

*COMMONWEALTH  
OF KENTUCKY*

# *Comprehensive Annual Financial Report*



*Fiscal Year Ended  
June 30, 2004*

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Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2004

Ernie Fletcher, Governor



Prepared by:  
Finance and Administration Cabinet  
Robbie Rudolph, Secretary

Office of the Controller  
Edgar C. Ross, Controller

Statewide Accounting Services  
Stuart Weatherford, Assistant Controller



Ernie Fletcher  
Governor



COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR

ERNIE FLETCHER  
GOVERNOR

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

December 23, 2004

My Fellow Kentuckians:

I am pleased to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 2004. This report conforms to the highest standards of financial reporting and reflects our commitment to sound financial management and strengthening of the financial condition of the Commonwealth.

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 and reporting the financial activity of the government.

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

Sincerely,

A handwritten signature in cursive script that reads "Ernie Fletcher".

Ernie Fletcher

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# **INTRODUCTORY SECTION**

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ERNIE FLETCHER  
GOVERNOR

**OFFICE OF THE SECRETARY**  
Finance and Administration Cabinet  
383 CAPITOL ANNEX  
FRANKFORT, KENTUCKY 40601  
(502) 564-4240  
(502) 564-6785 Fax

ROBBIE RUDOLPH  
Secretary

December 23, 2004

The Honorable Ernie Fletcher  
Governor, Commonwealth of Kentucky  
The Capitol Building  
Frankfort, Kentucky 40601

Dear Governor Fletcher:

#### **INTRODUCTION**

Section 48.800(3) of the Kentucky Revised Statutes (K.R.S.) requires the Finance and Administration Cabinet to submit a complete report of the financial transactions of the preceding year and of the financial condition of the Commonwealth as of the end of that fiscal year. In accordance with this statute, it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2004. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which assumes responsibility for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial 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 2003 Certificate of Achievement award, 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" 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. Special attention should be given to the MD&A which is designed to accompany the letter of transmittal. The Commonwealth's MD&A is located in the Financial Section directly following the Auditors' Report.

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The independent auditor concluded that the Commonwealth of Kentucky's financial statements for the year ended June 30, 2004, are fairly presented in conformity with GAAP. The report of the independent auditor appears elsewhere in this report.

## **PROFILE OF THE COMMONWEALTH OF KENTUCKY**

### ***The Reporting Entity and Its Services***

This report includes all funds and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's Statement 14 as amended by GASB 39. The component units which are blended into the Commonwealth's primary government and function as actual parts of the Commonwealth are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Tobacco Settlement Trust Corporation, Judicial Form Retirement System, Kentucky Retirement System, and Kentucky Teachers' 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 Housing Corporation, Kentucky Infrastructure Authority, Kentucky Artisan Center, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Community and Technical College System, the eight state-supported universities, and the Council on Post Secondary Education.

Additional detailed information pertaining to Commonwealth's component units is located within the Financial Section (particularly Note 1) of this report.

### ***The Commonwealth and Its Services***

Located in south central United States along the west side of the Appalachian Mountains, Kentucky was once a part of Virginia. After its split with Virginia, Kentucky retained its "commonwealth" (meaning government based on the consent of the people) status and adopted its Constitution in 1792. The Commonwealth provides the full range of services contemplated by statute, including economic development, educational and human services, energy and natural resources management, law enforcement, correctional and public protection services, transportation, public improvements, and general legislative, administrative, and judicial services. The Commonwealth's chief executive is the Governor who is popularly elected every four years and may serve for two terms. Policies are directed through the various Cabinets. The General Assembly, or state Legislature, has two components: the Senate and the House of Representatives. The Senate has 38 members who are elected to four-year terms and the House has 100 members who are elected to two-year terms. The Legislature meets annually and has the power to enact all laws, subject to limits imposed by the state constitution. Revenue-raising issues must be presented in the House. All other bills may be introduced by either the House or the Senate.

### ***Budgetary Controls***

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

## ECONOMIC CONDITION AND OUTLOOK

### *National Economy*

The recent recession lasted just eight months and was officially over in November 2001, but the economy seems to have remained in the doldrums for much longer. Historically, a typical contraction is followed by a sharp rebound in response to factors related to pent-up demand and low inventories. However, this did not happen in a sustained way during this recovery. To stimulate the economy, the federal government adopted an aggressive fiscal policy in the form of tax cuts, and the Federal Reserve lowered interest rates. The combined effect of these policies finally prodded the economy onto a path of strong recovery.

Initially increased economic output, measured by real gross domestic product (GDP) increased. The greater output, however, did not translate into more jobs in either the nation or Kentucky. Then, beginning in January 2004, employment started picking up and so did consumer confidence.

Real GDP is estimated to have grown by a robust 4.6 percent during fiscal year 2004, following growth rates of just 0.7 percent in fiscal year 2002 and 2.6 percent in fiscal year 2003. The strong growth confirms that the recession is finally over. During the next two years, real GDP is expected to increase by 4.5 percent in fiscal year 2005 and 3.0 percent in fiscal year 2006.

Real consumption for fiscal year 2004 was up 4.1 percent, rebounding strongly from the 2.8 percent growth seen a year ago. Historically low interest rates lured consumers to purchase big-ticket items, driving the consumption of durable goods up by 10.1 percent. The strongest gain during the year was in the purchase of furniture (up 13.6 percent) and in motor vehicles and parts (up 7.5 percent). Consumer confidence, as displayed by the purchase of houses and automobiles, is impacted by economic reality and “feel good” factors. However, the 8.6 percent increase in business investment in fiscal year 2004 meant that businesses were willing to expand capacity and employ new capital in the belief that the recovery was well entrenched.

U.S. personal income was up 4.7 percent in fiscal year 2004 and is forecasted to increase by 5.9 percent in fiscal year 2005 and 5.1 percent in fiscal year 2006. The employment picture is expected to change during the next two years with strong growth rates of 2.0 and 1.7 percent.

### *Kentucky's Economy*

Following the recovery in U.S. gross domestic product (it surged by 8.2 percent in the July-to-September quarter of fiscal year 2004), expectations for a similar recovery were high for the Kentucky economy. Unfortunately, the growth in national GDP failed to translate into a rebound in Kentucky's employment and income during the first half of the year. Increased investment in infrastructure during the “new economy” surge of the 1990s paid off in terms of productivity improvements. Thus, an increase in output did not initially translate into an increase in Kentucky employment in the high-wage manufacturing sector.

By the second half of fiscal year 2004, however, employment began to increase in Kentucky. Overall, nonagricultural employment growth for the year was 0.2 percent, the same as the national average. Service-providing industries, which comprise a little over 60 percent of all employment, posted job gains of 1.0 percent. Employment in the goods-producing sector, which provides jobs for about one-fifth of Kentucky, declined by 0.6 percent. Employment in government declined by 1.9 percent.

As the economy firms up during the next two years, employment is forecasted to show strong gains. Total nonagricultural employment is expected to be up by 1.7 percent in fiscal year 2005 and 1.5 percent in fiscal year 2006. The net job gain during the two-year period is estimated at 58,300. Manufacturing employment is expected to rebound and post gains of 1.8 and 1.0 percent during the current biennium.

Personal income is a measure of spending power. Kentucky's personal income growth in fiscal year 2004 averaged 4.8 percent, compared to 4.7 percent nationally. The wage and salary component grew by 3.5 percent. The slim growth

in the wage component is due to the slow employment recovery, especially in the traditionally high-wage manufacturing and business services sectors. In fiscal year 2005, Kentucky's personal income is expected to rebound with a gain of 5.6 percent, followed by 4.7 percent growth in fiscal year 2006.

### ***Long-Term Financial Planning***

Kentucky has by statute (KRS 48.705) a set goal of maintaining a Budget Reserve Trust Fund (BRTF) balance of five percent of general fund revenues. As of June 30, 2004, the BRTF was approximately \$300 million short of this goal. The BRTF was reduced to this level as part of the budget balancing measures of the previous administration. The Fund was tapped to supplement revenue shortfalls in fiscal year 2001 and fiscal year 2002, to finance essential public services. It is the policy of the current administration to earmark a portion of any year-end surplus to replenish the BRTF in order to achieve the desired balance.

### **Major Initiatives**

Fiscal year 2004 was an unusual, if not unique, year in Kentucky's recent fiscal history. Most notably, the year was marked by gubernatorial transition, a significant formal budget reduction action, legislative failure to enact the biennial budget, and a modest upturn in the state's economy and revenue collections nearing the end of the fiscal period.

