73
State Planning Fund	600	490	293	197
Unified Prosecutorial System: Commonwealth Attorneys	23,503	23,083	23,083	
County Attorneys	21,084	20,664	20,664	
Department of Agriculture	21,249	20,134	20,133	1
Office of the Attorney General	13,751	13,092	13,062	30
Auditor of Public Accounts	5,980	5,669	5,669	
Registry of Election Finance	1,557	1,475	1,415	60
Department of Military Affairs	11,270	16,471	16,430	41
Department of Local Government	12,189	11,935	11,935	
Local Government: Economic Assistance Fund	28,996	35,986	35,986	
Economic Development Fund	36,709	41,039	41,039	
Area Development Fund	1,000	831	831	
Secretary of State - General Operations	2,491	2,360	2,210	150
Department of the Treasury	2,402	2,276	2,075	201
Board of Elections	3,946	2,887	2,730	157
Personnel Board	596	579	513	66
School Facilities Construction Commission	79,031	75,318	75,299	19
Executive Branch Ethics Commission	310	310	310	
Commission on Human Rights	2,088	1,978	1,975	3
Commission on Women	270	270	270	
Council on Postsecondary Education	126,558	129,141	129,134	7
Education Professional Standards Board	12,451	11,852	11,209	643
Emergency Medical Services Board	2,707	2,571	2,495	76
Office of CIO	1,267	1,267	1,267	
Personnel Cabinet: General Operations	3,920	3,805	3,794	11

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Cabinet for Universities:				
Eastern Kentucky University	\$ 72,435	\$ 69,933	\$ 69,450	\$ 483
Kentucky State University	22,718	22,262	22,190	72
Morehead State University	41,031	40,160	39,903	257
Murray State University	50,737	49,637	49,637	
Northern Kentucky University	44,613	43,689	43,303	386
University of Kentucky	322,210	303,913	303,652	261
University of Louisville	179,635	172,561	172,337	224
Western Kentucky University	67,702	66,266	66,137	129
Kentucky Community and Technical College System	185,689	178,789	178,574	215
Revenue Cabinet: General Operations				
Office of Property Valuation Administrators	67,177	63,637	62,880	757
	26,369	25,507	25,506	1
Finance and Administration Cabinet				
Office of the Secretary	5,613	5,732	5,372	360
Debt Service	244,703	169,653	131,362	38,291
Office of the Controller	6,825	6,126	6,112	14
Department for Administration	3,789	3,590	3,590	
Department for Facilities Management	8,822	8,436	8,435	1
Kentucky Higher Education Assistance Authority	54,377	59,496	51,800	7,696
Special Accounts - Tobacco Settlement	121,600	90,822	90,822	
County Costs	20,881	20,881	18,813	2,068
Appropriations Not Otherwise Classified:				
Judgments	96,845			
Board of Claims Awards	600	600	401	199
Guardian Ad Litem	2,000	3,350	3,350	
Court Ordered Tax Refunds		91,720	35,689	56,031
Prior Year Claims	400	1,036	638	398
Unredeemed Checks Refunded	500	1,508	1,441	67
Involuntary Commitments	50	50	50	
Blanket Employee Bonds		100	70	30
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	250	250	100	150
Master Commissioner Employers Retirement	264	264	262	2
Master Commissioner Social Security	226	285	285	
Workers' Compensation	288	288	286	2
Attorney General Expense	225	725	627	98
Medical Malpractice Liability Insurance Reimbursements	50	150	120	30
Total General Government	2,091,716	1,951,483	1,841,241	110,242
Legislative and Judicial:				
General Assembly	25,853	23,825	12,711	11,114
Legislative Research Commission	33,908	33,908	26,799	7,109
Judicial Retirement System	4,214	4,213	4,213	
Court of Justice - Court Facility Use		533		533
Court of Justice - Operation and Administration	152,051	143,132	143,132	
Court of Justice - Local Facility Support	49,245	55,331	41,962	13,369
Total Legislative and Judicial	265,271	260,942	228,817	32,125

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Commerce:				
Economic Development Cabinet:				
Office of the Secretary	\$ 4,392	\$ 1,644	\$ 1,580	\$ 64
Administration and Support	3,199	2,176	2,053	123
Job Development	3,572	2,539	2,401	138
Financial Incentives	4,693	10,483	4,056	6,427
Community and Business Development	4,068	2,829	2,730	99
Debt Service	1,006	612	612	
Tourism Cabinet: Office of the Secretary	1,873	1,491	1,413	78
Breaks Interstate Park	250	200	200	
Travel Development	7,427	7,040	7,040	
Kentucky State Fair Board	407	407	407	
Kentucky Horse Park	1,681	1,893	1,893	
Department of Parks	28,486	27,918	27,918	
Total Commerce	<u>61,054</u>	<u>59,232</u>	<u>52,303</u>	<u>6,929</u>
Education, Arts and Humanities Cabinet:				
Office of the Secretary	3,251	3,211	3,186	25
Commission on Deaf and Hard of Hearing	899	849	849	
Kentucky Heritage Council	978	924	924	
Kentucky Arts Council	4,895	4,626	4,626	
Department of Education:				
Support Education Excellence In KY (SEEK)	2,236,811	2,202,154	2,202,154	
Executive Policy and Management	658	644	644	
Management Support Services	11,911	11,086	10,893	193
Learning Results Services	599,785	547,175	544,743	2,432
Kentucky Education Television	17,063	16,211	16,211	
Kentucky Historical Society	6,503	6,145	6,145	
Kentucky Center for the Arts	656	620	619	1
Libraries and Archives - Direct Local Aid	6,675	6,323	6,313	10
Libraries and Archives - General Operations	7,663	7,240	7,111	129
Teachers' Retirement System	82,222	82,222	82,222	
Workforce Development Cabinet- Office of the Secretary:				
Administration and Program Support	2,695	1,855	1,855	
Teacher Retirement Employer Contribution Match	4,751	4,656	4,656	
Workforce Development Cabinet:				
Department for the Blind	1,739	1,643	1,633	10
Department of Employment Services	628	584	584	
Board for Adult and Technical Education	32			
Department for Technical Education	21,925	22,335	22,324	11
Department for Adult Education & Literacy	11,360	11,134	11,033	101
Department of Vocational Rehabilitation	11,160	10,473	10,446	27
Total Education and Humanities	<u>3,034,260</u>	<u>2,942,110</u>	<u>2,939,171</u>	<u>2,939</u>
Human Resources:				
Cabinet for Families and Children:				
Administrative Services	31,231	31,231	28,881	2,350
Office of Family Resources and Youth Services Centers		51,790	50,956	834
Community Based Services	291,008	282,409	281,308	1,101
Cabinet for Health Services:				
Administrative Support	4,619	4,308	4,308	
Office of the Inspector General	5,733	5,618	5,618	
Department of Public Health	63,138	58,235	57,535	700
Department for Mental Health and Mental Retardation	182,905	169,341	169,319	22
Department for Medicaid Services	18,080	17,718	17,718	
Medicaid Services Benefits	764,493	749,203	749,203	
Commission for Children With Special Health Care Needs	6,176	13,010	13,010	
Office of Aging Services	25,584	24,822	24,822	
Total Human Resources	<u>1,392,967</u>	<u>1,407,685</u>	<u>1,402,678</u>	<u>5,007</u>

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Justice Cabinet:				
Justice - Administration	\$ 8,033	\$ 7,702	\$ 7,700	\$ 2
Department of State Police	89,633	85,846	82,845	3,001
Department of Juvenile Justice	92,568	86,475	85,175	1,300
Department of Corrections:				
Management	26,460	25,573	25,573	
Adult Institutions	193,614	184,130	184,130	
Local Jail Allotment	15,596	15,596	15,165	431
Community Services and Local Facilities	80,272	82,869	82,870	(1)
Total Justice	506,176	488,191	483,458	4,733
Natural Resources and Environmental Protection Cabinet:				
Office of the Secretary	9,656	9,463	9,463	
Kentucky River Authority	543	535	515	20
Environmental Quality Commission	258	253	253	
Kentucky Nature Preserves Commission	932	913	913	
Department for Environmental Protection	24,530	23,894	23,894	
Department for Natural Resources	15,741	21,494	21,494	
Department for Surface Mining Reclamation and Enforcement	10,755	10,390	10,390	
Total Natural Resources and Environmental Protection	62,415	66,942	66,922	20
Public Protection and Regulation Cabinet:				
Office of the Secretary				
Board of Claims and Crime Victims Compensation	623	623	572	51
Board of Tax Appeals	468	468	445	23
Kentucky Racing Commission	423	423	423	
Public Service Commission	12,455	12,087	10,577	1,510
Department - for Public Advocacy	24,821	24,067	24,067	
of Alcoholic Beverage Control	1,442	1,413	1,413	
of Housing, Buildings, and Construction	3,804	3,804	3,796	8
for Mines and Minerals	9,913	9,913	9,913	
Labor Cabinet - Office of the Secretary	559	439	378	61
Department of Workplace Standards	2,081	2,061	1,960	101
Workers Compensation Funding Commission	19,000	4,750	4,750	
Total Public Protection and Regulation	75,589	60,048	58,294	1,754
Transportation Cabinet:				
Air	958	836	439	397
Rail	78	78	78	
Public	9,603	8,503	7,225	1,278
Total Transportation	10,639	9,417	7,742	1,675
Total Expenditures	7,500,087	7,246,050	7,080,626	165,424
Excess of Revenues Over (Under) Expenditures	(613,087)	(530,550)	(262,131)	268,419
Fund Balance at July 1, as Restated		395,979	395,979	
Non-Budgeted Items			306	306
Fund Balance at June 30	\$ (613,087)	\$ (134,571)	\$ 134,154	\$ 268,725

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 922,827	\$ 938,595	\$ 950,847	\$ 12,252
Licenses, fees, and permits	112,646	103,137	109,615	6,478
Charges for services	22,605	21,505	23,213	1,708
Fines and forfeits	40	8	5	(3)
Interest and other investment income	19,000	23,700	32,952	9,252
Other revenues	664	2,555	2,205	(350)
Total Budgeted Revenues	<u>1,077,782</u>	<u>1,089,500</u>	<u>1,118,837</u>	<u>29,337</u>
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental			168	168
Charges for services				
Fines and forfeits				
Interest and other investment income				
Employer contributions				
Other revenues				
Escheat				
Transfers in (interfund)			1,967	1,967
Transfers in (intrafund)				
Total Non-Budgeted Revenue			<u>2,135</u>	<u>2,135</u>
Total Revenues	<u>1,077,782</u>	<u>1,089,500</u>	<u>1,120,972</u>	<u>31,472</u>
Expenditures				
Cabinet of the General Government:				
Governor's Office				
Kentucky Infrastructure Authority				
Governor's Office for Policy and Management				
Governor's Office for Technology	125	125	42	83
Department of Veterans Affairs				
Commission of Small Business Advocacy				
Unified Prosecutorial System: Commonwealth Attorneys				
County Attorneys				
Department of Agriculture				
Office of the Attorney General				
Auditor of Public Accounts				
Registry of Election Finance				
Department of Military Affairs				
Kentucky Retirement Systems				
Agricultural Development: Statewide Phase				
Local Government: Development Districts				
Secretary of State and Treasury				
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Dentistry				
Dietitians and Nutritionists				
Elections				
Embalmers and Funeral Home Directors				
Education Professional Standards				
Examiners and Registration of Architects				
Examiners and Registration of				
Landscape Architects				
Examiners of Psychologists				
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Licensing Hearing Aid Dealers & Fitters				
Proprietary Education				
Licensure for Nursing Home Administrators				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
						179,200	
		2				107,123	
		4,747,711				26,828	
		402				1,732,340	
						3,029	
		446				32,653	
						2	
		67,691				278,983	
						91	
		10,241				455,107	
		3,690				1,062,370	
		4,830,183				3,877,726	
		4,830,183				3,877,726	
262	683	320	363	950	1,962	1,401	561
50,197	50,312	1,074	49,238	603	6,514	2,030	4,484
				963	1,463	424	1,039
				1,350	2,648	1,268	1,380
				16,358	16,358	11,854	4,504
				221	221	110	111
608	668	498	170	180	409	337	72
264	384	332	52	40	40	8	32
2,035	2,335	2,080	255	2,541	2,541	2,242	299
2,584	2,584	2,234	350	3,418	3,419	1,507	1,912
				4,405	4,405	2,500	1,905
				20	20	20	
9,395	28,395	23,757	4,638	17,055	26,155	20,795	5,360
				13,863	13,863	12,495	1,368
	736	150	586				
44,081	52,758	45,751	7,007	671	671	442	229
				897	1,288	1,267	21
				724	724	545	179
				90	90	44	46
				351	351	329	22
				209	216	212	4
				174	174	137	37
				47	62	52	10
				21	21	5	16
				79	80	25	55
				461	462	411	51
				68	68	53	15
				60	60	60	
				210	229	225	4
122	122	81	41	778	779	320	459
				219	219	180	39
				54	54	47	7
				208	208	175	33
				140	140	86	54
				1,041	1,041	910	131
				61	61	41	20
				119	119	80	39
				89	89	58	31

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
	\$	\$	\$	\$
Board of: (Continued)				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Geologists				
Personnel				
Pharmacy				
Physical Therapists				
Podiatry				
Registration for Professional				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Kentucky Athletics Commission				
Executive Branch Ethics Commission				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
Commission on Women				
Personnel Cabinet: General Operations				
Public Employee Deferred Compensation Authority				
Cabinet for Universities:				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
Revenue Cabinet: General Operations	1,418	1,418	1,417	1
Office of Property Valuation				
Administrators Accounting				
Finance and Administration Cabinet:				
Office of the Secretary - Debt Service	3,668	3,668	3,668	
Office of the Controller				
Rural Empowerment Zone Grant				
Kentucky Higher Education Assistance Authority				
County Costs				
Department for Administration	283	283	283	
Office Of Governmental Services Center				
Department for Facilities Management				
Campbell County Fees				
Daviess County Fees				
Fayette County Fees				
Hardin County Fees				
Jefferson County Fees				
Kenton County Fees				
Pike County Fees				
Warren County Fees				
Total General Government	<u>5,494</u>	<u>5,494</u>	<u>5,410</u>	<u>84</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				1,827	1,827	1,812	15
				3,354	4,104	3,565	539
				55	55	38	17
				144	144	141	3
				11	11	9	2
				77	81	72	9
				111	111	104	7
				72	73	48	25
				156	156	93	63
				6	6		6
				787	787	762	25
				301	301	200	101
				14	14	12	2
				1,134	1,134	1,133	1
				109	109	74	35
				198	233	138	95
				131	186	135	51
				10	10	5	5
				1,911	1,911	1,664	247
				512	512	512	
171	373	245	128	12	12	6	6
1,100	5,040	2,576	2,464	5,380	6,588	2,604	3,984
				3	6	6	
				9,924	9,984	9,818	166
				5,741	5,741	3,846	1,895
				124,499	134,999	134,853	146
				31,161	31,161	29,933	1,228
				77,132	77,132	53,897	23,235
				62,110	62,110	58,199	3,911
				66,791	77,790	76,688	1,102
				879,200	879,200	700,615	178,585
				299,735	299,735	26,130	273,605
				113,210	113,211	71,478	41,733
				199,369	200,310	80,884	119,426
	15	15		3,581	3,582	2,990	592
				3,272	4,800	4,530	270
				2,651	2,751	2,369	382
				390	390	362	28
8,000	8,000	3,388	4,612	46,508	59,270	57,228	2,042
1,200	1,200	754	446	1,327	1,927	1,480	447
				3,382	3,472	2,780	692
				1,512	1,512	1,411	101
				133	133	9	124
				3,910	3,910	2,678	1,232
				4,522	5,122	4,623	499
				12,549	13,300	8,983	4,317
				3,675	3,675	3,397	278
				33,148	33,147	27,546	5,601
				7,466	7,466	5,389	2,077
				3,847	3,847	2,726	1,121
				5,548	6,348	4,996	1,352
120,019	153,605	83,255	70,350	2,091,346	2,151,620	1,455,666	695,954