The fiscal year began in July 2003 with implementation of the Executive and Judicial Branch budgets that had been enacted by the General Assembly in the 2003 Regular Session. This marked the first time in Kentucky's modern political history in which the General Assembly had enacted a biennial budget in its "odd year" and "short session." That action occurred in the odd year session because the 2002 Regular Session of the General Assembly and a subsequent Special Session of the General Assembly ended without enacting biennial budgets for the Executive and Judicial Branches of government. Ultimately, when the General Assembly convened in Regular Session in February and March of 2003, it took the action it had previously deferred – a first in Kentucky history. That 2003 Session of the General Assembly then enacted a budget for the remainder of the 2002-2004 biennium.

The budget that was enacted was a very lean one reflecting across-the-board cutbacks in spending compared with an "Executive Branch Spending Plan" and "Judicial Branch Spending Plan" under which Kentucky government had operated during the period July 1, 2002 – March 22, 2003, in the absence of legislatively enacted budgets. Both the Governor and Chief Justice of the Supreme Court had issued Executive Orders at the outset of fiscal year 2003 to set forth spending parameters for their respective branches of government in the absence of legislatively conferred appropriations.

In November 2003, Kentucky elected a new Governor upon the expiration of the previous Governor's term of office. For the first time in 32 years, the gubernatorial election in Kentucky resulted in a change of political parties in the Governor's Office. No sooner had the new Administration taken office than it was confronted by a significant shortfall in revenues compared to the belated budget enacted by the 2003 Session of the General Assembly for fiscal year 2004.

In response, in January 2004, the new Governor executed an Official Budget Reduction Order reducing or realigning state spending by \$302 million for the remainder of fiscal year 2004. This action was completed the day before the 2004 Regular Session of the General Assembly convened.

When the General Assembly adjourned in April 2004, for the second time in the Commonwealth's history and the second consecutive biennial session it did so without enacting a budget for the Executive Branch. While the Governor indicated that "he would call a Special Session of the General Assembly should a consensus on a budget emerge between the Leadership of respective Legislative Chambers," no consensus emerged prior to the close of the fiscal year and no Special Session was convened. At the same time, during the final months of the fiscal year, state revenues began to accrue in excess of the amounts estimated by the Consensus Forecasting Group in its December forecast that had triggered the issuance of the Governor's Budget Reduction Order in January. This late year upturn enabled the Commonwealth to close the fiscal year with a modest surplus compared to the mid-year estimates. Nonetheless, even with this late year upturn, the additional revenues realized at year end totaled fewer dollars than the amounts that had

already been cut from the budget in the January Reduction Order. Thus, the fiscal year concluded on a brighter revenue note than what had been experienced in several fiscal years, even though revenue collections still did not meet the estimates upon which the enacted budget for fiscal year 2004 had been predicated.

As had occurred two years previously in the absence of a legislatively enacted budget for the Executive Branch, just prior to the end of the fiscal year, the Governor issued an Executive Order setting forth a “Public Services Continuation Plan” for the Executive Branch. This spending plan set out an allocation of dollars for each state agency for the first quarter of fiscal year 2005. Immediately the Order was challenged by a number of groups who filed suit against its implementation seeking to enjoin or otherwise restrict the Governor and Executive Branch from operating absent a legislatively enacted budget. However, when the fiscal year 2004 ended and fiscal year 2005 began on July 1, the Circuit Court declined to grant an injunction or other relief to the plaintiffs and the Executive Branch continued operating under the parameters of the Governor’s Executive Order (the Public Services Continuation Plan).

It should be noted that the Public Services Continuation Plan did not permit all normal financial activities of the government to continue. It specifically omitted all new revenue bond issues and the capital projects that they would normally support. A Judicial Order issued in July 2004 expressly prohibited spending on any “new programs or projects.”

As of late October 2004, the Executive Branch of the Commonwealth continued to operate under the Public Services Continuation Plan for which the Governor issued a second quarter authorization by Executive Order 2004-1092 dated September 30, 2004.

## **FINANCIAL INFORMATION**

### *The Accounting System*

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

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

### *Debt Administration*

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth’s debt position. The data for 2004 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Per Capita Debt</u>
General Bonded Debt	\$545,642	3.5%	\$779

No general obligation bonds were authorized or outstanding at June 30, 2004.

A detailed analysis of the Commonwealth’s debt issuance during the fiscal year ended 2004 is presented in Note 15.

## OTHER INFORMATION

### *Certificate of Achievement for Excellence in Financial Reporting*

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2003. This is the seventeenth 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,



R.B. Rudolph, Jr., 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

ERNIE FLETCHER  
Governor  
ROBBIE RUDOLPH  
Secretary

December 23, 2004

The Honorable Robbie Rudolph  
Secretary, Finance and Administration Cabinet  
383 New Capitol Annex  
Frankfort, Kentucky

Dear Secretary Rudolph:

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, 2004, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB).

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Edgar C. Ross".

Edgar C. Ross, Controller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Commonwealth of Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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.



*Nancy L. Zjelle*

President

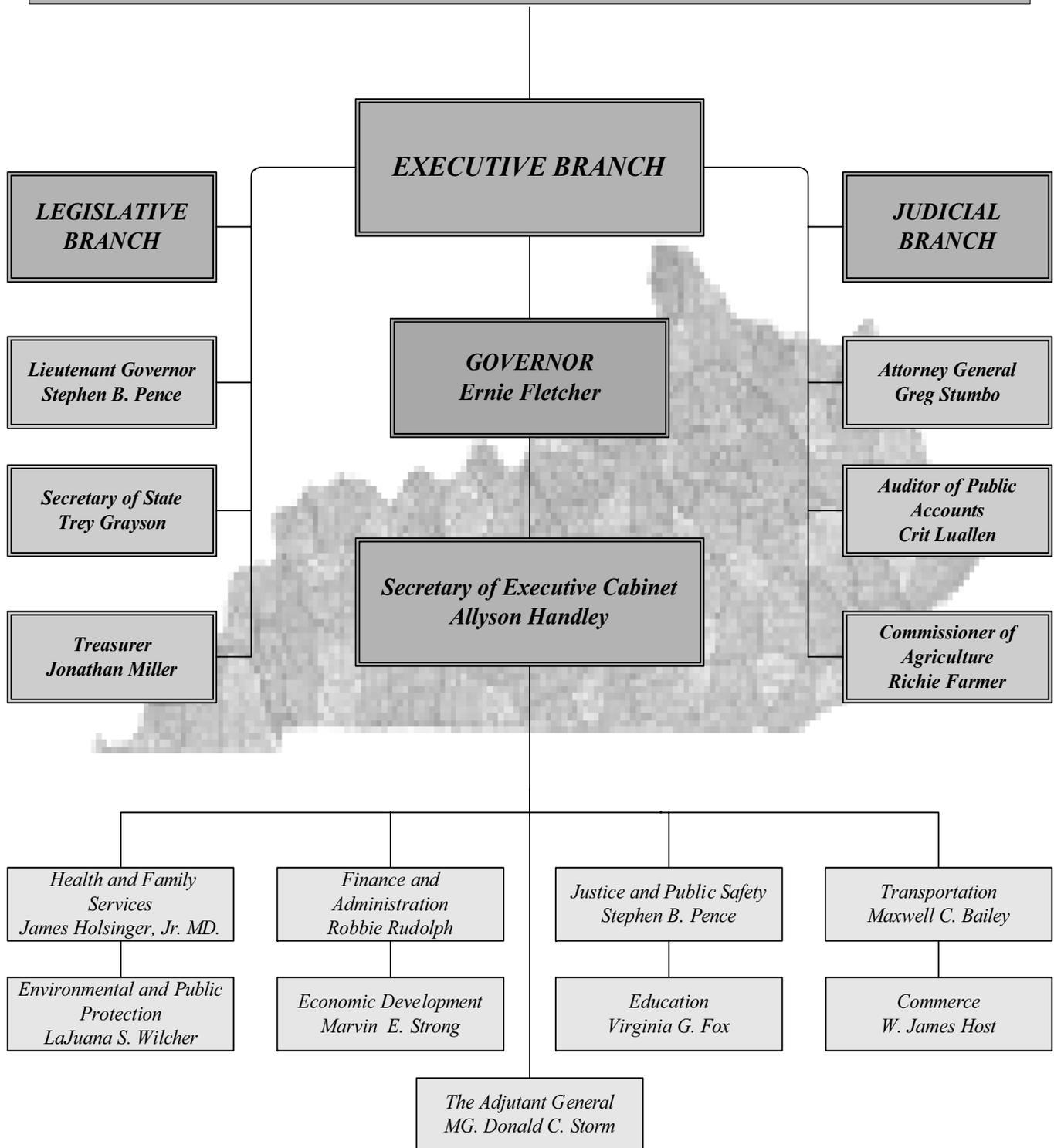
*Jeffrey R. Emer*

Executive Director

# COMMONWEALTH OF KENTUCKY

## ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



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## **FINANCIAL SECTION**

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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

**Independent Auditor's Report**

To the People of Kentucky  
The Honorable Ernie Fletcher, Governor  
Robbie Rudolph, 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, 2004, 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 of Kentucky. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds is based upon the reports of the other auditors. Those entities were:

**Certain portions of the Governmental Funds including:**

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

**Certain portions of the Proprietary Funds including:**

- Kentucky Horse Park
- Kentucky Lottery Corporation
- Within the Insurance Administration Fund:
  - Kentucky Coal Workers' Pneumoconiosis
  - Kentucky Workers' Compensation Fund
  - The Underground Storage Tank Branch - formerly known as the 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

105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067  
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky  
 The Honorable Ernie Fletcher, Governor  
 Robbie Rudolph, Secretary  
 Finance and Administration Cabinet  
 Page 2

**Component Units:**

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

**Component Units - Colleges and Universities and related entities:**

- University of Kentucky
- Eastern Kentucky University
- Morehead State University
- Northern Kentucky University
- Kentucky Community and Technical College System
- University of Louisville
- Kentucky State University
- Murray State University
- Western Kentucky University
- Kentucky Council on Postsecondary Education

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

<b>Government-Wide Financial Statements:</b>	<b>Percent of Assets</b>	<b>Percent of Revenues</b>
Primary Government - Governmental Activities	1.84%	0.47%
Primary Government - Business-Type Activities	52.01%	66.24%
Component Units	99.24%	96.59%
<b>Fund Financial Statements:</b>		
Governmental Funds - Non-Major Funds	44.14%	7.46%
Proprietary Funds - Business-Type Activities - Enterprise Funds	50.93%	64.72%
Proprietary Funds - Governmental Activities - Internal Service Funds	2.92%	14.86%
Fiduciary Funds - Pension Trust Funds	100.00%	100.00%
Component Units	99.24%	96.59%

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.

To the People of Kentucky  
The Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Page 3

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2004, 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.

The Management's Discussion and Analysis on pages 16 through 23, budgetary comparison schedules and corresponding notes on pages 102 through 121, and information about infrastructure assets reported using the modified approach on pages 122 and 123, and claims development information for entity risk pools on page 124, 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 127 through 171 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 1 through 10 and 173 through 184 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,



Crit Luallen  
Auditor of Public Accounts

December 23, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2004. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

### FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

#### **Government-Wide Highlights:**

The assets of the Commonwealth governmental activities exceeded its liabilities at fiscal year ending June 30, 2004 by \$16.7 billion, an increase of \$344 million related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$82 million, a decrease in net assets of \$33 million related to current year activity. Total net assets increased by \$311 million to \$16.6 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2004 by \$4.93 billion, an increase of \$366 million related to current year activity.

#### **Fund Highlights:**

As of the close of the fiscal year 2004, the Commonwealth's governmental funds reported combined ending fund balances of \$2.03 billion, a decrease of \$74 million in comparison with the prior year. Of this total amount, \$1.03 billion was reserved and the balance of approximately \$999 million was unreserved. The unreserved undesignated fund balance of the General Fund was \$304 million at June 30, 2004.

Enterprise funds reported net assets of \$(82) million, of which \$640 million was restricted or invested in capital assets, and the balance of \$(722) million was unrestricted.

#### **Long-Term Debt:**

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$177 million to \$3.41 billion during the current fiscal year. This increase is due to the issuance of new debt by the Commonwealth's Primary Government during fiscal year 2004. Additional details of these activities can be found in Note 15 beginning on Page 87.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Commonwealth's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes other required supplementary information (*General and Special Revenue Fund budgetary schedules; condition and maintenance data regarding infrastructure; and claims development information*) and other supplementary information (combining financial statements). Each of these components is described below.

#### **Government-Wide Financial Statements**

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

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

These three types of activities are:

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

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

**Discretely Presented Component Units** – These are operations for which the Commonwealth has financial accountability but which possess certain independent qualities as well. More information on the Commonwealth’s discretely presented component units can be found in Note 1 on Page 53.

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

### Fund Financial Statements

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$16.6 billion at the end of 2004, as compared to \$16.2 billion at the end of the previous year.

At \$17.4 billion, the largest portion of the Commonwealth's net assets is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.38 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$2.2 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2003 and June 30, 2004, derived from the government-wide Statement of Net Assets.

Table 2: Condensed Statement of Net Assets ( Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current Assets	\$ 3,526,169	\$ 2,303,761	\$ 600,698	\$ 627,240	\$ 4,126,867	\$ 2,931,001
Capital Assets	18,424,452	17,763,532	257,858	249,449	18,682,310	18,012,981
Other Assets	1,237,855	1,345,234	509,248	568,613	1,747,103	1,913,847
Total Assets	23,188,476	21,412,527	1,367,804	1,445,302	24,556,280	22,857,829
Non Current Liabilities	4,271,975	3,998,777	1,374,578	1,446,270	5,646,553	5,445,047
Other Liabilities	2,245,937	1,143,372	75,137	59,774	2,321,074	1,203,146
Total Liabilities	6,517,912	5,142,149	1,449,715	1,506,044	7,967,627	6,648,193
Invested in Capital Assets						
Net of Related Debt	17,156,329	16,368,574	257,794	249,023	17,414,123	16,617,597
Restricted	994,827	1,189,894	382,173	464,354	1,377,000	1,654,248
Unrestricted	(1,480,592)	(1,288,090)	(721,878)	(774,119)	(2,202,470)	(2,062,209)
Total Net Assets	\$ 16,670,564	\$ 16,270,378	\$ (81,911)	\$ (60,742)	\$ 16,588,653	\$ 16,209,636

### Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during fiscal year 2004. The Commonwealth received program revenues of \$7.3 billion and general revenues of \$8.5 billion for total revenues of \$15.8 billion during Fiscal Year 2004. Expenses for the Commonwealth during Fiscal Year 2004 were \$15.5 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$311 million, net of contributions, transfers and special items.

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

	2004	2003	2004	2003	2004	2003
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities		
Revenues:						
Program Revenues:						
Charges for Services	\$ 849,146	\$ 1,092,148	\$ 1,243,204	\$ 1,240,234	\$ 2,092,350	\$ 2,332,382
Operating Grants and Contributions	4,528,038	4,583,434	130,212	210,488	4,658,250	4,793,922
Capital Grants and Contributions	524,936	547,363	586	1,046	525,522	548,409
General Revenues:						
Income Taxes	3,102,016	3,054,536			3,102,016	3,054,536
Sales Taxes	3,780,204	3,653,535			3,780,204	3,653,535
Property Taxes	462,062	439,129			462,062	439,129
Other Taxes	555,625	581,871			555,625	581,871
Investment Earnings	24,368	10,184	21,259	19,251	45,627	29,435
Other	537,093	387,955	66,784	(6,565)	603,877	381,390
Total Revenues	<u>14,363,488</u>	<u>14,350,155</u>	<u>1,462,045</u>	<u>1,464,454</u>	<u>15,825,533</u>	<u>15,814,609</u>
Expenses:						
Governmental Activities:						
General Government	2,322,043	1,949,067			2,322,043	1,949,067
Legislative and Judicial	268,001	247,503			268,001	247,503
Commerce	128,548	80,459			128,548	80,459
Education and Humanities	3,824,742	3,752,426			3,824,742	3,752,426
Human Resources	5,630,683	5,646,075			5,630,683	5,646,075
Justice	564,202	616,236			564,202	616,236
Natural Resources and Environmental Protection	150,380	136,057			150,380	136,057
Public Protection and Regulation	111,928	139,518			111,928	139,518
Transportation	1,020,786	1,062,576			1,020,786	1,062,576
Interest Expense	200,315	227,926			200,315	227,926
Business-type Activities:						
State Parks			92,287	88,423	92,287	88,423
Kentucky Lottery Corporation			554,880	515,629	554,880	515,629
Kentucky Horse Park			11,732	8,562	11,732	8,562
Insurance Administration			77,241	83,536	77,241	83,536
Unemployment Compensation			556,870	490,348	556,870	490,348
Total Expenses	<u>14,221,628</u>	<u>13,857,843</u>	<u>1,293,010</u>	<u>1,186,498</u>	<u>15,514,638</u>	<u>15,044,341</u>
Increase (Decrease) in Net Assets Before Transfers	141,860	492,312	169,035	277,956	310,895	770,268
Transfers	201,712	231,828	(201,712)	(231,828)		
Change in Net Assets	<u>343,572</u>	<u>724,140</u>	<u>(32,677)</u>	<u>46,128</u>	<u>310,895</u>	<u>770,268</u>
Net Assets, Beginning of Year	16,326,992	15,546,238	(49,234)	(106,870)	16,277,758	15,439,368
Net Assets, End of Year	<u>\$ 16,670,564</u>	<u>\$ 16,270,378</u>	<u>\$ (81,911)</u>	<u>\$ (60,742)</u>	<u>\$ 16,588,653</u>	<u>\$ 16,209,636</u>

### Governmental Activities:

During the fiscal year, the net assets of governmental activities increased by \$344 million or 2.10 percent. Approximately 54 percent of the governmental activities' total revenue came from taxes, while 35 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 2,322,043	\$ 359,654	\$ 1,962,389
Legislative and Judicial	268,001	14,490	253,511
Commerce	128,548	47,016	81,532
Education and Humanities	3,824,742	763,686	3,061,056
Human Resources	5,630,683	3,779,730	1,850,953
Justice	564,202	67,856	496,346
Natural Resources and Environmental Protection	150,380	95,921	54,459
Public Protection and Regulation	111,928	75,087	36,841
Transportation	1,020,786	698,680	322,106
<b>Totals</b>	<b>\$ 14,021,313</b>	<b>\$ 5,902,120</b>	<b>\$ 8,119,193</b>

### Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities decreased the Commonwealth's net assets by \$33 million. Program revenues generated by the operations State Parks, Kentucky Horse Park, and Unemployment Insurance were insufficient to cover program expenses. General revenues support expenses not covered by Program revenues.