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Legislative and Judicial:				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operations and Administration				
Total Legislative and Judicial				
Commerce:				
Economic Development Cabinet				
Office of the Secretary				
Administration and Support				
Financial Incentives				
Community and Business Development				
Tourism Cabinet: Office of the Secretary				
Travel Development				
Department of Parks				
Department of Fish and Wildlife Resources				
Total Commerce				
Education and Humanities Cabinet:				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
Office of the Secretary				
Department of Education:				
Management Support Services				
Learning Results Services				
Learning Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Libraries and Archives -				
Direct Local Aid				
General Operations				
Teachers' Retirement System				
Workforce Development Cabinet:				
Office of the Secretary				
Administration & Program Support				
Department for the Blind				
Office of Training and Reemployment				
Department of Employment Services				
Department for Technical Education				
Department for Adult Education & Literacy				
Department of Vocational Rehabilitation				
Total Education and Humanities				
Human Resources:				
Cabinet for Families and Children				
Administrative Services				
Disability Determination				
Community Based Services				
Family Resources and Youth Services Centers				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
	1		1	535	535	201	334
				2	1,611		1,611
				27	165	138	27
3,573	7,066	3,480	3,586	14,344	14,882	6,289	8,593
3,573	7,067	3,480	3,587	14,908	17,193	6,628	10,565
				3,000	3,934	3,308	626
				160	160	2	158
				1,834	1,834	1,719	115
160	160	129	31	456	956	314	642
				100	100		100
	100		100	4	4		4
	14		14				
7,000	7,910	7,619	291	26,016	26,450	25,710	740
7,160	8,184	7,748	436	31,570	33,438	31,053	2,385
				200	214	192	22
				150	161	154	7
796	796	736	60	256	934	621	313
611	611	554	57	457	931	497	434
				70	119	49	70
				2,312	2,312	918	1,394
475,315	475,315	467,414	7,901	3,896	6,796	3,989	2,807
551	552	547	5				
700	700	267	433	1,227	1,959	1,946	13
413	413	75	338	643	643	499	144
				9	9	4	5
576	696	596	100	1,880	2,081	1,452	629
1,725	1,725	1,225	500	6,021	6,421	6,126	295
288	288	149	139	6,328	6,328	5,023	1,305
7,502	7,502	6,759	743	1,436	1,833	1,783	50
58,762	58,762	50,351	8,411	52	52		52
40,374	46,967	46,050	917	11,832	11,832	7,206	4,626
10,369	13,834	13,580	254	18,346	19,739	19,539	200
10,520	10,520	9,033	1,487	74	11,324	1,666	9,658
39,242	42,031	39,031	3,000	3,117	3,117	2,162	955
647,744	660,712	636,367	24,345	58,306	76,805	53,826	22,979
37,636	37,636	28,970	8,666	4,169	4,169	3,610	559
38,559	38,559	36,365	2,194	76	76	55	21
445,035	481,335	447,514	33,821	98,550	98,550	88,219	10,331
	235	208	27				

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Transportation			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Cabinet for Health Services				
Administrative Support	\$	\$	\$	\$
Office of Inspector General				
Department of Public Health				
Department for Mental Health and Mental Retardation				
Department for Medicaid Services				
Medicaid Services Benefits				
Office of Certificate Of Need				
Commission for Children with Special Health Care Needs				
Office of Aging Services				
Total Human Resources				
Justice Cabinet:				
Office of the Secretary				
Department of State Police	30,000	30,000	30,000	
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections - Management				
Adult Institutions				
Community Service and Local Facilities				
Total Justice	30,000	30,000	30,000	
Natural Resources and Environmental Protection Cabinet:				
Office of the Secretary				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection				
Department for Natural Resources				
Department for Surface Mining - Reclamation & Enforcement				
Reclamation Projects				
Total Natural Resources and Environmental Protection				
Public Protection and Regulation Cabinet:				
Office of the Secretary				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Public Service Commission				
Health Purchasing Alliance				
Department - for Public Advocacy of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
for Mines and Minerals				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 1,310	\$ 2,121	\$ 2,120	\$ 1	\$ 5,172	\$ 5,172	\$ 4,607	\$ 565
9,308	10,197	9,025	1,172	2,705	2,705	1,789	916
122,032	124,282	120,790	3,492	15,263	54,139	36,906	17,233
45,724	43,799	38,092	5,707	153,173	183,891	182,651	1,240
31,478	43,807	39,062	4,745	13,771	17,142	15,693	1,449
2,356,957	2,706,972	2,663,230	43,742	213,745	388,090	376,462	11,628
				485	485	369	116
4,669	9,821	9,755	66	3,179	18,665	18,665	
17,149	18,946	18,622	324	5,471	5,471	80	5,391
<u>3,109,857</u>	<u>3,517,710</u>	<u>3,413,753</u>	<u>103,957</u>	<u>515,759</u>	<u>778,555</u>	<u>729,106</u>	<u>49,449</u>
13,088	17,287	12,100	5,187	1,619	2,073	1,539	534
8,145	12,402	11,272	1,130	5,275	8,775	6,510	2,265
19,312	19,312	17,835	1,477	18,550	18,550	13,629	4,921
2,930	2,970	1,384	1,586	33,362	33,892	33,876	16
224	1,470	1,470		225	525	489	36
150	1,164	909	255	3,500	5,456	4,883	573
	67	2	65	625	634	398	236
<u>43,849</u>	<u>54,672</u>	<u>44,972</u>	<u>9,700</u>	<u>63,156</u>	<u>69,905</u>	<u>61,324</u>	<u>8,581</u>
1,826	1,827	1,511	316	426	647	144	503
				1,580	1,580	947	633
				1	8	5	3
25	25	22	3	322	472	275	197
17,904	17,905	13,089	4,816	21,391	22,020	17,816	4,204
3,769	9,543	3,717	5,826	5,215	7,092	1,126	5,966
16,720	16,719	14,438	2,281	5,822	5,822	3,390	2,432
22,000	22,000	14,436	7,564				
<u>62,244</u>	<u>68,019</u>	<u>47,213</u>	<u>20,806</u>	<u>34,757</u>	<u>37,641</u>	<u>23,703</u>	<u>13,938</u>
				2,088	2,343	2,050	293
426	426	411	15	2,097	2,097	1,606	491
				14,147	14,752	11,924	2,828
226	343	254	89	24	1,074	67	1,007
				377	377	172	205
954	1,120	972	148	2,973	2,973	2,408	565
558	558	75	483	4,609	4,609	3,724	885
				3,308	3,308	3,010	298
				9,075	9,075	7,834	1,241
				11,323	11,323	9,267	2,056
				16,849	20,789	17,724	3,065
589	606	605	1	1,919	1,919	1,509	410

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Labor Cabinet - Office of the Secretary	\$	\$	\$	\$
Department of Workplace Standards				
Total Public Protection and Regulation				
Transportation Cabinet:				
Administration & Support	71,342	65,055	60,180	4,875
Revenue Sharing	222,638	269,381	216,203	53,178
Air Transportation				
Highways	1,252,442	1,105,374	703,715	401,659
Highways-Public Transportation				
Vehicle Regulation	30,009	30,424	28,699	1,725
Debt Service	169,855	169,654	169,195	459
Transfers To Capital Construction	6,654	6,654	5,654	1,000
Road Fund Judgments		400	388	12
1990 Economic Development Bond Projects				
Total Transportation	<u>1,752,940</u>	<u>1,646,942</u>	<u>1,184,034</u>	<u>462,908</u>
Total Expenditures	<u>1,788,434</u>	<u>1,682,436</u>	<u>1,219,444</u>	<u>462,992</u>
Excess of Revenues over (under)				
Expenditures	<u>(710,652)</u>	<u>(592,936)</u>	<u>(98,472)</u>	<u>494,464</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(710,652)	(592,936)	(98,472)	494,464
Fund Balances at July 1		644,857	644,857	
Non-Budgeted Items			7,656	7,656
Fund Balances at June 30	<u>\$ (710,652)</u>	<u>\$ 51,921</u>	<u>\$ 554,041</u>	<u>\$ 502,120</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 3,453	\$ 3,453	\$ 3,311	\$ 142	\$ 5,384	\$ 5,384	\$ 4,504	\$ 880
6,206	6,506	5,628	878	74,173	80,023	65,799	14,224
				50	50		50
8,287	8,287		8,287	5,532	7,712	2,596	5,116
1,074,095	1,070,605	523,552	547,053	282,132	153,324	46,088	107,236
8,044	11,794	10,548	1,246	858	858	594	264
2,225	3,827	1,931	1,896	2,976	9,723	4,570	5,153
					143,284	50,521	92,763
1,092,651	1,094,513	536,031	558,482	291,548	314,951	104,369	210,582
5,093,303	5,570,988	4,778,447	792,541	3,175,523	3,560,131	2,531,474	1,028,657
		51,736				1,346,252	
						2,207	
						2,207	
		51,736				1,348,459	
		3,035				680,654	
		(12,773)				(1,257,050)	
\$	\$	\$ 41,998	\$	\$	\$	\$ 772,063	\$

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Reporting

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

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose. A budget bill shall not be effective past July 1 of the year in which the next regular session takes place.

Budgetary control is maintained at the budget unit level as designated by the Legislature (i.e., function, major program area, program, or unit of organization).

Appropriations for the General Fund and Road Fund shall be based upon revenue estimates prepared by the Finance and Administration Cabinet and modifications made by the appropriations committee of the General Assembly. Official revenue estimates are not made for the other budgetary funds.

The Major Governmental funds, which have legally adopted annual budgets as part of the primary government, include the following: General, Transportation, Federal, and Agency Revenue.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except when the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a joint budget resolution or for expenditure for any other purpose than specified in a joint budget resolution and a budget memorandum. However, budgetary funds except for that of the General Fund and the Transportation Fund may be amended in an amount up to the actual receipts (not to exceed 5%) by an Advice of Change Order from the Secretary of the Finance and Administration Cabinet. No supplemental appropriations were required during this fiscal year.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures.

All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Transportation Fund, which has a project length budget. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in the notes to the Required Supplemental Information section as follows.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2002, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Budgetary funds	GENERAL FUND	TRANSPORTATION FUND	FEDERAL FUND	AGENCY REVENUE FUND
Financial statement funds	GENERAL FUND	TRANSPORTATION FUND	FEDERAL FUND	AGENCY REVENUE FUND
Fund balance/retained earnings June 30, 2002:				
Budgetary basis	\$ 134,154	\$ 554,041	\$ 41,998	\$ 772,063
Adjustments:				
Accrued revenues	204,931	88,320	332,727	42,485
Accrued expenditures	(239,142)	(100,372)	(342,585)	(18,465)
Accrued transfers (net)	(7,505)		(236)	247
Total Accruals (1)	(41,715)	(12,052)	(10,094)	24,267
Reclassifications and other adjustments:				
Inventory balances (1)	11,841	30,131	77	1,276
To reclassify financial and other resources into financial statement fund types (2)	(811)		(37,615)	(448,661)
To record financial resources available as non-budgeted funds (3)	(16,000)	2,580		197
Fund balance/retained earnings June 30, 2002:				
GAAP Basis	\$ 87,469	\$ 574,700	\$ (5,634)	\$ 349,142

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

**NOTES TO REQUIRED SUPPLEMENTARY
 INFORMATION -**

Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets reported using the modified approach, include 61,500 lane miles of roads and approximately 8,900 bridges that the Commonwealth maintains.

In order to utilize the modified approach, the Commonwealth is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate, each year, the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Commonwealth.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Pavements

Measurement Scale

The Kentucky Transportation Cabinet (KYTC) uses numerous methods to determine the condition of roadway pavements; however, the Pavement Condition Index (PCI) serves as KYTC’s primary method to measure and monitor pavement conditions. In use since the mid-1980s, the PCI for any particular pavement section is the mathematical difference between the current pavement smoothness and the acceptable pavement smoothness threshold based on traffic volumes. The corresponding pavement condition is based on the following PCI ranges:

<u>Condition</u>	<u>PCI</u>
Good	Greater than +0.4
Fair	Between 0.0 and 0.4
Poor	Less than 0.0

Established Minimum Condition Level

No more than 30% of the pavements shall be rated as “poor.”

Assessed Conditions

The Commonwealth assesses pavement condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Good”, “Fair”, and “Poor” for the past five years.

<u>Condition</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Good	50.4%	51.7%	51.5%	55.9%	64.3%
Fair	29.0%	31.2%	30.8%	30.2%	22.5%
Poor	20.6%	17.1%	17.7%	13.8%	13.2%

Bridges

Measurement Scale

KYTC utilizes the National Bridge Inspection Program to monitor the condition of the nearly 8,900 bridges under its jurisdiction. The National Bridge Inspection Program rates bridges, including the deck, superstructure and substructure, using a 0 to 9 point scale. The ratings are based on the following descriptions:

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Established Minimum Condition Level

No more than 7% of the bridges shall be rated as “structurally deficient.”

Assessed Conditions

“Structurally deficient” results when a rating of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck, superstructure, or substructure). The following table reports

COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2002

the percentage of bridges whose condition was assessed as “structurally deficient” in the stated year:

<u>Calendar Year</u>	<u>Structurally Deficient</u>
2001	5.3%
2000	4.9%
1999	4.9%
1998	5.1%
1997	5.4%

Maintenance

Measurement Scale

KYTC uses its Maintenance Rating Program to measure and monitor the maintenance condition of the state-maintained highway system. This program is based on field rating the condition of 25 attributes for a statistically valid, random sample of 500 foot highway segments. It has been in use since 1999 and the overall score uses a scale of 0 to 100 as follows:

<u>Score</u>	<u>Level of Service</u>
90.0– 100.0	A – Excellent
80.0– 89.9	B – Good
70.0– 79.9	C – Acceptable
60.0– 69.9	D – Poor
50.0– 59.9	F – Unacceptable

Established Minimum Condition Level

The statewide score shall not be lower than 70.

Assessed Conditions

The Commonwealth assesses the maintenance condition on a fiscal year basis. The following table reports the statewide score for the Maintenance Rating Program since the inception of the program:

<u>Fiscal Year</u>	<u>Statewide Score</u>	<u>Level of Service</u>
2001	75.9	C
2000	75.3	C

Budgeted and Estimated Costs to Maintain

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

<u>Fiscal Year</u>	<u>Estimated Spending</u>	<u>Actual Spending</u>
2003	\$695.0	—
2002	—	\$672.7
2001	—	\$700.6
2000	—	\$688.8

The Commonwealth’s Management Administrative and Reporting System (MARS) is utilized to identify the actual spending on highway system maintenance and preservation activities. MARS was first implemented for the fiscal year ended June 30, 2000, therefore, only three fiscal years of historical spending levels are available.

The annual budgeting process utilized by the Commonwealth results in spending in one fiscal year amounts that were budgeted in a previous year(s). Additionally, beginning in fiscal year 2000, the Transportation Cabinet began using a cash-flow basis funding technique for financing costs of highway projects. Expenditures for the three fiscal years displayed above include the expenditure of previous year’s revenues that have been carried forward to that fiscal year as a cash balance. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year. The tables and narrative above demonstrate that the Cabinet is spending sufficient amounts to meet its reportable condition level goals.

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

State Workers' Compensation	Fiscal and Policy Year Ended									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Earned Premiums	\$ 13,426	\$ 14,052	\$ 12,991	\$ 14,470	\$ 14,095	\$ 16,121	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628
Earned Investment Income										
Total	<u>13,426</u>	<u>14,052</u>	<u>12,991</u>	<u>14,470</u>	<u>14,095</u>	<u>16,121</u>	<u>17,351</u>	<u>17,026</u>	<u>13,543</u>	<u>13,628</u>
Administrative Expense	822	669	401	542	554	404	513	526	533	545
Incurring Claims as										
Originally Estimated	11,013	15,531	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,129	3,441	3,093	3,010	2,615	2,819	2,702	3,128	3,790	3,846
One Year Later	6,038	6,492	5,797	5,882	5,626	5,697	5,833			
Two Years Later	8,163	8,207	7,588	7,560	7,156	7,179				
Three Years Later	9,743	9,152	8,721	8,632	8,172					
Four Years Later	10,664	10,211	9,346	9,552						
Five Years Later	11,482	10,671	9,812							
Six Years Later	11,969	11,043								
Seven Years Later	12,495									
Re-estimation of Incurred Claims:										
End of Fiscal Year	11,013	15,531	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501
One Year Later	12,589	15,277	12,883	14,502	13,006	12,876	13,623	16,584		
Two Years Later	13,269	16,075	13,266	14,519	12,627	13,473	15,543			
Three Years Later	13,858	15,324	13,526	14,021	12,762	14,416				
Four Years Later	14,421	15,230	13,797	14,507	14,270					
Five Years Later	16,164	14,424	14,028	15,345						
Six Years Later	15,428	14,503	14,405							
Seven Years Later	15,836	16,240								
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	6,927	709	1,678	636	(712)	1,173	2,246	1,260		

SOURCE: Compilation Report

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUND

In the **Debt Service Fund**, the **Primary Government** accounts for the payment of principal, interest, and administrative fees due on general long term issues of the Commonwealth and for the accumulation of financial resources used to make such payments.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is leased to the Transportation Cabinet of the Commonwealth.

SPECIAL REVENUE FUNDS

The **Special Revenue Funds** account for special revenue sources dedicated to specific operations other than expendable capital projects.

The **Other Special Revenue Fund** accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity, but not usually appropriated by the General Assembly.

The **Special Benefits Fund** accounts for other fiduciary monies that will be expended for designated operations.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is leased to the Transportation Cabinet of the Commonwealth.

**COMMONWEALTH OF KENTUCKY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2002
 (Expressed in Thousands)**

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Assets		
Cash and cash equivalents	\$ 87	\$ 2,632
Cash with fiscal agents	12,707	
Investments, net of amortization	10,554	183,323
Receivables, net		7,441
Interfund receivables	307	112,804
Inventories		
Total Assets	<u>\$ 23,655</u>	<u>\$ 306,200</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 271	\$ 10
Interfund payables	307	
Deferred revenue		
Total Liabilities	<u>578</u>	<u>10</u>
Fund Balances:		
Reserved for:		
Inventories		
Deposit with fiscal agents	12,707	
Unreserved, reported in:		
Special revenue funds		
Debt service fund	10,370	306,190
Total Fund Balances	<u>23,077</u>	<u>306,190</u>
Total Liabilities and Fund Balances	<u>\$ 23,655</u>	<u>\$ 306,200</u>

Special Revenue Funds			Total
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	Non-Major Governmental Funds
\$ 19,320	\$ 120,779	\$ 141,878	\$ 284,696
101,828	98,536	170,082	12,707
55,777	3,997	15,240	564,323
141,099		29,730	82,455
55			283,940
<u>\$ 318,079</u>	<u>\$ 223,312</u>	<u>\$ 356,930</u>	<u>\$ 1,228,176</u>
\$ 1,413	\$ 185	\$ 9,381	\$ 11,260
106,252	112,804	42,515	261,878
35,292	104	12,774	48,170
<u>142,957</u>	<u>113,093</u>	<u>64,670</u>	<u>321,308</u>
55			55
			12,707
175,067	110,219	292,260	577,546
<u>175,122</u>	<u>110,219</u>	<u>292,260</u>	<u>316,560</u>
<u>\$ 318,079</u>	<u>\$ 223,312</u>	<u>\$ 356,930</u>	<u>\$ 1,228,176</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Revenues		
Taxes	\$	\$
Licenses, fees, and permits		
Intergovernmental		
Charges for services	3,858	
Fines and forfeits		
Interest and other investment income	1,145	15,717
Increase (decrease) in fair value of investments	1	
Other revenues	7	17,064
Total Revenues	5,011	32,781
Expenditures		
Current:		
General government		79,073
Legislative and judicial		
Commerce		
Education and humanities		
Human resources		
Justice		
Natural resources and environmental protection		
Public protection and regulation		
Transportation		
Debt service:		
Principal retirement	122,208	105,440
Interest and fiscal charges	124,625	
Other expenditures	(14,727)	
Total Expenditures	232,106	184,513
Excess (Deficiency) of Revenues over (under) Expenditures	(227,095)	(151,732)
Other Financing Sources (Uses)		
Transfers in	207,375	189,071
Transfers out	(441)	
Proceeds from the sale of bonds:		
Refunding issues	322,659	
Payments to refunded bond escrow agent	(321,565)	
Total Other Financing Sources (Uses)	208,028	189,071
Net Change in Fund Balances	(19,067)	37,339
Fund Balances at July 1, as Restated	42,144	268,851
Fund Balances at June 30	\$ 23,077	\$ 306,190

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 69,370	\$	\$ 1,195	\$ 70,565
782		64,763	65,545
398		11,119	11,517
14,649			18,507
6,485			6,485
15,606	8,479	12,073	53,020
455		1,383	1,839
23,706	300	7,214	48,291
<u>131,451</u>	<u>8,779</u>	<u>97,747</u>	<u>275,769</u>
59,884	51,140	184,359	374,456
121			121
322			322
488		11,889	12,377
289		22,267	22,556
		120	120
2,002		8,458	10,460
		(1,739)	(1,739)
		41,312	41,312
			227,648
			124,625
			(14,727)
<u>63,106</u>	<u>51,140</u>	<u>266,666</u>	<u>797,531</u>
<u>68,345</u>	<u>(42,361)</u>	<u>(168,919)</u>	<u>(521,762)</u>
201,682	172,589	222,154	992,871
(301,084)	(189,071)	(82,327)	(572,923)
			322,659
			(321,565)
<u>(99,402)</u>	<u>(16,482)</u>	<u>139,827</u>	<u>421,042</u>
(31,057)	(58,843)	(29,092)	(100,720)
206,179	169,062	321,352	1,007,588
<u>\$ 175,122</u>	<u>\$ 110,219</u>	<u>\$ 292,260</u>	<u>\$ 906,868</u>

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES BY SOURCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed In Thousands)

Revenues by Source	June 30, 2002
Taxes:	
Sales and gross receipts	\$ 2,495,434
Income:	
Individual	2,681,443
Corporations	211,382
Property	480,890
Coal severance	187,588
Licenses and privileges	120,902
Inheritance and estate	89,753
Miscellaneous	3,653
Total Taxes	<u>6,271,045</u>
Licenses, fees, and permits	25,197
Intergovernmental	9,370
Charges for services	6,662
Fines and forfeits	44,760
Interest and other investment income	33,848
Increase (decrease) in fair value of investments	674
Other revenues	118,918
Total Revenues by Source	<u>\$ 6,510,474</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed In Thousands)

	<u>June 30, 2002</u>
General Government:	
Cabinet for General Government:	
Personnel services	\$ 119,218
Utilities, rentals, and other services	15,696
Commodities and supplies	9,017
Grants and subsidies	1,092,003
Capital outlay	526
Travel	2,391
Non-expense items	4
Interest paid on debt	10,516
Judgments and contingent liabilities	116
Total Cabinet for General Government	<u>1,249,487</u>
Finance and Administration Cabinet:	
Personnel services	19,587
Utilities, rentals, and other services	5,905
Commodities and supplies	15,845
Grants and subsidies	55,984
Capital outlay	120
Travel	171
Judgments and contingent liabilities	36,504
Interest paid on short term debt	20,504
Reissue unredeemed treasury checks	1,442
Total Finance and Administration Cabinet	<u>156,062</u>
Revenue Cabinet:	
Personnel services	69,396
Utilities, rentals, and other services	17,025
Commodities and supplies	1,263
Capital outlay	196
Travel	752
Judgments	(14,945)
Total Revenue Cabinet	<u>73,687</u>
Personnel Cabinet:	
Personnel services	3,344
Utilities, rentals, and other services	156
Commodities and supplies	46
Travel	3
Total Personnel Cabinet	<u>3,549</u>
Total General Government	<u>1,482,785</u>
Legislative and Judicial:	
Personnel services	157,128
Utilities, rentals, and other services	47,750
Commodities and supplies	13,274
Capital outlay	2,799
Grants and subsidies	5,043
Non-expense items	3
Travel	3,411
Total Legislative and Judicial	<u>229,408</u>
Commerce:	
Economic Development Cabinet:	
Personnel services	6,891
Utilities, rentals, and other services	953
Commodities and supplies	382
Grants and subsidies	4,367
Capital outlay	16
Travel	220
Total Economic Development Cabinet	<u>12,829</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed In Thousands)

	June 30, 2002
Tourism Cabinet:	
Personnel services	\$ 5,899
Utilities, rentals, and other services	948
Commodities and supplies	181
Grants and subsidies	1,763
Capital outlay	13
Travel	99
Total Tourism Cabinet	<u>8,903</u>
Total Commerce	<u>21,732</u>
Education and Humanities:	
Education and Humanities Cabinet:	
Personnel services	65,706
Utilities, rentals, and other services	8,530
Commodities and supplies	3,248
Grants and subsidies	2,777,730
Capital outlay	166
Travel	2,811
Total Education and Humanities Cabinet	<u>2,858,191</u>
Workforce Development Cabinet:	
Personnel services	26,918
Utilities, rentals, and other services	2,722
Commodities and supplies	3,639
Grants and subsidies	18,218
Capital outlay	352
Indirect operating expense	20
Travel	448
Judgments and contingent liabilities	3
Total Workforce Development Cabinet	<u>52,320</u>
Total Education and Humanities	<u>2,910,511</u>
Human Resources:	
Cabinet for Families and Children:	
Personnel services	79,120
Utilities, rentals, and other services	19,154
Commodities and supplies	951
Grants and subsidies	256,298
Indirect operating expense	(321)
Non-expense items	5
Capital outlay	907
Travel	4,854
Judgments and contingent liabilities	(50)
Total Cabinet for Families and Children	<u>360,918</u>
Health Services Cabinet:	
Personnel services	92,553
Utilities, rentals, and other services	5,429
Commodities and supplies	3,526
Grants and subsidies	928,143
Non-expense items	3
Oper. Exp. Reim. Rest. To CFC/CHS	2,446
Capital outlay	152
Travel	815
Judgments and contingent liabilities	23,186
Total Cabinet for Health Services	<u>1,056,253</u>
Total Human Resources	<u>1,417,171</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed In Thousands)

	<u>June 30, 2002</u>
Justice :	
Personnel services	\$ 264,353
Utilities, rentals, and other services	30,385
Commodities and supplies	23,298
Grants and subsidies	137,128
Capital outlay	7,256
Claims	2
Non-expense items	3
Travel	2,159
Judgments and Contingent Liabilities	(1,491)
Total Justice Cabinet	<u>463,093</u>
Natural Resources and Environmental Protection:	
Personnel services	49,868
Utilities, rentals, and other services	6,083
Commodities and supplies	3,099
Grants and subsidies	3,772
Capital outlay	716
Travel	1,935
Total Natural Resources and Environmental Protection	<u>65,473</u>
Public Protection and Regulation:	
Public protection and regulation cabinet:	
Personnel services	38,605
Utilities, rentals, and other services	4,016
Commodities and supplies	1,783
Claims	2
Judgments and contingencies	(106)
Grants and subsidies	5,137
Capital outlay	131
Travel	689
Total Public Protection and Regulation Cabinet	<u>50,257</u>
Labor Cabinet:	
Personnel services	2,000
Utilities, rentals, and other services	169
Commodities and supplies	153
Travel	123
Total Labor Cabinet	<u>2,445</u>
Total Public Protection and Regulation	<u>52,702</u>
Transportation:	
Personnel services	1,100
Commodities and supplies	2
Indirect operating expense	53
Utilities, rental, and other services	4
Grants	6,574
Travel	15
Total Transportation	<u>7,748</u>
Total Expenditures	<u>\$ 6,650,623</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE
TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed In Thousands)

Revenues:	June 30, 2002
Licenses, fees and permits	\$ 109,560
Taxes	952,808
Intergovernmental	168
Charges for services	23,092
Fines and forfeits	(47)
Interest and other investment income	33,416
Increase (decrease) in fair value of investments	6,082
Other revenues	2,238
Total Revenues	1,127,317
 Expenditures:	
Transportation:	
General administration and support	97,915
Motor vehicle regulation	29,120
Justice - state police	27,629
Highways	921,892
Other	(1,273)
Total Expenditures	1,075,283
Excess of Revenues over (under) Expenditures	52,034
 Other financing sources (uses):	
Operating transfers in	1,967
Operating transfers out	(181,139)
Capitalized leases	1,219
Total Other Financing Sources (Uses)	(177,953)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(125,919)
Fund Balance at July 1, as Restated	696,914
Increase (decrease) in inventories	3,705
Fund Balance at June 30	\$ 574,700

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INTERNAL SERVICE FUNDS

INTERNAL SERVICE FUNDS

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

Fleet Management Fund accounts for expenses incurred and reimbursements received by the Transportation Cabinet for the management and maintenance of the State's motor vehicle fleet.

Computer Services Fund accounts for expenses incurred and reimbursements received by the Governor's Office for Technology for computer and related data processing services.

Prison Industries Fund accounts for expenses incurred and reimbursements received by the Department of Corrections' industrial prison operations.

Central Printing Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Division of Printing.

Property Management Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's space rental and maintenance operation.