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 92,287	\$ 50,925	\$ 41,362
Kentucky Lottery Corporation	554,880	725,252	(170,372)
Kentucky Horse Park	11,732	9,497	2,235
Insurance Administration	77,241	129,084	(51,843)
Unemployment Insurance	556,870	459,244	97,626
<b>Totals</b>	<b>\$ 1,293,010</b>	<b>\$ 1,374,002</b>	<b>\$ (80,992)</b>

### Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2004 include the following:

- The assets of the State's governmental activities exceeded liabilities (net assets) at the close of the fiscal year by \$16.7 billion and the liabilities of the State's business-type activities exceeded their assets by \$(82) million.
- The State's total net assets increased during the year by \$311 million. Net assets of governmental activities increased by \$344 million, while net assets of business-type activities decreased by \$33 million.

## FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.03 billion, a decrease of \$74 million in comparison with the prior year. Approximately half (\$999 million or 49%) 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.

### General Fund

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, total fund balance reached \$389 million, with an unreserved balance of \$304 million. This compares to a General Fund unreserved Fund Balance of \$184 million as of June 30, 2003. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's general fund increased by \$94 million during the current fiscal year. This is a 31.4 percent increase in net assets from the prior year. The increase is the result of spending reduction efforts and lapses of appropriations, an increased number of interfund transfers in. The following governmental funds experienced significant changes during the year:

### Transportation Fund

Fund balance at June 30, 2004 totaled \$228 million, a decrease of \$207 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

### Capital Projects Fund

Fund balance at June 30, 2004 totaled \$394 million, an increase of \$95 million during the fiscal year. The increase primarily relates to the issuance of new debt for capital projects.

**Proprietary Funds** - The Commonwealth's proprietary funds reported net assets of \$32 million including \$(82) million in the enterprise funds and \$114 million in the internal service funds. This is a decrease of \$48 million from the previous year.

Two proprietary funds that experienced significant changes during the year were the Insurance Administration Fund and Unemployment Compensation. The Insurance Administration Fund's net assets at June 30, 2004 totaled (\$749) million, an increase of \$87 million during the fiscal year. The increase primarily relates to a reduction in the amount of claims liability reported in the special fund of the Division of Workers' Compensation. Unemployment Compensation's net assets at June 30, 2004 totaled \$368 million, a large decrease of \$96 million for the year. This is due in large part to an increase in the payments of claims throughout the year.

## GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues exceeded final budgetary estimates by approximately \$211 million; however, this was less than original estimates. Appropriations and allotments were decreased to reflect the change in budgetary revenue estimates. As a result of these budgetary reductions, the Commonwealth's General fund balance increased. This enabled the budget stabilization "rainy day fund" to be increased in the new fiscal year.

## 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, 2004, amounts to \$19.5 billion, with accumulated depreciation of \$824 million, leaving a net book value of \$18.7 billion. This investment in capital assets includes land, improvements, buildings, equipment, construction in

progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 3.72 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$698 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$80.7 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 61,750 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition levels of the infrastructure assets.
- The asset condition level established by the Commonwealth has 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.

The Commonwealth of Kentucky's bonded debt decreased by \$60 million to \$3,225,431, a 1.90% increase during the current fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2004. The key factor in this increase was the issuance of new debt during fiscal year 2004.

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 approximately the same as a year ago. This compares to the nation's average unemployment rate of 5.6 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.

The Consensus Forecast Group revised the original revenue estimate for fiscal year 2004 decreasing the General fund estimate by \$261.3 million and the Transportation fund by \$16.6 million. A more comprehensive budgetary dissertation is located in the "Letter of Transmittal – Major Initiatives" section of this report.

As a result of the combined economic factors, the overall economic condition of the Commonwealth has improved and is expected to continue improving.

## **REQUESTS FOR INFORMATION**

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

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## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 5)	\$ 525,771	\$ 157,210	\$ 682,981	\$ 931,093
Cash with fiscal agents (Note 5)	24,001		24,001	
Restricted cash (Note 5)	14,105	492	14,597	
Investments, net of amortization (Note 5)	1,237,855	509,248	1,747,103	2,476,859
Invested security collateral	1,171,452		1,171,452	
Receivables, net (Note 4)	1,531,440	140,486	1,671,926	2,963,126
Notes receivable	26,102		26,102	
Capital lease receivable	125,875		125,875	
Internal balances	28,840	(28,840)		
Inventories	40,597	3,413	44,010	27,057
Prepaid expenses	9,034	677	9,711	7,173
Deferred charges	28,891		28,891	39,025
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		320,812	320,812	355,797
Capital assets (Note 6):				
Land	104,371	19,516	123,887	152,879
Improvements other than buildings	9,066	89,103	98,169	109,686
Buildings	951,335	186,224	1,137,559	3,454,170
Machinery and equipment	495,599	59,145	554,744	1,190,193
Other capital assets				16,082
Easements and other intangibles	44,083	2,322	46,405	9,117
Less: Accumulated depreciation and amortization	(664,564)	(159,542)	(824,106)	(2,279,440)
Construction in progress	2,357,126	61,090	2,418,216	266,204
Infrastructure	15,127,436		15,127,436	
Total Capital Assets	18,424,452	257,858	18,682,310	2,918,891
Other assets	61	6,448	6,509	156,871
Total Assets	23,188,476	1,367,804	24,556,280	9,875,892
<b>Liabilities</b>				
Accounts payable (Note 4)	766,410	45,257	811,667	265,966
Tax refunds payable	253,939		253,939	
Deferred revenue	54,136	28,301	82,437	134,650
Other liabilities		1,579	1,579	75,830
Liabilities from restricted assets				15,166
Obligations under securities lending	1,171,452		1,171,452	
Noncurrent liabilities:				
Due within one year (Note 15)	410,993	178,089	589,082	323,112
Due in more than one year (Note 15)	3,860,982	1,196,489	5,057,471	4,127,630
Total Liabilities	6,517,912	1,449,715	7,967,627	4,942,354
<b>Net Assets</b>				
Invested in capital assets, net of related debt	17,156,329	257,794	17,414,123	2,155,608
Restricted for:				
Debt service	317,655		317,655	342,110
Other purposes (Note 1)	677,172	382,173	1,059,345	1,939,277
Unrestricted	(1,480,592)	(721,878)	(2,202,470)	496,543
Total Net Assets	\$ 16,670,564	\$ (81,911)	\$ 16,588,653	\$ 4,933,538