Risk Management Fund accounts for the self-insurance operations of the State which include:

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

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

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

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	<u>Fleet Management</u>	<u>Computer Services</u>	<u>Prison Industries</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 440	\$ 2,735	\$ 457
Receivables, net		328	121
Interfund receivables	165	3,197	769
Inventories		280	3,037
Prepaid expenses		2,763	
Total Current Assets	<u>605</u>	<u>9,303</u>	<u>4,384</u>
Noncurrent assets:			
Investments, net	6,214	10,006	1,103
Land			725
Improvements other than buildings		356	
Buildings		6,920	3,840
Machinery and equipment	87,830	33,540	3,845
Less: Accumulated depreciation	(53,428)	(32,930)	(4,052)
Construction in progress			25
Total Capital Assets	<u>34,402</u>	<u>7,886</u>	<u>4,383</u>
Total Noncurrent Assets, Net	<u>40,616</u>	<u>17,892</u>	<u>5,486</u>
Total Assets	<u>41,221</u>	<u>27,195</u>	<u>9,870</u>
Liabilities			
Current liabilities:			
Accounts payable	671	4,327	543
Interfund payables	168	1,046	3
Claims liability			
Capital lease obligations	1,244	679	
Compensated absences		2,363	271
Deferred revenue		1,311	570
Total Current Liabilities	<u>2,083</u>	<u>9,726</u>	<u>1,387</u>
Noncurrent liabilities:			
Claims liability			
Capital lease obligations	1,439	1,540	
Compensated absences		2,590	276
Total Noncurrent Liabilities	<u>1,439</u>	<u>4,130</u>	<u>276</u>
Total Liabilities	<u>3,522</u>	<u>13,856</u>	<u>1,663</u>
Net Assets			
Invested in capital assets, net of related debt	31,720	5,667	4,384
Unrestricted	5,979	7,672	3,823
Total Net Assets	<u>\$ 37,699</u>	<u>\$ 13,339</u>	<u>\$ 8,207</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2002
\$ 37	\$ 123	\$ 1,696	\$ 5,488
10		168	627
231	375	48	4,785
331			3,648
		2,273	5,036
<u>609</u>	<u>498</u>	<u>4,185</u>	<u>19,584</u>
525	1,732	17,490	37,070
	5,591		6,316
	2,807		3,163
	189,923		200,683
1,720	1,512		128,447
(1,529)	(89,786)		(181,725)
	6,936		6,961
<u>191</u>	<u>116,983</u>		<u>163,845</u>
<u>716</u>	<u>118,715</u>	<u>17,490</u>	<u>200,915</u>
<u>1,325</u>	<u>119,213</u>	<u>21,675</u>	<u>220,499</u>
353	1,061	444	7,399
2	8	1,466	2,693
		21,137	21,137
185			2,108
147	608	27	3,416
25	158	675	2,739
<u>712</u>	<u>1,835</u>	<u>23,749</u>	<u>39,492</u>
		92,249	92,249
164			3,143
182	443	20	3,511
<u>346</u>	<u>443</u>	<u>92,269</u>	<u>98,903</u>
<u>1,058</u>	<u>2,278</u>	<u>116,018</u>	<u>138,395</u>
158	116,983		158,912
109	(48)	(94,343)	(76,808)
\$ 267	\$ 116,935	\$ (94,343)	\$ 82,104

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Operating Revenues:			
Charges for services	\$ 26,755	\$ 57,305	\$ 12,329
Other revenues	115	41	3
Total Operating Revenues	<u>26,870</u>	<u>57,346</u>	<u>12,332</u>
Operating Expenses:			
Personnel services	1,537	33,495	4,125
Utilities, rentals, and other services	2,445	19,314	767
Commodities and supplies	5,277	4,162	6,859
Grants and subsidies		3	1,216
Depreciation and amortization	10,257	2,293	181
Travel	1	252	77
Reinsurance expense		38	
Claims expense		(3)	
Total Operating Expenses	<u>19,517</u>	<u>59,554</u>	<u>13,225</u>
Operating Income (Loss)	<u>7,353</u>	<u>(2,208)</u>	<u>(893)</u>
Nonoperating Income (Expenses):			
Gain (loss) on sale of fixed assets	(175)	(1,103)	
Interest and other investment income	(1)	(235)	(133)
Increase (decrease) in fair value of investments	58	97	7
Interest expense	(322)	(153)	
Other revenues (expenses)	(1,194)		
Total Nonoperating Revenues and Expenses	<u>(1,634)</u>	<u>(1,394)</u>	<u>(126)</u>
Income (Loss) before Transfers	5,719	(3,602)	(1,019)
Transfers in		2,643	
Transfers out	<u>(1,631)</u>		<u>(1,740)</u>
Change in Net Assets	4,088	(959)	(2,759)
Net Assets at July 1, as Restated	33,611	14,298	10,966
Net Assets at June 30	<u>\$ 37,699</u>	<u>\$ 13,339</u>	<u>\$ 8,207</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2002
\$ 4,795	\$ 21,236	\$ 33,861	\$ 156,281
10	101		270
<u>4,805</u>	<u>21,337</u>	<u>33,861</u>	<u>156,551</u>
2,371	10,485	1,110	53,123
1,339	9,934	4,026	37,825
926	1,022	26	18,272
	202		1,421
102	4,490		17,323
1	143	33	507
		1,695	1,733
		42,060	42,057
<u>4,739</u>	<u>26,276</u>	<u>48,950</u>	<u>172,261</u>
66	(4,939)	(15,089)	(15,710)
(313)	(32)		(1,623)
(19)	(145)	345	(188)
4	16	104	286
(22)			(497)
			(1,194)
<u>(350)</u>	<u>(161)</u>	<u>449</u>	<u>(3,216)</u>
(284)	(5,100)	(14,640)	(18,926)
	10,349		12,992
		(500)	(3,871)
(284)	5,249	(15,140)	(9,805)
551	111,686	(79,203)	91,909
<u>\$ 267</u>	<u>\$ 116,935</u>	<u>\$ (94,343)</u>	<u>\$ 82,104</u>

**COMMONWEALTH OF KENTUCKY
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2002
 (Expressed in Thousands)**

	Fleet Management	Computer Services
Cash Flows from Operating Activities		
Cash received from customers - public	\$	\$
Cash received from customers - state	26,782	57,482
Cash payments to suppliers for goods and services	(7,347)	(26,400)
Cash payments for employee salaries and benefits	(1,537)	(32,946)
Cash payments for claims expense		(3)
Cash payments from other sources	115	42
Cash payments to other sources		
Net Cash Provided by Operating Activities	<u>18,013</u>	<u>(1,825)</u>
Cash Flows from Noncapital Financing Activities		
Operating transfers-in from other funds		2,845
Operating transfers-out to other funds	(1,631)	(202)
Net Cash Provided by Noncapital Financing Activities	<u>(1,631)</u>	<u>2,643</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(11,362)	(1,810)
Principal paid on revenue bond maturities and equipment contracts	(1,189)	(716)
Interest paid on revenue bonds and equipment contracts	(322)	(153)
Proceeds from the sale of capital assets	69	
Net Cash Used for Capital and Related Financing Activities	<u>(12,804)</u>	<u>(2,679)</u>
Cash Flows from Investing Activities		
Purchase of investment securities	(3,675)	4,140
Proceeds from the sale of investment securities		
Interest and dividends on investments	57	(137)
Net Cash Used in Investing Activities	<u>(3,618)</u>	<u>4,003</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(40)	2,142
Cash and Cash Equivalents at July 1	480	593
Cash and Cash Equivalents at June 30	<u>\$ 440</u>	<u>\$ 2,735</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 7,353	\$ (2,208)
Depreciation and amortization	10,257	2,293
Change in assets and liabilities:		
(Increase) Decrease in assets:		
Receivables, net	43	223
Interfund receivables	(165)	892
Inventories		13
Prepaid expenses		(1,036)
Increase (decrease) in liabilities:		
Accounts payable	374	(1,866)
Interfund payables	151	1,025
Claims liability		
Compensated absences		(223)
Deferred revenue		(938)
Other liabilities		
Net Cash Provided by Operating Activities	<u>\$ 18,013</u>	<u>\$ (1,825)</u>
Noncash Investing, Capital, and Financing Activities		
Change in fair value of investments	\$ 58	\$ 97
Capital assets acquired through leases		2,770
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 58</u>	<u>\$ 2,867</u>

<u>Prison Industries</u>	<u>Central Printing</u>	<u>Property Management</u>	<u>Risk Management</u>	<u>Totals June 30, 2002</u>
\$ 3,110	\$ 4,647	\$ 21,684	\$ 33,154	\$ 7,757
9,640	(2,112)	(10,712)	(4,750)	146,630
(7,170)	(2,370)	(10,579)	(843)	(58,749)
(4,043)		101	(29,954)	(49,948)
3	10	(203)	(861)	(29,957)
(1,293)		291		271
<u>247</u>	<u>175</u>	<u>10,349</u>	<u>(3,254)</u>	<u>(2,357)</u>
				<u>13,647</u>
(1,740)		10,349	(500)	13,194
<u>(1,740)</u>		<u>10,349</u>	<u>(500)</u>	<u>(4,073)</u>
				<u>9,121</u>
(147)	2	(9,600)		(22,917)
	(155)			(2,060)
	(22)			(497)
				69
<u>(147)</u>	<u>(175)</u>	<u>(9,600)</u>		<u>(25,405)</u>
1,395		(925)		935
	(39)		1,674	1,635
(127)	(15)	(145)	68	(299)
<u>1,268</u>	<u>(54)</u>	<u>(1,070)</u>	<u>1,742</u>	<u>2,271</u>
(372)	(54)	(30)	(2,012)	(366)
829	91	153	3,708	5,854
<u>\$ 457</u>	<u>\$ 37</u>	<u>\$ 123</u>	<u>\$ 1,696</u>	<u>\$ 5,488</u>
\$ (893)	\$ 66	\$ (4,939)	\$ (15,089)	\$ (15,710)
181	102	4,490		17,323
193	10	146	(16)	599
51	(45)	175	47	955
428	(49)		(1,572)	392
				(2,608)
118	203	254	(271)	(1,188)
(89)	2	(11)	2,748	3,826
82	2	106	10,381	10,381
176	(116)	127	9	(24)
		(57)	509	(242)
<u>\$ 247</u>	<u>\$ 175</u>	<u>\$ 291</u>	<u>\$ (3,254)</u>	<u>\$ 13,647</u>
\$ 7	\$ 4	\$ 16	\$ 104	\$ 286
	317			3,087
<u>\$ 7</u>	<u>\$ 321</u>	<u>\$ 16</u>	<u>\$ 104</u>	<u>\$ 3,373</u>

GENERAL FIXED ASSETS

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE
JUNE 30, 2002
(Expressed In Thousands)

	<u>June 30, 2002</u>
Governmental Funds Capital Assets	
Land	\$ 88,862
Improvements other than buildings	3,953
Buildings	554,773
Machinery and equipment	353,064
Software / other intangibles	941
Easements	12,628
Construction in progress	2,317,660
Infrastructure	14,014,450
Total Governmental Funds Capital Assets	<u>\$ 17,346,331</u>

Investments in Governmental Funds Capital Assets by Source	
General Fund	\$ 109,524
Special Revenue Funds	1,949,315
Donations	75,339
Other	6,829
Capital Projects Fund:	
State appropriations	46,607
Revenue bonds	314,820
Federal grants	70,880
Other	15,233
Infrastructure (A)	14,014,450
Fixed assets acquired prior to July 1, 1984 (A)	672,385
Fixed assets acquired after July 1, 1984 (A)	70,949
Total Governmental Funds Capital Assets	<u>\$ 17,346,331</u>

- (1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.
- (A) Fixed assets with an undetermined funding source.

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2002
(Expressed in Thousands)

FUNCTION AND ACTIVITY	Land	Improvements Other Than Buildings	Buildings
General Government			
Cabinet for General Government (A)	\$ 9,999	\$ 1,209	\$ 100,454
Revenue Cabinet			
Finance and Administration Cabinet (A)	580		
Personnel Cabinet			
Total General Government	<u>10,579</u>	<u>1,209</u>	<u>100,454</u>
Legislative & Judicial	55		
Commerce			
Economic Development Cabinet	13,294		20,207
Tourism Cabinet	32,374	987	7,391
Total Commerce	<u>45,668</u>	<u>987</u>	<u>27,598</u>
Education & Humanities			
Education, Arts and Humanities Cabinet (A)	653	118	25,518
Workforce Development Cabinet	1,030		14,445
Total Education and Humanities	<u>1,683</u>	<u>118</u>	<u>39,963</u>
Human Resources			
Cabinet for Families and Children	1,426		22,267
Cabinet for Health Services	1,404	50	61,564
Total Human Resources	<u>2,830</u>	<u>50</u>	<u>83,831</u>
Justice	3,661	1,589	231,748
Natural Resources and Environmental Protection (A)	14,597		1,031
Public Protection and Regulation			
Public Protection and Regulation Cabinet			
Labor Cabinet			
Total Public Protection and Regulation			
Transportation (A)	9,789		70,148
Total Governmental Funds Capital Assets	<u>\$ 88,862</u>	<u>\$ 3,953</u>	<u>\$ 554,773</u>

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

(A) Beginning balance was restated to include easements of \$10,625,(797). These fixed assets are shown under Cabinet for General Government \$3,100,(866); Education, Arts and Humanities Cabinet \$3,616,(126); and Natural Resources and Environmental Protection Cabinet \$3,908,(805). Assets totaling \$990,(000) for Kentucky River Authority are now reported as assets of a discrete component unit. They are removed from the Finance and Administration Cabinet. Transportation beginning balance was increased by \$15,562,397,(000); Buildings -\$2,269,(000); Land \$3,853,(000); Equipment \$4,178,(000); Construction in Progress \$1,345,(000); and inclusion of Infrastructure \$15,555,290,(000).

<u>Machinery and Equipment</u>	<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2002</u>
\$ 13,935	\$	\$ 3,251	\$ 49,976	\$	\$ 178,824
7,958					7,958
8,093	941				9,614
1,907					1,907
<u>31,893</u>	<u>941</u>	<u>3,251</u>	<u>49,976</u>		<u>198,303</u>
10,464					10,519
284					33,785
17,522			277		58,551
<u>17,806</u>			<u>277</u>		<u>92,336</u>
9,087		4,488			39,864
20,467			244		36,186
<u>29,554</u>		<u>4,488</u>	<u>244</u>		<u>76,050</u>
6,070					29,763
8,073			25		71,116
<u>14,143</u>			<u>25</u>		<u>100,879</u>
81,195			103,284		421,477
30,407		4,889	268		51,192
4,184			6,368		10,552
2,483					2,483
<u>6,667</u>			<u>6,368</u>		<u>13,035</u>
130,935			2,157,218	14,014,450	16,382,540
<u>\$ 353,064</u>	<u>\$ 941</u>	<u>\$ 12,628</u>	<u>\$ 2,317,660</u>	<u>\$ 14,014,450</u>	<u>\$ 17,346,331</u>

**COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)**

	Balance June 30, 2001 As Restated (A)	Additions	Deductions	Balance June 30, 2002
General Government				
Cabinet for General Government (A)	\$ 169,160	\$ 10,483	\$ 819	\$ 178,824
Revenue Cabinet	4,446	3,746	234	7,958
Finance and Administration Cabinet (A)	7,599	2,274	259	9,614
Personnel Cabinet	1,825	82		1,907
Total General Government	<u>183,030</u>	<u>16,585</u>	<u>1,312</u>	<u>198,303</u>
Legislative & Judicial	12,010	699	2,190	10,519
Commerce				
Economic Development Cabinet	33,780	19	14	33,785
Tourism Cabinet	56,449	3,267	1,165	58,551
Total Commerce	<u>90,229</u>	<u>3,286</u>	<u>1,179</u>	<u>92,336</u>
Education & Humanities				
Education Arts and Humanities Cabinet (A)	39,381	3,115	2,632	39,864
Workforce Development Cabinet	34,313	3,167	1,294	36,186
Total Education and Humanities	<u>73,694</u>	<u>6,282</u>	<u>3,926</u>	<u>76,050</u>
Human Resources				
Cabinet for Families and Children	32,308	1,567	4,112	29,763
Cabinet for Health Services	71,155	832	871	71,116
Total Human Resources	<u>103,463</u>	<u>2,399</u>	<u>4,983</u>	<u>100,879</u>
Justice	395,148	72,718	46,389	421,477
Natural Resources and Environmental Protection (A)	47,954	6,873	3,635	51,192
Public Protection and Regulation				
Public Protection and Regulation Cabinet	10,195	515	158	10,552
Labor Cabinet	2,448	119	84	2,483
Total Public Protection and Regulation	<u>12,643</u>	<u>634</u>	<u>242</u>	<u>13,035</u>
Transportation (A)	15,775,871	1,938,578	1,331,909	16,382,540
Total Governmental Funds Capital Assets	<u>\$ 16,694,042</u>	<u>\$ 2,048,054</u>	<u>\$ 1,395,765</u>	<u>\$ 17,346,331</u>

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

(A) Beginning balance was restated to include easements of \$10,625,(797). These fixed assets are shown under Cabinet for General Government \$3,100,(866); Education, Arts and Humanities Cabinet \$3,616,(126); and Natural Resources and Environmental Protection Cabinet \$3,908,(805). Assets totaling \$990,(000) for Kentucky River Authority are now reported as assets of a discrete component unit. They are removed from the Finance and Administration Cabinet. Transportation beginning balance was increased by \$15,562,397,(000): Buildings -\$2,269,(000); Land \$3,853,(000); Equipment \$4,178,(000); Construction in Progress \$1,345,(000); and inclusion of Infrastructure \$15,555,290,(000).