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, 2004**  
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 2,322,043	\$ 312,007	\$ 19,887	\$ 27,760
Legislative and judicial	268,001	11,111	3,379	
Commerce	128,548	34,689	12,074	253
Education and humanities	3,824,742	14,185	749,501	
Human resources	5,630,683	138,487	3,640,408	835
Justice	564,202	23,011	40,035	4,810
Natural resources and environmental protection	150,380	39,311	56,610	
Public protection and regulation	111,928	69,194	5,893	
Transportation	1,020,786	207,151	251	491,278
Interest expense	200,315			
Total Governmental Activities	<u>14,221,628</u>	<u>849,146</u>	<u>4,528,038</u>	<u>524,936</u>
Business-Type Activities:				
State Parks	92,287	50,925		
Lottery Corporation	554,880	725,252		
Kentucky Horse Park	11,732	5,896	3,015	586
Insurance Administration	77,241	129,084		
Unemployment Compensation	556,870	332,047	127,197	
Total Business-Type Activities	<u>1,293,010</u>	<u>1,243,204</u>	<u>130,212</u>	<u>586</u>
Total Primary Government	<u>\$ 15,514,638</u>	<u>\$ 2,092,350</u>	<u>\$ 4,658,250</u>	<u>\$ 525,522</u>
<b>Component Units:</b>				
Authorities:				
Kentucky Housing Corporation	\$ 228,937	\$ 86,473	\$ 131,197	\$
Kentucky Higher Education Assistance Authority	228,884	101,883	146,468	
Kentucky School Facilities Construction Commission	141,470	44,918		
Universities and Colleges:				
University of Kentucky	1,383,700	764,497	296,921	15,275
University of Louisville	606,097	264,528	160,703	8,998
Kentucky Community and Technical College System	408,400	71,415	162,105	
Other component units	1,182,759	334,104	296,081	17,246
Total Component Units	<u>\$ 4,180,247</u>	<u>\$ 1,667,818</u>	<u>\$ 1,193,475</u>	<u>\$ 41,519</u>
<b>General Revenues (Note 1):</b>				
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				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Totals	
\$ (1,962,389)	\$	\$ (1,962,389)	
(253,511)		(253,511)	
(81,532)		(81,532)	
(3,061,056)		(3,061,056)	
(1,850,953)		(1,850,953)	
(496,346)		(496,346)	
(54,459)		(54,459)	
(36,841)		(36,841)	
(322,106)		(322,106)	
(200,315)		(200,315)	
<u>(8,319,508)</u>		<u>(8,319,508)</u>	
	(41,362)	(41,362)	
	170,372	170,372	
	(2,235)	(2,235)	
	51,843	51,843	
	(97,626)	(97,626)	
	80,992	80,992	
<u>(8,319,508)</u>	<u>80,992</u>	<u>(8,238,516)</u>	
			\$ (11,267)
			19,467
			(96,552)
			(307,007)
			(171,868)
			(174,880)
			(535,328)
			<u>(1,277,435)</u>
3,780,204		3,780,204	
2,790,732		2,790,732	
311,284		311,284	
462,062		462,062	
142,048		142,048	
194,369		194,369	
66,287		66,287	
152,921		152,921	
69,037	20	69,057	127,562
24,368	21,259	45,627	173,800
	75	75	1,368
468,056	66,689	534,745	1,340,460
201,712	(201,712)		
<u>8,663,080</u>	<u>(113,669)</u>	<u>8,549,411</u>	<u>1,643,190</u>
343,572	(32,677)	310,895	365,755
16,326,992	(49,234)	16,277,758	4,567,783
<u>\$ 16,670,564</u>	<u>\$ (81,911)</u>	<u>\$ 16,588,653</u>	<u>\$ 4,933,538</u>

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# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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## 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 ..... 128

**COMMONWEALTH OF KENTUCKY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents (Note 5)	\$ 172,007	\$ 13,643	\$ 95	\$ 14,441	\$ 23,342	\$ 266,024	\$ 489,552
Cash with fiscal agents (Note 5)						24,001	24,001
Restricted cash (Note 5)		750		13,355			14,105
Investments, net of amortization (Note 5)	55,173	145,577		252,060	371,946	377,710	1,202,466
Invested security collateral	1,171,452						1,171,452
Receivables, net (Note 4)	727,570	103,486	581,717	48,040	6,190	59,458	1,526,461
Notes receivable			13,116	6,079		6,907	26,102
Capital lease receivable						125,875	125,875
Interfunds receivable (Note 7)	147,122	2,195	74,044	66,104	7,182	108,362	405,009
Interfund loans receivable	900	44,059					44,959
Inventories	8,584	25,331	66	4,282		48	38,311
Total Assets	<u>\$ 2,282,808</u>	<u>\$ 335,041</u>	<u>\$ 669,038</u>	<u>\$ 404,361</u>	<u>\$ 408,660</u>	<u>\$ 968,385</u>	<u>\$ 5,068,293</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable (Note 4)	\$ 198,832	\$ 20,508	\$ 394,473	\$ 39,241	\$ 12,076	\$ 13,944	\$ 679,074
Judgements payable	26,072	3,353		325			29,750
Tax refunds payable	253,939						253,939
Interfunds payable (Note 7)	51,640	53,124	94,974	51,463	425	116,946	368,572
Interfund loans payable			33,896	10,484		579	44,959
Obligations under securities lending (Note 15)	1,171,452						1,171,452
Deferred revenue	191,416	29,689	107,110	11,306	2,264	151,685	493,470
Total Liabilities	<u>1,893,351</u>	<u>106,674</u>	<u>630,453</u>	<u>112,819</u>	<u>14,765</u>	<u>283,154</u>	<u>3,041,216</u>
<b>Fund Balances:</b>							
Reserved for:							
Encumbrances		237,133			267,822		504,955
Statutory obligations	26,485	41,782					68,267
Budget stabilization	50,765						50,765
Inventories	8,584	25,331	66	4,282		48	38,311
Deposit with fiscal agents				13,355		24,001	37,356
Compensating balance with depositories		750					750
Capital outlay					327,321		327,321
Unreserved, reported in:							
General fund	303,623						303,623
Special revenue funds		(76,629)	38,519	273,905		367,528	603,323
Debt service fund						293,654	293,654
Capital projects fund					(201,248)		(201,248)
Total Fund Balances	<u>389,457</u>	<u>228,367</u>	<u>38,585</u>	<u>291,542</u>	<u>393,895</u>	<u>685,231</u>	<u>2,027,077</u>
Total Liabilities and Fund Balances	<u>\$ 2,282,808</u>	<u>\$ 335,041</u>	<u>\$ 669,038</u>	<u>\$ 404,361</u>	<u>\$ 408,660</u>	<u>\$ 968,385</u>	<u>\$ 5,068,293</u>

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

**RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

(Expressed in Thousands)

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Total Fund Balances - Governmental Funds	\$	2,027,077
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land and other non-depreciable assets	97,182	
Buildings, equipment, and other depreciable assets	1,150,134	
Infrastructure	15,127,436	
Accumulated depreciation	(467,252)	
Construction in progress	2,346,012	
	<u>18,253,512</u>	18,253,512

Certain revenues are earned but not available, and therefore, are deferred in the funds.		469,766
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		4,038
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Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		114,171
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease obligations	(16,094)	
Compensated absences	(221,233)	
Judgements and contingencies	(236,561)	
Net pension obligations	(136,527)	
	<u>(610,415)</u>	(610,415)

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	(3,225,431)	
Notes payable	(186,970)	
Unamortized premiums and discounts	(114,444)	
Less deferred amounts on refundings	18,388	
Accrued interest payable	(79,128)	
	<u>(3,587,585)</u>	(3,587,585)

Net Assets of Governmental Activities	\$	<u><u>16,670,564</u></u>
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THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 6,684,572	\$ 968,860	\$	\$ 196,603	\$	\$ 83,163	\$ 7,933,198
Licenses, fees, and permits	22,318	112,515		117,847		13,019	265,699
Intergovernmental	16,406		5,100,998	16,233	16,316	752	5,150,705
Charges for services	23,369	14,478	96	454,601	358	123,736	616,638
Fines and forfeits	54,444	57	32	19,178		22,034	95,745
Interest and other investment income	7,154	7,323	213	3,329	29,127	28,834	75,980
Securities lending income	15,549						15,549
Increase (decrease) in fair value of investments	(106)	(23,544)		(3,050)	(8,042)	(5,816)	(40,558)
Other revenues	160,562	2,313	151,508	204,856	197	105,572	625,008
<b>Total Revenues</b>	<b>6,984,268</b>	<b>1,082,002</b>	<b>5,252,847</b>	<b>1,009,597</b>	<b>37,956</b>	<b>371,294</b>	<b>14,737,964</b>
<b>Expenditures</b>							
Current:							
General government	1,551,367		111,392	143,007		128,143	1,933,909
Legislative and judicial	251,957		3,626	10,149		115	265,847
Commerce	22,429		9,066	31,735		2,288	65,518
Education and humanities	3,017,676		729,828	44,713		31,581	3,823,798
Human resources	1,388,001		3,811,837	758,484		26,192	5,984,514
Justice	467,151		37,829	58,838		72	563,890
Natural resources and environmental protection	58,937		51,787	24,133		14,544	149,401
Public protection and regulation	48,739		5,728	61,505		(3,385)	112,587
Transportation	4,684	1,129,393	483,586	57,903		48,776	1,724,342
Debt service:							
Principal retirement						286,166	286,166
Interest and fiscal charges						181,424	181,424
Other expenditures						78,052	78,052
Securities lending expense	13,123						13,123
Capital outlay:							
Buildings					293,761		293,761
<b>Total Expenditures</b>	<b>6,824,064</b>	<b>1,129,393</b>	<b>5,244,679</b>	<b>1,190,467</b>	<b>293,761</b>	<b>793,968</b>	<b>15,476,332</b>
Excess (Deficiency) of Revenues over (under) Expenditures	160,204	(47,391)	8,168	(180,870)	(255,805)	(422,674)	(738,368)
<b>Other Financing Sources (Uses)</b>							
Transfers in	358,516	5,777	11,823	410,625	56,762	938,368	1,781,871
Transfers out	(427,942)	(167,285)	(22,167)	(268,538)	(71,473)	(606,274)	(1,563,679)
Capitalized leases	3,034	1,609	275	423		18	5,359
Proceeds from the sale of bonds:							
New issues					365,108	143,883	508,991
Refunding issues						601,879	601,879
Premiums						103,316	103,316
Proceeds from notes						171,260	171,260
Payments to refunded bond escrow agent						(944,495)	(944,495)
<b>Total Other Financing Sources (Uses)</b>	<b>(66,392)</b>	<b>(159,899)</b>	<b>(10,069)</b>	<b>142,510</b>	<b>350,397</b>	<b>407,955</b>	<b>664,502</b>
<b>Net Change in Fund Balances</b>	<b>93,812</b>	<b>(207,290)</b>	<b>(1,901)</b>	<b>(38,360)</b>	<b>94,592</b>	<b>(14,719)</b>	<b>(73,866)</b>
Fund Balances at July 1, as Restated (Note 2)							
	298,257	438,991	40,485	327,450	299,303	699,954	2,104,440
Increase (decrease) in inventories	(2,612)	(3,334)	1	2,452		(4)	(3,497)
<b>Fund Balances at June 30</b>	<b>\$ 389,457</b>	<b>\$ 228,367</b>	<b>\$ 38,585</b>	<b>\$ 291,542</b>	<b>\$ 393,895</b>	<b>\$ 685,231</b>	<b>\$ 2,027,077</b>