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

PENSION (and OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

Kentucky Employees Retirement System Fund accounts for revenues and expenses of the retirement system, which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the System.

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

County Employees Retirement System Fund accounts for the revenues and expenses of the retirement system that covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

Kentucky Teachers' Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

Judicial Form Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

Legislators' Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all members of the General Assembly.

Deferred Compensation accounts for the monies withheld from employees, as an Internal Revenue Code Section 457 deferred compensation plan, by placing amounts with third party administrators and overseeing the investment activities of such monies.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	Kentucky Em ployees Retirement System	State Police Retirement System	County Em ployees Retirement System
Assets			
Cash and short-term investments:			
Cash	\$ 22,805	\$ 2,248	\$ 28,380
Short-term investments	361,736	22,549	305,781
Total Cash and Short-Term Investments	<u>384,541</u>	<u>24,797</u>	<u>334,161</u>
Receivables:			
Investments - accounts receivable	332	14	444
Interest receivable	35,714	2,357	35,441
Accounts receivable	37,544	1,878	47,877
Total Receivables	<u>73,590</u>	<u>4,249</u>	<u>83,762</u>
Investments at fair value:			
Corporate and government bonds	1,849,678	121,516	1,829,246
Common stocks	3,254,765	225,963	3,262,364
Mortgages	313,339	19,485	309,696
Mutual funds			
Real estate	11,104	1,016	9,581
Total Investments at Fair Value	<u>5,428,886</u>	<u>367,980</u>	<u>5,410,887</u>
Invested security collateral	1,417,711	93,592	1,402,721
Fixed assets, net			
Prepaid expenses			
Total Assets	<u>7,304,728</u>	<u>490,618</u>	<u>7,231,531</u>
Liabilities			
Investments - accounts payable			
Accounts payable	4,592	208	4,838
Obligations under securities lending	1,417,711	93,592	1,402,721
Total Liabilities	<u>1,422,303</u>	<u>93,800</u>	<u>1,407,559</u>
Net Assets			
Net assets held in trust for:			
Employee retirement benefit	5,306,991	328,744	5,271,105
Retiree's health insurance	575,434	68,074	552,867
Total Net Assets	<u>\$ 5,882,425</u>	<u>\$ 396,818</u>	<u>\$ 5,823,972</u>

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2002
\$ 4,039	\$ 2	\$ 5	\$	\$ 57,479
999,200	8,880	1,458		1,699,604
<u>1,003,239</u>	<u>8,882</u>	<u>1,463</u>		<u>1,757,083</u>
70,109				70,899
7	1,622	386		75,527
41,009	53			128,361
<u>111,125</u>	<u>1,675</u>	<u>386</u>		<u>274,787</u>
4,548,374	80,937	20,674		8,450,425
5,842,308	146,740	38,252		12,770,392
79,666				722,186
			846,115	846,115
338,130				359,831
<u>10,808,478</u>	<u>227,677</u>	<u>58,926</u>	<u>846,115</u>	<u>23,148,949</u>
593,935				3,507,959
3,802				3,802
155				155
<u>12,520,734</u>	<u>238,234</u>	<u>60,775</u>	<u>846,115</u>	<u>28,692,735</u>
7,604				7,604
9,728				19,366
593,935				3,507,959
<u>611,267</u>				<u>3,534,929</u>
11,763,422	238,234	60,775	846,115	23,815,386
146,045				1,342,420
<u>\$ 11,909,467</u>	<u>\$ 238,234</u>	<u>\$ 60,775</u>	<u>\$ 846,115</u>	<u>\$ 25,157,806</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System
Additions			
Contributions:			
Employer	\$ 119,493	\$ 9,562	\$ 164,464
Employee	122,799	4,499	159,524
Total Contributions	<u>242,292</u>	<u>14,061</u>	<u>323,988</u>
Investment income:			
Net increase (decrease) in fair value of investments	(430,855)	(35,349)	(479,419)
Interest	191,287	12,411	187,938
Dividends			
Real estate operating income, net			
Securities lending income, net	25,602	2,262	36,873
Total Investment Income	<u>(213,966)</u>	<u>(20,676)</u>	<u>(254,608)</u>
Less: Investment expense	3,706	226	3,794
Less: Securities lending expense	21,165	1,868	30,480
Net Investment Income	<u>(238,837)</u>	<u>(22,770)</u>	<u>(288,882)</u>
Total Additions	<u>3,455</u>	<u>(8,709)</u>	<u>35,106</u>
Deductions			
Benefit payments	402,060	28,859	306,045
Refunds	7,798	54	10,095
Administrative expenses	5,127	76	8,197
Other deductions, net	(1)	2	2
Total Deductions	<u>414,984</u>	<u>28,991</u>	<u>324,339</u>
Change in Net Assets	(411,529)	(37,700)	(289,233)
Net Assets Held in Trust			
Net Assets at July 1, as Restated	6,293,954	434,518	6,113,205
Net Assets at June 30	<u>\$ 5,882,425</u>	<u>\$ 396,818</u>	<u>\$ 5,823,972</u>

<u>Kentucky Teachers' Retirement System</u>	<u>Judicial Retirement System</u>	<u>Legislators' Retirement System</u>	<u>Deferred Compensation System</u>	<u>Totals June 30, 2002</u>
\$ 398,782	\$ 4,430	\$ 906	\$	\$ 697,637
270,546	1,695	471	118,882	678,416
<u>669,328</u>	<u>6,125</u>	<u>1,377</u>	<u>118,882</u>	<u>1,376,053</u>
(929,285)	(22,686)	(5,477)	(60,070)	(1,963,141)
294,599	7,421	1,767		695,423
95,029				95,029
29,207				29,207
15,177				79,914
<u>(495,273)</u>	<u>(15,265)</u>	<u>(3,710)</u>	<u>(60,070)</u>	<u>(1,063,568)</u>
4,245	6	2		11,979
14,534				68,047
<u>(514,052)</u>	<u>(15,271)</u>	<u>(3,712)</u>	<u>(60,070)</u>	<u>(1,143,594)</u>
<u>155,276</u>	<u>(9,146)</u>	<u>(2,335)</u>	<u>58,812</u>	<u>232,459</u>
739,497	8,786	2,124		1,487,371
9,153				27,100
108,165	335	138	73,311	195,349
3,492				3,495
<u>860,307</u>	<u>9,121</u>	<u>2,262</u>	<u>73,311</u>	<u>1,713,315</u>
(705,031)	(18,267)	(4,597)	(14,499)	(1,480,856)
12,614,498	256,501	65,372	860,614	26,638,662
<u>\$ 11,909,467</u>	<u>\$ 238,234</u>	<u>\$ 60,775</u>	<u>\$ 846,115</u>	<u>\$ 25,157,806</u>

PRIVATE - PURPOSE TRUST FUNDS

PRIVATE-PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to report trust arrangements under which principal and interest benefit individuals, private organizations or other governments. Kentucky uses the following private-purpose trust funds:

The **Kentucky Educational Savings Plan Trust** was established by KRS 164A.310 to encourage citizens to invest funds for future educational use, and to create an endowment fund from which income will be available as participants' savings.

Kentucky's Affordable Prepaid Tuition Plan Trust was established by KRS 164A.700 as an instrument in providing affordable access to participating educational institutions for qualified beneficiaries. This program accepts prepayments of participating Kentucky citizens into the Commonwealth Postsecondary Education Prepaid Tuition Trust Fund and manages the monies. This investment produces a return equal to or greater than future college tuition rates so that a college education will be paid in the future for beneficiaries at today's prices.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	Kentucky Educational Savings Plan Trust	Kentucky's Affordable Prepaid Tuition Plan Trust	Totals June 30, 2002
Assets			
Cash and cash equivalents	\$ 67	\$ 4,984	\$ 5,051
Investments, net of amortization	25,433	14,827	40,260
Receivables, net	75	26,962	27,037
Total Assets	<u>25,575</u>	<u>46,773</u>	<u>72,348</u>
Liabilities			
Accounts payable	132	6	138
Interfund loan payable		1,000	1,000
Other liabilities		52,200	52,200
Total Liabilities	<u>132</u>	<u>53,206</u>	<u>53,338</u>
Net Assets			
Restricted for:			
Plan participants	25,443	(6,433)	19,010
Total Net Assets	<u>\$ 25,443</u>	<u>\$ (6,433)</u>	<u>\$ 19,010</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Kentucky Educational Savings Plan Trust	Kentucky's Affordable Prepaid Tuition Plan Trust	Totals June 30, 2002
Additions			
Contributions:			
Employer	\$	\$	\$
Member	13,650	21,191	34,841
Total Contributions	<u>13,650</u>	<u>21,191</u>	<u>34,841</u>
Investment income:			
Net increase (decrease) in fair value of investments	(1,830)	(1,195)	(3,025)
Interest	1	154	155
Dividends	716		716
Total Investment Income	<u>(1,113)</u>	<u>(1,041)</u>	<u>(2,154)</u>
Less: Investment expense	118	68	186
Net Investment Income	<u>(1,231)</u>	<u>(1,109)</u>	<u>(2,340)</u>
Other additions	6	79	85
Total Additions	<u>12,425</u>	<u>20,161</u>	<u>32,586</u>
Deductions			
Benefit payments	1,730		1,730
Refunds		10	10
Administrative expense		1,265	1,265
Other deductions, net		25,319	25,319
Total Deductions	<u>1,730</u>	<u>26,594</u>	<u>28,324</u>
Change in Net Assets	<u>10,695</u>	<u>(6,433)</u>	<u>4,262</u>
Net Assets Held In Trust			
Net Assets at July 1, as Restated	14,748		14,748
Net Assets at June 30	<u>\$ 25,443</u>	<u>\$ (6,433)</u>	<u>\$ 19,010</u>

AGENCY FUNDS

AGENCY FUNDS

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

Commonwealth Choice accounts for flexible benefits spending accounts.

Special Deposit Trust Fund accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

County Sinking Fund accounts for monies generated through sale of bonds for specific uses by the counties.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2002
(Expressed in Thousands)

	<u>Commonwealth Choice Program</u>	<u>Special Deposit Trust Fund</u>	<u>Totals June 30, 2002</u>
Assets			
Cash and cash equivalents	\$	\$ 85,900	\$ 85,900
Cash with fiscal agents	22,864		22,864
Investments, net of amortization		113,926	113,926
Receivables, net		4,962	4,962
Interfund receivables		2,705	2,705
Total Assets	<u>\$ 22,864</u>	<u>\$ 207,493</u>	<u>\$ 230,357</u>
Liabilities			
Accounts payable	\$	\$ 143,023	\$ 143,023
Interfund payables		2,314	2,314
Amounts held in custody for others	22,864	62,156	85,020
Total Liabilities	<u>\$ 22,864</u>	<u>\$ 207,493</u>	<u>\$ 230,357</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	<u>Balance s</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance s</u> <u>June 30, 2002</u>
<u>COMMONWEALTH CHOICE PROGRAM</u>				
<u>Assets</u>				
Cash with fiscal agents	\$ 17,813	\$ 21,130	\$ 16,079	\$ 22,864
Total assets	<u>\$ 17,813</u>	<u>\$ 21,130</u>	<u>\$ 16,079</u>	<u>\$ 22,864</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 17,813	\$ 21,130	\$ 16,079	\$ 22,864
Total liabilities	<u>\$ 17,813</u>	<u>\$ 21,130</u>	<u>\$ 16,079</u>	<u>\$ 22,864</u>
<u>COUNTY SINKING FUND</u>				
<u>Assets</u>				
Cash with fiscal agents	\$ 283	\$	\$ 283	\$
Total assets	<u>\$ 283</u>	<u>\$</u>	<u>\$ 283</u>	<u>\$</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 283	\$	\$ 283	\$
Total liabilities	<u>\$ 283</u>	<u>\$</u>	<u>\$ 283</u>	<u>\$</u>
<u>SPECIAL DEPOSIT TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 97,651	\$ 657,641	\$ 669,392	\$ 85,900
Investments	130,625	113,926	130,625	113,926
Accounts receivable	7,278	4,962	7,278	4,962
Interfund receivables		2,705		2,705
Total assets	<u>\$ 235,554</u>	<u>\$ 779,234</u>	<u>\$ 807,295</u>	<u>\$ 207,493</u>
<u>Liabilities</u>				
Interfund payables	\$ 3,781	\$ 2,314	\$ 3,781	\$ 2,314
Accounts payable	8,937	143,023	8,937	143,023
Amounts held in custody for others	222,836	508,712	669,392	62,156
Total liabilities	<u>\$ 235,554</u>	<u>\$ 654,049</u>	<u>\$ 682,110</u>	<u>\$ 207,493</u>
<u>ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 97,651	\$ 657,641	\$ 669,392	\$ 85,900
Cash with fiscal agents	18,096	21,130	16,362	22,864
Investments	130,625	113,926	130,625	113,926
Accounts receivable	7,278	4,962	7,278	4,962
Interfund receivables		2,705		2,705
Total assets	<u>\$ 253,650</u>	<u>\$ 800,364</u>	<u>\$ 823,657</u>	<u>\$ 230,357</u>
<u>Liabilities</u>				
Interfund payables	\$ 3,781	\$ 2,314	\$ 3,781	\$ 2,314
Accounts payable	8,937	143,023	8,937	143,023
Amounts held in custody for others	240,932	529,842	685,754	85,020
Total liabilities	<u>\$ 253,650</u>	<u>\$ 675,179</u>	<u>\$ 698,472</u>	<u>\$ 230,357</u>

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NON-MAJOR COMPONENT UNITS - AUTHORITIES

Kentucky River Authority - responsible for the maintenance of the Commonwealth's locks and dams on the Kentucky River.