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

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

(Expressed in Thousands)

Net change in fund balances-total governmental funds \$ (73,866)

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	(30,245)	
Donated assets, fair market value	2,412	
Buildings, equipment, and other depreciable assets	160,312	
Infrastructure	588,392	
Accumulated depreciation	<u>(53,561)</u>	667,310

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 11,625

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	3,980	
Inventories	<u>(3,498)</u>	482

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. (14,869)

To eliminate intragovernmental activity.

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

Excess contributions to pension funds	(29,104)	
Capital lease payments	8,748	
Compensated absence payments	2,767	
Litigation payments	<u>632</u>	(16,957)

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	(1,385,446)	
Repayment of bond principal	286,166	
Payment to refunded bond escrow agent	944,495	
Accrued interest	(76,470)	
Deferred issue costs	13,130	
Loss on refundings	<u>(12,028)</u>	<u>(230,153)</u>

Change in net assets of governmental activities \$ 343,572

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

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# PROPRIETARY FUNDS FINANCIAL STATEMENTS

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## Enterprise Funds (All Major)

### State Parks Fund

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

### Kentucky Lottery Corporation

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

### Kentucky Horse Park Fund

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

### Insurance Administration Fund

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

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

*Coal Workers' Pneumoconiosis* 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 page .....138

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 7,282	\$ 24,159	\$ 801
Cash on deposit with the Federal government (Note 5)			
Restricted cash (Note 5)			428
Investments, net of amortization (Note 5)		27,602	192
Receivables, net (Note 4)	471	23,256	611
Interfunds receivable (Note 7)	46		4
Inventories	2,517	340	556
Prepaid expenses	29	634	14
Total Current Assets	<u>10,345</u>	<u>75,991</u>	<u>2,606</u>
Noncurrent assets:			
Investments, net of amortization (Note 5)	9,008	203,482	2,192
Receivables, net		6,244	54
Capital assets (Note 6):			
Land	14,640	423	4,453
Improvements other than buildings	72,195	333	16,575
Buildings	162,364	7,203	16,657
Machinery and equipment	14,697	38,097	3,974
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(104,240)	(29,560)	(24,064)
Construction in progress	59,590		1,500
Total Capital Assets	<u>221,568</u>	<u>16,496</u>	<u>19,095</u>
Other assets			150
Total Noncurrent Assets	<u>230,576</u>	<u>226,222</u>	<u>21,491</u>
Total Assets	<u>240,921</u>	<u>302,213</u>	<u>24,097</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable (Note 4)	3,423	21,150	437
Judgements payable	70		
Interfunds payable (Note 7)	1,663		164
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	86		11
Notes payable (Note 15)			411
Prize liability		48,533	
Compensated absences (Note 15)	912	711	289
Deferred revenue	3,290		
Other liabilities			
Total Current Liabilities	<u>9,444</u>	<u>70,394</u>	<u>1,312</u>
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	111		37
Notes payable (Note 15)			40
Prize liability		182,671	
Compensated absences (Note 15)	4,324		251
Other liabilities (Note 15)	25		
Total Noncurrent Liabilities	<u>4,460</u>	<u>182,671</u>	<u>328</u>
Total Liabilities	<u>13,904</u>	<u>253,065</u>	<u>1,640</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	221,550	16,496	19,047
Restricted for:			
Other purposes (Note 1)			3,066
Unrestricted	5,467	32,652	344
Total Net Assets	<u>\$ 227,017</u>	<u>\$ 49,148</u>	<u>\$ 22,457</u>

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

Enterprise Funds			Governmental Activities- Internal Service Funds
Insurance Administration	Unemployment Compensation	Totals June 30, 2004	
\$ 90,420	\$ 6,754	\$ 129,416	\$ 36,219
64	320,812	320,812	
32,476	83,672	492	1,071
203	3	27,794	2,211
		140,486	2,285
		256	5,056
		3,413	
		677	
<u>123,163</u>	<u>411,241</u>	<u>623,346</u>	<u>46,842</u>
291,827	2,739	509,248	35,389
		6,298	
		19,516	7,189
		89,103	2,807
		186,224	231,369
2,377		59,145	115,774
		2,322	
(1,678)		(159,542)	(197,311)
		61,090	11,114
<u>699</u>		<u>257,858</u>	<u>170,942</u>
		150	
<u>292,526</u>	<u>2,739</u>	<u>773,554</u>	<u>206,331</u>
<u>415,689</u>	<u>413,980</u>	<u>1,396,900</u>	<u>253,173</u>
146	20,101	45,257	8,212
		70	
26,533	736	29,096	5,893
123,673		123,673	16,812
2,824		2,824	
		97	600
		411	
		48,533	
569		2,481	1,049
	25,011	28,301	1,541
<u>1,579</u>		<u>1,579</u>	
<u>155,324</u>	<u>45,848</u>	<u>282,322</u>	<u>34,107</u>
983,180		983,180	99,840
24,588		24,588	
		148	558
		40	
		182,671	
1,262		5,837	4,497
		25	
<u>1,009,030</u>		<u>1,196,489</u>	<u>104,895</u>
<u>1,164,354</u>	<u>45,848</u>	<u>1,478,811</u>	<u>139,002</u>
701		257,794	169,885
10,975	368,132	382,173	
(760,341)		(721,878)	(55,714)
<u>\$ (748,665)</u>	<u>\$ 368,132</u>	<u>\$ (81,911)</u>	<u>\$ 114,171</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
<b>Operating Revenues:</b>			
Charges for sales and services:			
State parks sales and services	\$ 50,832	\$	\$
Lottery sales		725,252	
Horse park admissions and sales			5,896
Insurance receipts			
Unemployment insurance receipts			
Internal Service Fund Receipts			
Other services	1,047		3,329
Total Operating Revenues	<u>51,879</u>	<u>725,252</u>	<u>9,225</u>
<b>Operating Expenses:</b>			
Personal services	51,277	79,398	4,412
Utilities, rental, and other services	13,098	1,826	2,586
Commodities and supplies	20,449		1,435
Grants and subsidies			
Depreciation and amortization	7,220	2,194	669
Travel	239	32	
Reinsurance expense			
Claims expense	34		
Claims adjustment expense			
Prize expense		439,189	
Other expenses	(92)	9,692	2,332
Total Operating Expenses	<u>92,225</u>	<u>532,331</u>	<u>11,434</u>
Operating Income (Loss)	<u>(40,346)</u>	<u>192,921</u>	<u>(2,209)</u>
<b>Nonoperating Revenues (Expenses):</b>			
Gain (loss) on sale of fixed assets	(39)	75	(46)
Interest and other investment income	17	14,779	140
Increase (decrease) in fair value of investments	(424)	(18,202)	(50)
Interest expense	(24)	(14,455)	(17)
Other revenues (expenses)		(8,094)	(235)
Total Nonoperating Revenues (Expenses)	<u>(470)</u>	<u>(25,897)</u>	<u>(208)</u>
Income (Loss) before Capital Contributions and Transfers	(40,816)	167,024	(2,417)
Capital Contributions	113		586
Transfers in	36,758		2,481
Transfers out	(1,745)	(185,226)	(186)
Change in Net Assets	<u>(5,690)</u>	<u>(18,202)</u>	<u>464</u>
Net Assets at July 1, as Restated (Note 2)	232,707	67,350	21,993
Net Assets at June 30	<u>\$ 227,017</u>	<u>\$ 49,148</u>	<u>\$ 22,457</u>