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

Kentucky School Facilities Construction Commission - established to assist local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet needs.

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

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

Kentucky Educational Television Authority - established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

Kentucky Economic Development Finance Authority - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

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

Kentucky Infrastructure Authority - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

Kentucky Agricultural Finance Corporation - created by the 1984 General Assembly to "improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures." This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

Kentucky Grain Insurance Corporation - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

Kentucky Local Correctional Facilities Construction Authority - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

Kentucky Access - provides healthcare to Kentucky's qualifying applicants who are at high risk.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2002
(Expressed in Thousands)

	<u>Kentucky River Authority</u>	<u>Bluegrass State Skills Corporation</u>	<u>Kentucky School Facilities Construction Commission</u>	<u>Kentucky State Fair Board</u>	<u>Kentucky Center for the Arts Corporation</u>	<u>Kentucky Educational Television Authority</u>
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,999	\$	\$ 1,506	\$ 7,964	\$ 1,287	\$ 2,449
Restricted cash	3,603					
Investments, net of amortization						
Accounts receivable, net	536	403		1,853	507	1,504
Interest receivable					14	4
Due from component units						
Inventories						579
Prepaid expenses				541	362	
Other current assets						354
Total Current Assets	<u>6,138</u>	<u>403</u>	<u>1,506</u>	<u>10,358</u>	<u>2,170</u>	<u>4,890</u>
Noncurrent assets:						
Restricted cash				4,844		
Long-term investments, net			21,284		847	5,420
Long-term receivables						
Deferred charges			255			299
Land	441			14,073	129	76
Improvements other than buildings	83					
Buildings				236,912	31,571	13,571
Machinery and equipment	412			4,748	12,994	39,384
Other fixed assets	12,880					
Less: Accumulated depreciation and amortization	(3,300)			(94,641)	(23,809)	(31,664)
Construction in progress				8,752		519
Total Capital Assets	<u>10,516</u>	<u></u>	<u></u>	<u>169,844</u>	<u>20,885</u>	<u>21,886</u>
Other assets				422		3,824
Total Noncurrent Assets	<u>10,516</u>	<u></u>	<u>21,539</u>	<u>175,110</u>	<u>21,732</u>	<u>31,429</u>
Total Assets	<u>16,654</u>	<u>403</u>	<u>23,045</u>	<u>185,468</u>	<u>23,902</u>	<u>36,319</u>
Liabilities						
Current liabilities:						
Accounts payable	138	2	12,138	1,804	531	2,141
Accrued liabilities	18					
Current portion of long-term debt:						
Notes payable		99				
Bonds payable			47,669			
Compensated absences		28	17		125	1,539
Claims liability						
Deferred revenues				4,647	999	421
Other current liabilities		17				
Total Current Liabilities	<u>156</u>	<u>146</u>	<u>59,824</u>	<u>6,451</u>	<u>1,655</u>	<u>4,101</u>
Noncurrent liabilities:						
Bonds payable			554,453			
Compensated absences	69	11	29			
Total Noncurrent Liabilities	<u>69</u>	<u>11</u>	<u>554,482</u>	<u></u>	<u></u>	<u></u>
Total Liabilities	<u>225</u>	<u>157</u>	<u>614,306</u>	<u>6,451</u>	<u>1,655</u>	<u>4,101</u>
Net Assets						
Invested in capital assets, net of related debt	15,980			169,844	20,885	20,897
Restricted for:						
Other purposes	457			4,844		8,710
Unrestricted	(8)	246	(591,261)	4,329	1,362	2,611
Total Net Assets	<u>\$ 16,429</u>	<u>\$ 246</u>	<u>\$ (591,261)</u>	<u>\$ 179,017</u>	<u>\$ 22,247</u>	<u>\$ 32,218</u>

Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2002
\$ 41,005	\$ 8,400	\$ 59,211	\$ 34	\$ 242	\$ 16,317	\$ 54,021	\$ 194,435
							3,603
	1,240	65,297					66,537
88	11,963	21,493			814	6,267	45,428
398		1,706		114	207	1,682	4,125
	62						62
							579
							903
7,751	501	681					9,287
49,242	22,166	148,388	34	356	17,338	61,970	324,959
	1,980				2,305		9,129
26,062	11,245	105,065	483	3,424	1,217		175,047
39,702	10,208	334,965			5,939		390,814
	151	2,188			488		3,381
							14,719
							83
							282,054
	10,236	84					67,858
							12,880
		(34)					(153,448)
							9,271
	10,236	50					233,417
411							4,657
66,175	33,820	442,268	483	3,424	9,949		816,445
115,417	55,986	590,656	517	3,780	27,287	61,970	1,141,404
45	1,215	189			346	662	19,211
	1,962					1,945	3,925
	300	14,480			1,845		99
							64,294
							1,709
						5,531	5,531
						386	6,453
						134	2,695
45	3,477	17,213			2,191	8,658	103,917
	8,240	208,118			30,587		801,398
							109
	8,240	208,118			30,587		801,507
45	11,717	225,331			32,778	8,658	905,424
	3,827	50					231,483
						53,312	67,323
115,372	40,442	365,275	517	3,780	(5,491)		(62,826)
\$ 115,372	\$ 44,269	\$ 365,325	\$ 517	\$ 3,780	\$ (5,491)	\$ 53,312	\$ 235,980

**COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Authorities					
Kentucky River Authority	\$ 4,144	\$ 1,351	\$ 380	\$ 2487	\$ 74
Bluegrass State Skills Corporation	4,039				(4,039)
Kentucky School Facilities Construction Commission	24,197	89,873	1,784		67,460
Kentucky State Fair Board	38,956	32,663			(6,293)
Kentucky Center for the Arts Corporation	10,052	2,571	1,628	621	(5,232)
Kentucky Educational Television Authority	27,652	5,395	4,069	267	(17,921)
Kentucky Economic Development Finance Authority	17,994	1,986			(16,008)
Kentucky Higher Education Assistance Authority	111,971	18,275	96,912		3,216
Kentucky Infrastructure Authority	25,169	12,995	36,865		24,691
Kentucky Grain Insurance Corporation	127	103			(24)
Kentucky Local Correctional Facilities Construction Authority	3,378	5,382	280		2,284
Kentucky Access	23,977	4,813	29,275		10,111
Totals	\$ 291,656	\$ 175,407	\$ 171,193	\$ 3,375	\$ 58,319

General Revenues:

Unrestricted grants and contributions	260
Unrestricted investment earnings	4,505
Gain on sale of capital assets	3,870
Miscellaneous general	18,356
Transfers	3,015
Total General Revenue and Transfers	30,006
Change in Net Assets	88,325
Net Assets at July 1, as Restated	147,655
Net Assets at June 30	\$ 235,980

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR COMPONENT UNITS-AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

	Kentucky School Facilities Construction Commission	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Totals June 30, 2002
Cash Flows from Operating Activities				
Cash received from customers - public	\$ 89,873	\$	\$ 131	\$ 90,004
Cash payments to suppliers for goods and services	(27,764)			(27,764)
Cash payments for employee salaries and benefits	(199)			(199)
Cash payments from other sources	1,784		103	1,887
Cash payments to other sources	(23,977)		(162)	(24,139)
Net Cash Provided by Operating Activities	<u>39,717</u>		<u>72</u>	<u>39,789</u>
Cash Flows from Capital and Related Financing Activities				
Principal paid on revenue bond maturities and equipment contracts	(43,674)			(43,674)
Net Cash Used by Capital and Related Financing Activities	<u>(43,674)</u>			<u>(43,674)</u>
Cash Flows from Investing Activities				
Purchase of investment securities		(47)	(497)	(544)
Interest and dividends on investments	1,167		114	1,281
Net Cash Used in Investing Activities	<u>1,167</u>	<u>(47)</u>	<u>(383)</u>	<u>737</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,790)	(47)	(311)	(3,148)
Cash and Cash Equivalents at July 1	4,296	81	553	4,930
Cash and Cash Equivalents at June 30	<u>\$ 1,506</u>	<u>\$ 34</u>	<u>\$ 242</u>	<u>\$ 1,782</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 67,460	\$	\$ (24)	\$ 67,436
Interest and other investment income	1,770			1,770
Miscellaneous nonoperating income (expense)	(33,998)			(33,998)
Change in assets and liabilities:				
(Increase) Decrease in assets:				
Receivables, net			131	131
Other assets	(256)			(256)
Increase (decrease) in liabilities:				
Accounts payable	5,180		(35)	5,145
Compensated absences	46			46
Other liabilities	(485)			(485)
Net Cash Provided by Operating Activities	<u>\$ 39,717</u>	<u>\$</u>	<u>\$ 72</u>	<u>\$ 39,789</u>
Noncash Investing, Capital, and Financing Activities				
Change in fair value of investments	\$ 212	\$ 4	\$ 30	\$ 246
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 212</u>	<u>\$ 4</u>	<u>\$ 30</u>	<u>\$ 246</u>

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NON-MAJOR COMPONENT UNITS - UNIVERSITIES

Non-Major Component Units - Universities

UNIVERSITY AND COLLEGE

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

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

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
JUNE 30, 2002
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	\$ 40,049	\$ 17,334	\$ 19,905
Restricted cash		3,244	
Investments, net of amortization	18,936		479
Accounts receivable, net	14,839	11,267	5,226
Interest receivable	493	353	
Inventories	455	1,332	1,831
Prepaid expenses	13	653	
Other current assets		154	1,037
Total Current Assets	74,785	34,337	28,478
Noncurrent assets:			
Restricted cash		64,184	
Long-term investments, net	1,977	12,295	29,671
Long-term receivables	4,696		3,280
Land	4,995	4,401	9,137
Improvements other than buildings	9,833	10,370	
Buildings	153,108	112,099	142,742
Machinery and equipment	60,426	48,274	32,443
Other fixed assets	30,684		
Less: Accumulated depreciation and amortization	(145,234)	(101,748)	(100,667)
Construction in progress	51,867	27,011	6,240
Total Capital Assets	165,679	100,407	89,895
Other assets	378	5,312	14,341
Total Noncurrent Assets, Net	172,730	182,198	137,187
Total Assets	247,515	216,535	165,665
Liabilities			
Current liabilities:			
Accounts payable and accruals	7,521	3,627	5,991
Current portion of long-term debt:			
Notes payable		286	110
Bonds payable	5,925	2,495	2,305
Capital lease obligations	910	539	689
Compensated absences	2,284	2,109	
Claims liability		916	
Deferred revenues	7,360	7,213	2,407
Payable from restricted assets		1,404	
Other current liabilities	784	1,117	613
Total Current Liabilities	24,784	19,706	12,115
Noncurrent liabilities:			
Notes payable		1,984	570
Bonds payable	41,485	18,210	31,235
Capital lease obligations	24,980	1,161	1,200
Compensated absences			
Other long-term liabilities	5,993	31,621	4,826
Total Noncurrent Liabilities	72,458	52,976	37,831
Total Liabilities	97,242	72,682	49,946
Net Assets			
Invested in capital assets, net of related debt	92,757	46,895	68,128
Restricted for:			
Debt service	8,016	3,982	
Other purposes	37,791	76,921	30,981
Unrestricted	11,709	16,055	16,610
Total Net Assets	\$ 150,273	\$ 143,853	\$ 115,719

Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 2002
\$ 18,730	\$ 24,398	\$ 5,819	\$ 126,235
	1,061		4,305
		7,910	27,325
4,225	2,012	4,169	41,738
687	873		2,406
1,608	258	503	5,987
481	705		1,852
686	56	26	1,959
<u>26,417</u>	<u>29,363</u>	<u>18,427</u>	<u>211,807</u>
21,491	24,395		110,070
4,626	5,107	15,409	69,085
4,099	2,132		14,207
5,546	3,695	1,255	29,029
7,215	5,120	2,168	34,706
146,181	155,897	92,078	802,105
16,637	32,533	9,173	199,486
			30,684
(110,402)	(86,183)	(81,624)	(625,858)
19,693	1,825	7,472	114,108
<u>84,870</u>	<u>112,887</u>	<u>30,522</u>	<u>584,260</u>
<u>53,441</u>	<u>353</u>	<u>7,613</u>	<u>81,438</u>
<u>168,527</u>	<u>144,874</u>	<u>53,544</u>	<u>859,060</u>
<u>194,944</u>	<u>174,237</u>	<u>71,971</u>	<u>1,070,867</u>
5,888	6,796	2,627	32,450
520	362		1,278
2,285	4,190	1,855	19,055
158	970		3,266
3,094	1,385	870	9,742
1,136			2,052
8,985	3,418	937	30,320
	1,061		2,465
628	658	568	4,368
<u>22,694</u>	<u>18,840</u>	<u>6,857</u>	<u>104,996</u>
1,164	1,005		4,723
17,387	36,850	11,925	157,092
1,866	10,875		40,082
		415	415
5,157	3,073	605	51,275
<u>25,574</u>	<u>51,803</u>	<u>12,945</u>	<u>253,587</u>
<u>48,268</u>	<u>70,643</u>	<u>19,802</u>	<u>358,583</u>
85,180	56,286	23,676	372,922
3,646			15,644
41,936	31,728	28,189	247,546
15,914	15,580	304	76,172
<u>\$ 146,676</u>	<u>\$ 103,594</u>	<u>\$ 52,169</u>	<u>\$ 712,284</u>

**COMMONWEALTH OF KENTUCKY
 COMBINING STATEMENT OF ACTIVITIES
 NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
 FOR THE YEAR ENDED JUNE 30, 2002
 (Expressed in Thousands)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Universities and Colleges					
Eastern Kentucky University	\$ 170,411	\$ 41,392	\$ 60,676	\$ 14,311	\$ (54,032)
Western Kentucky University	165,992	57,619	1,682		(106,691)
Morehead State University	97,254	31,420	25,865		(39,969)
Murray State University	113,744	45,689	10,877		(57,178)
Northern Kentucky University	100,552	45,400	14,997	540	(39,615)
Kentucky State University	49,201	10,709	15,543	8,796	(14,153)
Total	<u>\$ 697,154</u>	<u>\$ 232,229</u>	<u>\$ 129,640</u>	<u>\$ 23,647</u>	<u>(311,638)</u>

General Revenues:

Unrestricted grants and contributions	53,590
Unrestricted investment earnings	5,107
Gain on sale of capital assets	(889)
Miscellaneous general	347,653
Total General Revenues and Transfers	<u>405,461</u>
Change in Net Assets	93,823
Net Assets at July 1, as Restated	618,461
Net Assets at June 30	<u>\$ 712,284</u>

STATISTICAL SECTION

The **Statistical Section** gives report users a better historical perspective of financial information that may assist in assessing current financial status and trends of the Commonwealth. In addition, certain demographic and economic data have been presented that will allow a broader understanding of the economic and social environment in which the State Government operates.