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

Enterprise Funds			Governmental
Insurance Administration	Unemployment Compensation	Totals June 30, 2004	Activities- Internal Service Funds
\$	\$	\$	\$
		50,832	
		725,252	
		5,896	
129,084		129,084	
	443,484	443,484	
			149,713
47,385		51,761	741
<u>176,469</u>	<u>443,484</u>	<u>1,406,309</u>	<u>150,454</u>
18,699		153,786	51,887
2,048	98	19,656	40,962
670	4,412	26,966	26,370
	552,360	552,360	865
342		10,425	16,767
372		643	199
			536
54,320		54,354	20,324
689		689	
		439,189	
100		12,032	
<u>77,240</u>	<u>556,870</u>	<u>1,270,100</u>	<u>157,910</u>
<u>99,229</u>	<u>(113,386)</u>	<u>136,209</u>	<u>(7,456)</u>
(1)		(11)	(521)
6,669	20,318	41,923	67
17,923	1,289	536	(871)
		(14,496)	(102)
12,504		4,175	
<u>37,095</u>	<u>21,607</u>	<u>32,127</u>	<u>(1,427)</u>
136,324	(91,779)	168,336	(8,883)
		699	316
	25	39,264	6,034
(49,351)	(4,468)	(240,976)	(12,336)
86,973	(96,222)	(32,677)	(14,869)
(835,638)	464,354	(49,234)	129,040
<u>\$ (748,665)</u>	<u>\$ 368,132</u>	<u>\$ (81,911)</u>	<u>\$ 114,171</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Business-Type Activities -</b>	
	<b>State Parks</b>	<b>Kentucky Lottery Corporation</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers - public	\$ 50,983	\$ 727,678
Cash received from customers - state	737	
Cash payments to suppliers for goods and services	(33,938)	(527,411)
Cash payments for employee salaries and benefits	(51,716)	(91,628)
Cash payments for claims expense		
Cash payments from other sources	1,139	79,398
Cash payments to other sources	(34)	(420)
Net Cash Provided by Operating Activities	<u>(32,829)</u>	<u>187,617</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers from other funds	36,758	
Transfers to other funds	(1,745)	(185,226)
Net Cash Provided by Noncapital Financing Activities	<u>35,013</u>	<u>(185,226)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(4,707)	(2,962)
Principal paid on revenue bond maturities and equipment contracts	(75)	
Interest paid on revenue bonds and equipment contracts	(24)	
Proceeds from the sale of capital assets		75
Net Cash Used for Capital and Related Financing Activities	<u>(4,806)</u>	<u>(2,887)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities		(573)
Proceeds from the sale of investment securities	4,172	8,124
Interest and dividends on investments	(408)	(995)
Net Cash Used in Investing Activities	<u>3,764</u>	<u>6,556</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,142	6,060
Cash and Cash Equivalents at July 1	6,140	18,099
Cash and Cash Equivalents at June 30	<u>\$ 7,282</u>	<u>\$ 24,159</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income (loss)	\$ (40,346)	\$ 192,921
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	7,220	2,194
Interest and other investment income		
Miscellaneous nonoperating income (expense)		(350)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	309	2,254
Interfund receivables	748	
Inventories	60	(76)
Prepaid expenses	12	
Other assets		178
Increase (decrease) in liabilities:		
Accounts payable	(1,019)	(541)
Interfund payables	555	7,832
Claims liability		
Claims adjustment liability		
Compensated absences	(200)	(65)
Deferred revenue	(169)	
Other liabilities	1	(16,730)
Net Cash Provided by Operating Activities	<u>\$ (32,829)</u>	<u>\$ 187,617</u>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Change in fair value of investments	\$ (424)	\$ (18,202)
Contributions of capital assets	113	70
Capital assets acquired through leases	45	
Accretion of investments held to fund grand prizes, which increased prize liability		14,455
Total Noncash Investing, Capital, and Financing Activities	<u>\$ (266)</u>	<u>\$ (3,677)</u>

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

Enterprise Funds				Governmental
Kentucky Horse Park	Insurance Administration	Unemployment Compensation	Totals June 30, 2004	Activities - Internal Service Funds
\$ 6,297	\$ 172,723	\$ 105,456	\$ 1,063,137	\$ 4,834
4	140		881	145,203
(5,004)	(2,781)	(9,712)	(578,846)	(58,256)
(4,628)	(18,520)		(166,492)	(52,592)
	(108,765)		(108,765)	(22,060)
1,651	42,268	337,896	462,352	703
(18)	(380)	(552,360)	(553,212)	(1,474)
(1,698)	84,685	(118,720)	119,055	16,358
2,481		25	39,264	6,034
(186)	(49,351)	(4,468)	(240,976)	(12,336)
2,295	(49,351)	(4,443)	(201,712)	(6,302)
(1,084)			(8,753)	(6,320)
(62)			(137)	(802)
(22)			(46)	(101)
			75	837
(1,168)			(8,861)	(6,386)
(1,262)	(92)	(2,739)	(4,666)	(23,107)
1,846	44,368		58,510	20,394
46	7,518	21,607	27,768	(697)
630	51,794	18,868	81,612	(3,410)
59	87,128	(104,295)	(9,906)	260
1,170	3,356	431,861	460,626	35,959
\$ 1,229	\$ 90,484	\$ 327,566	\$ 450,720	\$ 36,219
\$ (2,209)	\$ 99,229	\$ (113,386)	\$ 136,209	\$ (7,456)
669	342		10,425	16,767
(190)	(3)		(3)	
	39,003		38,463	388
91	(282)	(8,568)	(6,196)	(52)
(4)	(17)	2	729	181
73			57	809
332			12	(84)
(568)	(197)	(437)	(2,762)	3,538
164	33	(4,764)	3,820	4,683
	2,140		2,140	(1,963)
(56)	(55,749)		(55,749)	
	186		(135)	(601)
		8,433	8,264	161
			(16,729)	(13)
\$ (1,698)	\$ 84,685	\$ (118,720)	\$ 119,055	\$ 16,358
\$ (50)	\$ 17,923	\$ 1,289	\$ 536	\$ (871)
586			769	316
57			102	221
			14,455	
\$ 593	\$ 17,923	\$ 1,289	\$ 15,862	\$ (334)

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# FIDUCIARY FUNDS FINANCIAL STATEMENTS

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**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 Fund**
- 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**
- County Fees Fund**
- Special Deposit Trust Fund**

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ALL FIDUCIARY FUNDS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Totals June 30, 2004</u>
<b>Assets</b>			
Cash and cash equivalents (Note 5)	\$ 1,485,274	\$ 223,185	\$ 1,708,459
Cash with fiscal agents (Note 5)		5,974	5,974
Investments, net of amortization (Note 5)	28,858,827	57,722	28,916,549
Receivables, net	314,523	211	314,734
Interfunds receivable (Note 7)		148	148
Prepaid expenses	208		208
Buildings	4,380		4,380
Total Assets	<u>30,663,212</u>	<u>287,240</u>	<u>30,950,452</u>
<b>Liabilities</b>			
Accounts payable	67,431	116,244	183,675
Interfunds payable (Note 7)		4,063	4,063
Amounts held in custody for others		166,933	166,933
Obligations under securities lending	2,564,688		2,564,688
Total Liabilities	<u>2,632,119</u>	<u>287,240</u>	<u>2,919,359</u>
<b>Net Assets</b>			
Held in trust for:			
Employee retirement systems	26,329,251		26,329,251
Retirees' health insurance	1,701,842		1,701,842
Total Net Assets	<u>\$ 28,031,093</u>	<u>\$</u>	<u>\$ 28,031,093</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, 2004**  
**(Expressed in Thousands)**

	<b>Pension Trust Funds</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 784,288
Member	719,035
Total Contributions	<u>1,503,323</u>
Investment income:	
Net increase (decrease) in fair value of investments	2,265,562
Interest	605,952
Dividends	120,923
Real estate operating income, net	31,532
Securities lending income, net	34,241
Total Investment Income	<u>3,058,210</u>
Less: Investment expense	19,762
Less: Securities lending expense	27,531
Net Investment Income	<u>3,010,917</u>
Total Additions	<u>4,514,240</u>
<b>Deductions</b>	
Benefit payments	1,960,929
Refunds	34,308
Administrative expenses	29,014
Other deductions, net	124,827
Total Deductions	<u>2,149,078</u>
Change in Net Assets	2,365,162
<b>Net Assets Held In Trust</b>	
Net Assets at July 1, as Restated (Note 2)	25,665,931
Net Assets at June 30	<u>\$ 28,031,093</u>

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

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# COMPONENT UNITS FINANCIAL STATEMENTS

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## Major Component Units

### **Kentucky Housing Corporation**

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

### **Kentucky Higher Education Assistance Authority**

The Kentucky Higher Education Assistance Authority was established by KRS 164.742 to improve higher education opportunities by insuring eligible student loans and providing grants and scholarship awards to eligible students.