**COMMONWEALTH OF KENTUCKY
REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

<u>SOURCE</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Taxes: Special Benefits	\$	\$	\$	\$
Sales & Gross Receipts	2,442,419	2,539,066	2,739,653	2,873,176
Individual Income	1,676,263	1,870,096	1,964,960	2,080,418
Corporation Income	254,797	269,048	340,913	289,508
Property	353,711	370,200	386,389	409,175
License & Privilege	117,471	114,052	137,578	130,778
Severance	180,704	181,340	177,826	185,019
Inheritance & Estate	71,040	76,173	79,531	82,673
Miscellaneous	125,636	120,036	117,077	104,819
Total Taxes	<u>5,222,041</u>	<u>5,540,011</u>	<u>5,943,927</u>	<u>6,155,566</u>
Intergovernmental Revenue	2,687,598	2,657,925	3,307,139	3,394,888
Charges for Services	147,617	192,659	222,309	277,165
Licenses, Fees & Permits	161,510	134,161	160,975	163,331
Fines & Forfeitures	39,972	38,563	40,720	40,485
Interest & Investments	107,210	90,931	112,124	148,908
Other Income	123,951	93,683	133,506	133,524
Total Non-Tax Income	<u>3,267,858</u>	<u>3,207,922</u>	<u>3,976,773</u>	<u>4,158,301</u>
Total Revenues	<u>\$ 8,489,899</u>	<u>\$ 8,747,933</u>	<u>\$ 9,920,700</u>	<u>\$ 10,313,867</u>

NOTE: Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

**COMMONWEALTH OF KENTUCKY
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

<u>FUNCTIONS</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
General Government	\$ 444,901	\$ 452,593	\$ 418,256	\$ 494,599
Legislative & Judicial	120,036	128,575	132,421	147,563
Commerce	37,279	37,656	42,430	42,704
Education & Humanities	2,578,179	2,663,797	2,835,220	2,962,449
Human Resources	3,129,059	3,077,162	3,818,430	3,819,907
Justice	229,972	232,221	255,424	282,999
Natural Resources and Environmental Protection	83,481	105,920	110,509	96,094
Public Protection and Regulation	83,322	79,816	86,411	94,124
Transportation	874,160	843,456	980,083	1,061,589
Capital Outlay	149,910	79,707	82,040	79,245
Debt Service	284,323	357,122	416,756	392,130
Total Expenditures	<u>\$ 8,014,622</u>	<u>\$ 8,058,025</u>	<u>\$ 9,177,980</u>	<u>\$ 9,473,403</u>

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report

NOTE: Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

1997	1998	1999	2000	2001	2002
\$	\$	\$	\$	\$	\$
3,018,770	3,167,442	3,255,990	3,546,343	3,609,499	3,697,903
2,201,574	2,390,823	2,538,948	2,701,349	2,768,302	2,681,443
291,536	338,354	312,579	307,939	288,418	211,382
440,973	405,528	424,471	440,438	457,216	480,890
145,178	162,122	170,480	139,922	146,422	120,902
185,744	187,126	173,094	169,154	177,774	187,588
93,962	105,550	79,168	76,751	83,267	89,753
109,451	114,903	120,765	3,390	3,203	3,653
<u>6,487,188</u>	<u>6,871,848</u>	<u>7,075,495</u>	<u>7,385,286</u>	<u>7,534,101</u>	<u>7,474,709</u>
3,625,241	3,809,686	3,825,985	4,602,881	4,208,631	4,821,756
262,366	289,555	298,952	359,782	426,173	506,924
164,557	170,454	188,304	203,608	200,239	308,209
48,538	47,265	53,024	49,986	54,297	54,169
155,878	191,986	140,328	163,893	232,100	201,933
193,206	218,883	185,881	230,325	616,361	406,869
<u>4,449,786</u>	<u>4,727,829</u>	<u>4,692,474</u>	<u>5,610,475</u>	<u>5,737,801</u>	<u>6,299,860</u>
<u>\$ 10,936,974</u>	<u>\$ 11,599,677</u>	<u>\$ 11,767,969</u>	<u>\$ 12,995,761</u>	<u>\$ 13,271,902</u>	<u>\$ 13,774,569</u>

1997	1998	1999	2000	2001	2002
\$	\$	\$	\$	\$	\$
593,500	652,980	556,913	541,008	672,605	2,036,798
150,604	165,645	186,168	212,978	216,608	239,515
44,408	45,953	49,927	52,941	51,283	58,741
3,076,843	3,187,712	3,250,456	3,351,422	3,442,741	3,584,412
4,208,762	4,253,354	4,368,927	5,109,752	5,110,365	5,563,087
340,100	402,149	451,532	511,106	553,499	564,427
103,356	112,923	120,938	125,724	127,048	143,924
105,763	115,479	130,245	131,350	124,725	120,764
1,092,563	1,135,102	1,356,322	1,502,356	1,588,052	1,724,061
99,702	135,106	266,165	225,409	309,011	483,145
332,127	438,029	357,698	302,708	410,058	337,546
<u>\$ 10,147,728</u>	<u>\$ 10,644,432</u>	<u>\$ 11,095,291</u>	<u>\$ 12,066,754</u>	<u>\$ 12,605,995</u>	<u>\$ 14,856,420</u>

DESCRIPTION OF TAX SOURCES - ALL GOVERNMENTAL FUND TYPES

JUNE 30, 2002

SALES AND USE - On July 1, 1960, Kentucky became the 34th state to enact a sales and use tax. Although the tax was broad based at the time of its inception, the sales and use tax has been significantly eroded over the years with the passage of numerous exemptions. This has been partially offset with rate increases in 1968 (3% to 5%) and 1990 (5% to 6%), and expansion of the tax base in 1985 to cover leases and rentals of tangible personal property. Effective January 1, 2001, the sales tax base expanded to include interstate communications services. During fiscal year 2001, the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

COAL SEVERANCE - Kentucky's coal severance tax became effective April 1, 1972, and was intended to replace a major portion of the revenue expected to be lost by the exemption of groceries from the sales tax. It was the first major severance tax among the states. The initial rate of 4 percent on the gross value of coal mined in Kentucky or thirty cents per ton, whichever is greater, was raised to 4.5 percent of the gross value of coal mined or fifty cents per ton, whichever is greater, in 1976. In 1978, the statutes were revised to include the taxation of coal processing and add a deduction from the gross value for the cost of transportation. A 1986 amendment provided that coal producing and coal impact counties were to receive a minimum of 10 percent of coal severance and processing taxes for FY 1986-87 and 12 percent for subsequent years. The percentage has increased over the years to a level of approximately 40 percent for FY 2001-02. The 2000 session of the General Assembly produced legislation that allowed for a tax credit of 2.25 percent to 3.75 percent of the gross value of coal produced from thin seams of coal from newly permitted production.

MOTOR FUELS - In 1920, Kentucky became the fifth state to adopt a gasoline tax. The initial rate of .01 cent per gallon reached .05 cents per gallon by 1926. Effective April 1, 1948, the tax per gallon was raised to .07 cents, with two-seventh of the total set aside for rural and secondary roads. On July 1, 1962, administration of the motor fuels use tax was transferred from the Department of Revenue to the Department of Motor Transportation, and on July 1, 1972, the tax rate increased to nine cents per gallon. Effective July 1, 1980, the rate was changed to 9 percent of the weighted average wholesale tank wagon price for sale in Kentucky. In no case shall the average wholesale price be deemed to be less than one dollar and eleven cents per gallon, nor more than one dollar and fifty cents per gallon. On July 1, 1986, the tax on gasoline and LP gas was increased five cents per gallon and the tax on special fuels was increased two cents per gallon. The current total motor fuels tax rates are \$.15 per gallon on gasoline and liquefied petroleum gas and \$.12 per gallon on special fuels.

MOTOR VEHICLE USAGE TAX - Motor vehicles were originally taxed under the 3 percent gross receipts tax that was re-pealed in 1936. After repeal, a special 3 percent tax on motor vehicles was enacted. This tax is based on the "retail price" of the motor vehicles as defined by statute. The tax was increased to 5 percent on April, 1968 and to 6 percent on July 1, 1990. The tax is paid to the county clerk when a vehicle is first registered in the owner's name. The proceeds derived from the tax are deposited to the Road Fund for use in the construction and maintenance of Kentucky's roads and bridges.

MOTOR VEHICLE REGISTRATION - The 1936 General Assembly fixed a flat \$4.50 registration fee (plus .05 cents for the County Clerk) for passenger cars. Similar fees were enacted in 1938 for farm trucks and in 1944 for church buses, water well drillers, and certain wreckers. Truck licenses were changed to a graduated "gross weight" basis in 1964. The current \$11.50 fee for passenger cars, farm trucks, and the lightest trucks was passed in 1968. Effective January 1, 1993 there was an additional \$.50 added to cover the cost of reflectorizing plates (KRS 186.240(2)(c)). In 1973, all motor vehicle registration functions were transferred from the Department of Revenue to the Department of Transportation. The apportioned registration of commercial vehicles began April 1, 1974. Current rates for heavier trucks range from \$24 (6,001-10,000 lbs.) to \$1,250.50 (73,281-80,000 lbs.) with extended weight tags available for coal haulers.

INDIVIDUAL INCOME TAX - The individual income tax became effective for income earned during calendar year 1936 and produced its first revenue during fiscal year 1936-37. The initial rates ranged from 2 percent on the first \$3,000 of income to 5 percent on all over \$5,000. In 1950, a rate of 6 percent was imposed on income in excess of \$8,000. In 1954, Kentucky became the fourth state to implement a withholding system and also adopted the federal definition of net income. Currently, net income is computed using the Internal Revenue Code in effect on December 31, 2001 for tax years beginning after December 31, 2001, modified for Kentucky differences between federal and Kentucky tax laws. Primary differences include the tax treatment of pension income (excludable up to \$38,775 in 2002) and interest on federal obligations. The rates applied to net income which remain unchanged since 1950 are: 2 percent of the first \$3,000; 3 percent of the next \$1,000; 4 percent of the next \$1,000; 5 percent of the next \$3,000; and 6 percent of the excess over \$8,000. The personal tax credit of \$20 went into effect in 1961 and a standard deduction of \$650 was adopted in 1976. The 1996 General Assembly increased the standard deduction over a period of four years to \$1,700 for 2000. The standard deduction is indexed annually based on changes in the CPIU and is currently set at \$1,800 for 2002. A low income tax credit of 5 percent to 100 percent for single persons or married couples with adjusted gross income of \$25,000 or less was enacted in 1990. A child and dependent care credit equal to 20 percent of the Federal credit is also allowed.

CORPORATION INCOME TAX - The corporate income tax was enacted to first apply to calendar year 1936 income. The rate was 4 percent of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5 percent in 1950 and again to 5 percent of the first \$25,000 of taxable income and 7 percent of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4 percent of the first \$25,000 and 5.8 percent on the excess. Tax rates beginning on January 1, 1980, were: first \$25,000 at 3 percent; next \$25,000 at 4 percent; next \$50,000 at 5 percent; and the excess over \$100,000 at 6 percent. The 1985 Special Session of the General Assembly passed the Kentucky Equity Tax Act (KETA) into law. KETA mandated a State depreciation system separate from the federal system. This new Kentucky system allowed corporate taxpayers to recover the entire cost of property through depreciation compared to recovery of 71 percent of cost using the Accelerated Cost Recovery System (ACRS) as adjusted for under prior Kentucky Law. KETA also added a new graduated rate of 7.25 percent of taxable income in excess of \$250,000 of taxable income effective August 1, 1985.

The 1990 General Assembly replaced the Kentucky depreciation system with the depreciation and expense deductions allowed by Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 1989, effective for property placed in service after December 31, 1989. The tax rates beginning on January 1, 1990 are: first \$25,000 at 4 percent; next \$25,000 at 5 percent; next \$50,000 at 6 percent; next \$150,000 at 7 percent; and all over \$250,000 at 8.25 percent.

The 1994 General Assembly amended KRS 141.0101 to make Kentucky depreciation rules consistent with federal depreciation rules for all assets, regardless of when placed in service, effective for taxable years, beginning after December 31, 1993. To account for this change in depreciation rules, each taxpayer must determine the amount of any difference in Kentucky adjusted basis and federal adjusted basis (transition amount) as of the first day of the first taxable year beginning after December 31, 1993. The transition amount must be added to or subtracted from gross income in the first taxable year beginning after December 31, 1993, if the amount does not exceed \$100,000 or in equal amounts over 4 years if the amount exceeds \$100,000 or the taxpayer so elects.

The 1996 General Assembly amended KRS 141.120 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept and allows affiliated corporations to elect to file consolidated Kentucky income tax returns, with such election being binding for 96 consecutive calendar months.

Effective for tax years beginning on or after January 1, 2002, net income is computed using the Internal Revenue Code in effect on December 31, 2001.

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2001 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly. The General Assembly has not adopted the thirty percent federal bonus depreciation, five year net operating loss carry-back and other provisions of the Job Creation and Worker Assistance Act of 2002.

PROPERTY TAX - Kentucky has levied a property tax since the creation of the state in 1792. Prior to 1934, the property tax was the State's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from 30 cents to 5 cents per \$100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five cents to 1.5 cents and on tangible property from 50 cents to 15 cents. House Bill 4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from 1.5 cents to 31.5 cents per \$100 of assessed value and the tax rate on tangible personal property from 15 cents to 45 cents per \$100 of assessed value. This increase in the State property tax rate was accompanied by a 30 cents per \$100 of assessed value decrease in local school tax rates. The tax rate on intangible personal property, which is not subject to local rates, remained at 25 cents per \$100. House Bill 44, enacted by the 1979 extraordinary legislative session, established a new rate setting mechanism which limited the increase in aggregate revenues for all taxing districts in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4 percent increase in revenue from year to year. As a result, the State tax rate on real property has dropped 57 percent from 31.5 cents per \$100 in 1978 to 13.5 cents per \$100 in 2002.

The 1996 General Assembly repealed the bank shares property tax and enacted a bank franchise tax for state tax purposes and a local deposits franchise tax for local tax purposes. A discussion of the bank franchise tax follows.

INHERITANCE AND ESTATE TAX - Inheritance Tax is a tax on the right to receive property upon the death of the owner. The tax rates and exemptions are based on the relationship of the beneficiary to the decedent. The Kentucky inheritance tax began in 1906 and taxed all beneficiaries other than nearest relatives. Beneficiaries taxed were given a \$500 exemption. Many changes have been enacted over the years to the inheritance tax, however, the Kentucky estate tax that was enacted in 1936, has not been changed. The Kentucky estate tax is equal to the amount that the state death tax credit allowable under the federal estate tax law exceeds the total inheritance tax paid.

COMMONWEALTH OF KENTUCKY

A major change was made in 1985 to the Kentucky inheritance tax when a surviving spouse was given an exemption of the total amount inherited. Effective for dates of death on or after July 1, 1995, the inheritance tax for parents, children (natural, step, or adopted), grandchildren, brothers (half or whole) and sisters (half or whole) was phased out over a four year period. The exemption during the phaseout period was the greater of the exemption permitted under the pre-July 1, 1995 law or a percentage of the inheritable interest. The inheritance tax for these beneficiaries was completely phased-out for deaths that occurred after June 30, 1998. If the entire estate passes to exempt beneficiaries there may not be any Kentucky inheritance tax due, but there could be Kentucky estate tax due if the estate is large enough to require that a Federal Estate Tax Return be filed and a state death tax credit is allowed.

Other beneficiaries such as nieces, nephews, daughters-in-law, sons-in-law, great-grandchildren, cousins and relatives were not affected by the 1995 phase out of the inheritance tax. All transfers to educational, religious or other institutions whose sole purpose are to carry on charitable, educational, or religious work are exempt from the Kentucky inheritance tax.

PROVIDER TAX - House Bill 250, enacted during the 1994 Regular Session of the General Assembly, continued the Kentucky Health Care Provider Tax. The bill, which was effective July 15, 1994, imposed a 2.5 percent tax on gross revenues received by all providers of hospital services, a 2 percent tax on gross revenues received by other providers of specified health care items or services, and a 25 cent tax per outpatient prescription drug dispensed by pharmacies or other persons dispensing outpatient prescription drugs (KRS Chapter 142). The purpose of the Health Care Provider Tax is to help fund Kentucky's \$2 billion Medicaid program. The Medicaid program is a joint federal state medical assistance program that is operated and administered by the state. Approximately 25 percent of the funding for the program is provided by the state with the remaining 75 percent being funded by the federal government.

KRS Chapter 142 was amended in 1996 to phase out the health care provider tax on physician services. The rate is 1 percent for the period July 1, 1997, through June 30, 1998; and 0.5 percent for July 1, 1998, through June 30, 1999. The tax on physician services has been entirely removed as of July 1, 1999.

KRS Chapter 142 was amended in 1998 to phase out the tax on outpatient prescription drugs. The tax on outpatient prescription drugs will be reduced from 25 cents to 15 cents per prescription for the period July 1, 1999, through June 20, 2000. Effective July 1, 2000, the tax on outpatient prescription drugs expired.

BANK FRANCHISE TAX - House Bill 416 as enacted by the 1996 General Assembly created the bank franchise tax. The tax is imposed on any financial institution which obtains or solicits business from 20 or more persons within the Commonwealth or has receipts attributable to sources in the Commonwealth which equal or exceed \$100,000. The bank franchise tax is based on a five-year average of net capital accounts reflected on the quarterly reports of condition filed with the applicable federal regulatory institution. The minimum tax is \$300 per year. Because HB 416 is effective for the calendar year 1996, the first tax returns and payments were due on March 15, 1997.

Effective for tax years beginning after December 31, 1997, KRS 136.500 was amended in 1998 to define the term "Kentucky obligations" to mean all obligations of the Commonwealth of Kentucky, its counties, municipalities, taxing districts, and school districts, exempt from taxation under the Kentucky Revised Statutes and the Kentucky Constitution. The amendment allows as a deduction from capital an amount equal to the same percentage of total capital as the book value of Kentucky obligations bears to the book value of the total assets of the financial institution. Additionally, the quarterly averages of net capital and deductions for United States and Kentucky obligations will be divided by four, without regard to the actual existence of the financial institution.

COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 1992 - 2001
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated	Assessed Value	Estimated	Assessed Value	Estimated	
		Actual Value		Actual Value		Actual Value	
1992	\$ 78,150,012	\$ 87,809,002	\$ 140,219,154	\$ 140,219,154	\$ 218,369,166	\$ 228,028,156	95.8%
1993	82,268,682	89,422,480	141,750,516	141,750,516	224,019,198	231,172,996	96.9%
1994	89,570,464	95,287,728	153,225,083	153,225,083	242,795,547	248,512,811	97.7%
1995	94,579,246	100,616,219	161,791,401	161,791,401	256,370,647	262,407,620	97.7%
1996	101,534,494	108,015,419	152,832,983	152,832,983	254,367,477	260,848,402	97.5%
1997	108,116,208	115,017,243	126,697,050	126,697,050	234,813,258	241,714,293	97.1%
1998	115,597,215	122,975,761	135,357,598	135,357,598	250,954,813	258,333,359	97.1%
1999	124,798,246	132,764,091	138,392,876	138,392,876	263,191,122	271,156,967	97.1%
2000	134,604,823	143,196,620	141,579,703	141,579,703	276,184,526	284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%

SOURCE: Kentucky Revenue Cabinet

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

COMMONWEALTH OF KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
FOR FISCAL YEARS 1992 - 2001
(Expressed in Thousands Except Percentages)

For the Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total
						Tax Collections to Tax Levy
1992	\$ 356,238	\$ 329,783	92.6%	\$ 8,765	\$ 338,548	95.0%
1993	374,257	345,089	92.2%	9,669	354,758	94.8%
1994	392,652	357,996	91.2%	12,204	370,200	94.3%
1995	417,799	377,710	90.4%	17,615	395,325	94.6%
1996	424,505	391,977	92.3%	17,200	409,177	96.4%
1997	410,755	399,759	97.3%	15,099	414,858	101.0%
1998	365,014	349,774	95.8%	13,019	362,793	99.4%
1999	377,835	358,478	94.9%	11,927	370,405	98.0%
2000	402,428	371,715	92.4%	15,543	387,258	96.2%
2001	416,503	386,890	92.9%	20,605	407,495	97.8%

SOURCE: Kentucky Revenue Cabinet

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

COMMONWEALTH OF KENTUCKY
RATIO OF GENERAL LONG-TERM BONDED DEBT
TO ASSESSED VALUE AND DEBT PER CAPITA
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio and Per Capita Debt)

<u>For the Year</u> <u>Ended June 30</u>	<u>Estimated</u> <u>Population</u>	<u>Assessed</u> <u>Value</u>	<u>General Long-Term</u> <u>Bonded Debt</u>	<u>General Bonded Debt</u>	
				<u>Ratio to</u> <u>Assessed Value</u>	<u>Per Capita</u>
1993	3,792	\$ 224,019,198	\$ 3,144,038	1.4%	\$ 829
1994	3,823	242,795,547	3,098,553	1.3%	811
1995	3,855	256,370,647	3,133,332	1.2%	813
1996	3,881	254,367,477	3,134,342	1.2%	808
1997	3,908	235,805,417	3,133,332	1.3%	802
1998	3,934	251,976,181	2,833,433	1.1%	720
1999	3,961	263,191,122	2,178,683	0.8%	550
2000	3,988	276,184,525	2,315,533	0.8%	581
2001	4,015	293,913,645	2,944,839	1.0%	733
2002	4,066	Projected 303,875,000	Estimated 680,085	0.2%	167

SOURCE: U.S. Department of Commerce, Bureau of the Census, provided by Kentucky Economic Development Cabinet.

NOTE: General long-term bonded debt includes adjustments to eliminate bonds accounted for by Proprietary Funds, State Universities, and adjustments to updated amortization schedules, bonds redeemed prior to scheduled maturity, and correction of maturity.

COMMONWEALTH OF KENTUCKY
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO
TOTAL EXPENDITURES FOR GENERAL GOVERNMENTAL FUNCTIONS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

<u>For the Year</u> <u>Ended June 30</u>	<u>General</u> <u>Long - Term</u> <u>Debt Service</u>	<u>Total</u> <u>Expenditures</u>	<u>Ratio</u>
1993	\$ 284,323	\$ 8,014,622	3.5%
1994	357,122	8,058,025	4.4%
1995	416,756	9,177,980	4.5%
1996	392,130	9,473,403	4.1%
1997	332,127	10,147,728	3.3%
1998	438,029	10,644,432	4.1%
1999	357,698	11,095,291	3.2%
2000	302,708	12,066,754	2.5%
2001	410,058	12,605,995	3.3%
2002	232,106	14,856,420	1.6%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report.

**COMMONWEALTH OF KENTUCKY
DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 1992-2001**

<u>For the Year Ended December 31</u>	<u>Estimated Population</u>	<u>Per Capita Income</u>	<u>Unemployment Rate</u>
1992	3,756,358	\$ 17,320	6.9%
1993	3,792,288	17,815	6.2%
1994	3,823,215	18,514	5.4%
1995	3,855,248	19,215	5.4%
1996	3,881,051	20,155	5.6%
1997	3,907,816	21,215	5.4%
1998	3,934,310	22,353	4.6%
1999	3,960,825	23,237	4.5%
2000	4,041,769	24,057	4.1%
2001	4,065,556	25,057	5.5%

SOURCE: U.S. Department of Commerce, Bureau of Census; U.S. Department of Commerce, Bureau of Economic Analysis; Kentucky Cabinet for Human Resources

**COMMONWEALTH OF KENTUCKY
CONSTRUCTION AND BANK DEPOSITS
FOR CALENDAR YEARS 1992-2001**

(Expressed in Thousands, Except Number of Units)

<u>For the Year Ended December 31</u>	<u>Non-Residential Construction</u>		<u>Residential Construction</u>		<u>Bank Deposits</u>
	<u>Number of Units</u>	<u>Value</u>	<u>Number of Units</u>	<u>Value</u>	
1992	8,437	\$ 677,181	14,689	\$ 1,023,682	\$ 34,882,000
1993	8,952	797,365	15,907	1,172,971	35,112,000
1994	10,024	801,728	18,554	1,370,011	37,352,000
1995	10,025	1,247,662	17,625	1,276,432	37,893,000
1996	See Note	See Note	18,778	1,484,079	39,769,000
1997	See Note	See Note	18,114	1,483,895	38,247,000
1998	See Note	See Note	20,640	1,730,505	39,921,000
1999	See Note	See Note	21,581	1,909,051	37,173,000
2000	See Note	See Note	18,460	1,767,181	48,345,000
2001	See Note	See Note	17,685	1,817,684	52,519,000

SOURCE: U.S. Department of Commerce, Bureau of Census; Federal Deposit Insurance Corporation

NOTE: Beginning January 1996, the Bureau of Census, Building Permits Section has discontinued collection of Nonresidential Data due to budget reductions.

**COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 1992-2001**
(Expressed in Thousands, Except Percent Data)

Source	1992		1993		1994		1995		1996	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,218,102	2.7%	\$ 1,038,066	2.2%	\$ 1,062,592	2.1%	\$ 651,984	1.3%	\$ 1,005,924	1.8%
Agriculture Services, Forestry, Fisheries and Others	292,038	0.6%	337,604	0.7%	319,445	0.6%	341,495	0.7%	343,124	0.6%
Mining	1,491,082	3.3%	1,426,899	3.0%	1,435,725	2.9%	1,322,910	2.6%	1,280,840	2.4%
Manufacturing	9,774,810	21.4%	10,274,871	21.5%	10,975,287	21.9%	11,424,900	22.1%	11,589,170	21.3%
Construction	2,463,938	5.4%	2,684,113	5.6%	2,875,033	5.7%	2,877,756	5.6%	3,076,508	5.7%
Wholesale and Retail Trade	6,608,880	14.4%	6,911,573	14.5%	7,355,968	14.7%	7,828,796	15.1%	8,196,534	15.1%
Finance, Insurance and Real Estate	2,075,570	4.5%	2,354,124	4.9%	2,330,102	4.7%	2,469,422	4.8%	2,638,070	4.8%
Transportation and Public Utilities	3,179,558	7.0%	3,321,852	7.0%	3,577,361	7.1%	3,702,916	7.2%	3,923,834	7.2%
Services	9,382,867	20.5%	9,951,554	20.9%	10,454,944	20.9%	11,128,883	21.5%	11,967,410	22.0%
Government and Government Enterprises	9,261,611	20.2%	9,389,110	19.7%	9,692,029	19.4%	10,032,371	19.4%	10,424,575	19.1%

Source	1997		1998		1999		2000		2001	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,089,167	1.9%	\$ 952,853	1.6%	\$ 517,624	0.8%	\$ 1,483,888	2.2%	\$ 973,207	1.4%
Agriculture Services, Forestry, Fisheries and Others	381,648	0.7%	418,171	0.7%	459,520	0.7%	486,861	0.7%	521,541	0.7%
Mining	1,285,507	2.2%	1,349,932	2.2%	1,317,251	2.1%	1,271,373	1.9%	1,335,332	1.9%
Manufacturing	12,115,128	21.0%	12,627,586	20.8%	13,250,867	20.7%	13,801,043	20.1%	13,636,644	19.3%
Construction	3,327,837	5.8%	3,564,392	5.9%	3,860,806	6.0%	4,185,053	6.1%	4,330,048	6.1%
Wholesale and Retail Trade	8,799,702	15.3%	9,416,822	15.5%	10,058,449	15.7%	10,443,036	15.2%	10,697,978	15.2%
Finance, Insurance and Real Estate	2,879,267	5.0%	3,047,100	5.0%	3,179,882	5.0%	3,683,236	5.4%	3,775,760	5.4%
Transportation and Public Utilities	4,139,835	7.2%	4,606,622	7.6%	4,900,018	7.6%	5,351,130	7.8%	5,493,532	7.8%
Services	12,756,562	22.1%	13,696,971	22.5%	14,746,767	23.0%	15,582,556	22.7%	16,509,978	23.4%
Government and Government Enterprises	10,820,700	18.8%	11,137,773	18.3%	11,772,286	18.4%	12,397,504	18.0%	13,225,469	18.8%

SOURCE: Kentucky Cabinet for Economic Development, Division of Research

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

COMMONWEALTH OF KENTUCKY
TOP 10 MANUFACTURERS
 (Ranked by Number of Employees)
2002

Company	Number of Plants	Number of Employees
Ford Motor Company	2	10,900
General Electric Company	6	9,725
Toyota Motor Corporation	3	8,714
Johnson Controls, Incorporated	16	5,109
Lexmark International Group	1	5,000
Dana Corporation	14	4,592
Toyota Tsusho	9	3,821
Emerson Electric Company	7	2,641
Publishers Printing	2	2,583
R.R. Donnelly and Sons Company	2	2,299

SOURCE:
 2002 Kentucky Directory of Manufacturers, Harris InfoSource in cooperation with the Kentucky Cabinet for Economic Development.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF MISCELLANEOUS STATISTICS
JUNE 30, 2002

Adoption of Kentucky Constitution	1792
Form of Government	Legislative, Executive, Judicial
Land Area (square miles)	39,650
Miles of Highways, Roads and Streets	78,912

Police Protection:

Statewide Jurisdiction	
Number of Kentucky State Police Posts	16
Number of Sworn Officers	954
Number of Other Statewide Agencies	6
Number of Officers	476
County Jurisdictions	
Number of Sheriffs	120
Number of Deputies	1,515
Number of County Departments	11
Number of County Officers	618
Local Jurisdictions	
Number of Departments	250
Number of Sworn Officers	3,892
College and Universities	
Number of Departments	8
Number of Sworn Officers	144
Other law Enforcement/Task Forces/Airport Security/ County Schools Security	
Number of Departments	13
Number of Sworn Officers	173

Higher Education:

State Supported Universities and Community Colleges	
Number of Campuses	22
Number of Full-Time Instructional Faculty	5,616
Number of Students, Fall 2001	158,084
Private Colleges and Universities	
Number of Campuses	21
Number of Full-Time Instructional Faculty	1,420
Number of Students, Fall 2001	29,168

State Supported Recreation:

Number of Resort Parks	17
Number of Recreation Parks	22
Number of Historic Sites	10
Area of State Parks (acres)	43,948
Number of 2002 Overnight Visitors	503,445

Permanent Full-Time Executive Branch Employees	37,219
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SOURCES: Kentucky Revised Statutes
Kentucky Transportation Cabinet
Kentucky State Police
Kentucky Council on Post Secondary Education
Kentucky Department of Parks
Kentucky Personnel Cabinet

ACKNOWLEDGMENTS

The Commonwealth of Kentucky's Comprehensive Annual Financial Report was prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, Financial Reporting Branch and the Fixed Assets Branch:

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Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2002

Paul E. Patton, Governor

On the front cover: **The Kentucky Floral Clock**

The Kentucky Floral Clock was dedicated on May 4, 1961, by The Garden Club of Kentucky in co-sponsorship with the Commonwealth. Kentucky's is one of the largest of this type in the world.