### **Kentucky School Facilities Construction Commission**

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

### **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 page .....158

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	<b>AUTHORITIES</b>		
	<b>Kentucky Housing Corporation</b>	<b>Kentucky Higher Education Assistance Authority</b>	<b>Kentucky School Facilities Construction Commission</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 42,766	\$ 84,378	\$ 10,300
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	116,023	8,157	
Accounts receivable, net	1,774	4,655	
Interest receivable		30,385	
Inventories			
Prepaid expenses		9	
Other current assets	37,181	1,771	2,022
<b>Total Current Assets</b>	<b>197,744</b>	<b>129,355</b>	<b>12,322</b>
Noncurrent assets:			
Restricted cash (Note 5)		60,169	
Long-term investments (Note 5)	322,185	12,981	4,125
Long-term receivables, net	1,111,223	978,579	
Deferred charges	19,439	19,176	
Capital assets (Note 6):			
Land	942		
Improvements other than buildings			
Buildings	5,212	11,842	
Machinery and equipment	5,978	13,372	
Other capital assets			
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(6,261)	(10,247)	
Construction in progress			
<b>Total Capital Assets</b>	<b>5,871</b>	<b>14,967</b>	
Other assets	566	9,972	
<b>Total Noncurrent Assets, Net</b>	<b>1,459,284</b>	<b>1,095,844</b>	<b>4,125</b>
<b>Total Assets</b>	<b>1,657,028</b>	<b>1,225,199</b>	<b>16,447</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	29,252	8,832	13,624
Current portion of long-term debt:			
Notes payable (Note 15)	3,663	41,280	
Bonds payable (Note 15)	33,505	56,920	55,418
Capital lease obligations (Note 10)		350	
Compensated absences (Note 16)		1,473	14
Claims liability			
Deferred revenues			
Payable from restricted assets			
Other current liabilities	24,907		
<b>Total Current Liabilities</b>	<b>91,327</b>	<b>108,855</b>	<b>69,056</b>
Noncurrent liabilities:			
Notes payable (Note 15)	18,165		
Bonds payable (Note 15)	1,287,336	947,250	616,508
Capital lease obligations (Note 10)		7,735	
Compensated absences (Note 16)			11
Other long-term liabilities	1,396	20,493	
<b>Total Noncurrent Liabilities</b>	<b>1,306,897</b>	<b>975,478</b>	<b>616,519</b>
<b>Total Liabilities</b>	<b>1,398,224</b>	<b>1,084,333</b>	<b>685,575</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,871	7,221	
Restricted for:			
Debt service	197,875	86,061	
Other purposes (Note 1)	16,513	35,629	
Unrestricted	38,545	11,955	(669,128)
<b>Total Net Assets</b>	<b>\$ 258,804</b>	<b>\$ 140,866</b>	<b>\$ (669,128)</b>

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

**UNIVERSITIES and COLLEGES**

<b>University of Kentucky</b>	<b>University of Louisville</b>	<b>Kentucky Community and Technical College System</b>	<b>Non-Major Component Units</b>	<b>All Component Units Totals June 30, 2004</b>
\$ 307,849	\$ 58,970	\$ 104,842	\$ 321,988	\$ 931,093
38,644	47,530	5,964	18,023	18,023
113,491	56,623	19,339	77,428	293,746
2,011			96,625	292,507
16,230	1,400	2,997	4,238	36,634
1,360			6,430	27,057
1,400	22,420		5,804	7,173
<u>480,985</u>	<u>186,943</u>	<u>133,142</u>	<u>9,747</u>	<u>74,541</u>
			<u>540,283</u>	<u>1,680,774</u>
93,242	46,979	28,373	109,011	337,774
720,413	599,989	16,982	506,438	2,183,113
30,443	44,504	9,370	459,866	2,633,985
			410	39,025
39,258	37,873	18,611	56,195	152,879
52,423	7,551	6,351	43,361	109,686
1,116,671	559,814	421,955	1,338,676	3,454,170
499,247	248,440	106,167	316,989	1,190,193
			16,082	16,082
	2,031	7,086		9,117
(814,795)	(357,432)	(227,372)	(863,333)	(2,279,440)
89,562	25,877	37,468	113,297	266,204
<u>982,366</u>	<u>524,154</u>	<u>370,266</u>	<u>1,021,267</u>	<u>2,918,891</u>
	15,900		55,892	82,330
<u>1,826,464</u>	<u>1,231,526</u>	<u>424,991</u>	<u>2,152,884</u>	<u>8,195,118</u>
<u>2,307,449</u>	<u>1,418,469</u>	<u>558,133</u>	<u>2,693,167</u>	<u>9,875,892</u>
115,314	43,028	7,977	47,939	265,966
3,063	195		2,622	50,823
18,585	15,110		44,183	223,721
5,146	1,499	364	6,543	13,902
417		8,074	13,208	23,186
46,951	26,690	17,862	11,480	11,480
		8,820	43,147	134,650
15,437	2,132		6,346	15,166
<u>204,913</u>	<u>88,654</u>	<u>43,097</u>	<u>33,354</u>	<u>75,830</u>
			<u>208,822</u>	<u>814,724</u>
422	505		17,050	36,142
261,385	166,891		449,608	3,728,978
37,940	2,316	8,450	110,436	166,877
2,333			1,551	3,895
61,979	49,165	3,436	55,269	191,738
<u>364,059</u>	<u>218,877</u>	<u>11,886</u>	<u>633,914</u>	<u>4,127,630</u>
<u>568,972</u>	<u>307,531</u>	<u>54,983</u>	<u>842,736</u>	<u>4,942,354</u>
737,140	363,361	361,453	680,562	2,155,608
6,570	26,695	124	24,785	342,110
554,078	347,027	69,269	916,761	1,939,277
440,689	373,855	72,304	228,323	496,543
<u>\$ 1,738,477</u>	<u>\$ 1,110,938</u>	<u>\$ 503,150</u>	<u>\$ 1,850,431</u>	<u>\$ 4,933,538</u>

**COMMONWEALTH OF KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**COMPONENT UNITS**  
**JUNE 30, 2004**

(Expressed in Thousands)

	<b>AUTHORITIES</b>		
	<b>Kentucky Housing Corporation</b>	<b>Kentucky Higher Education Assistance Authority</b>	<b>Kentucky School Facilities Construction Commission</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 228,937	\$ 228,884	\$ 112,851
Depreciation			28,619
Interest on long-term debt			141,470
<b>Total Expenses</b>	<b>228,937</b>	<b>228,884</b>	<b>141,470</b>
<b>Program Revenues:</b>			
Charges for services	86,473	101,883	44,918
Operating grants and contributions	131,197	146,468	
Capital grants and contributions			
<b>Total Program Revenues</b>	<b>217,670</b>	<b>248,351</b>	<b>44,918</b>
<b>Net Program (Expense) Revenue</b>	<b>(11,267)</b>	<b>19,467</b>	<b>(96,552)</b>
<b>General Revenues:</b>			
Unrestricted grants and contributions			
Unrestricted investment earnings		112	323
Gain on sale of capital assets			
Miscellaneous general		(120)	
<b>Total General Revenues</b>		<b>(8)</b>	<b>323</b>
<b>Change in Net Assets</b>	<b>(11,267)</b>	<b>19,459</b>	<b>(96,229)</b>
Net Assets at July 1, as Restated (Note 2)	270,071	121,407	(572,899)
<b>Net Assets at June 30</b>	<b>\$ 258,804</b>	<b>\$ 140,866</b>	<b>\$ (669,128)</b>

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	All Component Units Totals June 30, 2004
\$ 1,383,700	\$ 606,097	\$ 408,400	\$ 1,174,751 8,008	\$ 4,143,620 8,008
<u>1,383,700</u>	<u>606,097</u>	<u>408,400</u>	<u>1,182,759</u>	<u>4,180,247</u>
764,497	264,528	71,415	334,104	1,667,818
296,921	160,703	162,105	296,081	1,193,475
15,275	8,998		17,246	41,519
<u>1,076,693</u>	<u>434,229</u>	<u>233,520</u>	<u>647,431</u>	<u>2,902,812</u>
<u>(307,007)</u>	<u>(171,868)</u>	<u>(174,880)</u>	<u>(535,328)</u>	<u>(1,277,435)</u>
45,583	28,672	14,306	39,001	127,562
78,102	74,554	(720)	21,429	173,800
		(453)	1,821	1,368
<u>283,643</u>	<u>154,014</u>	<u>228,575</u>	<u>674,348</u>	<u>1,340,460</u>
<u>407,328</u>	<u>257,240</u>	<u>241,708</u>	<u>736,599</u>	<u>1,643,190</u>
<u>100,321</u>	<u>85,372</u>	<u>66,828</u>	<u>201,271</u>	<u>365,755</u>
1,638,156	1,025,566	436,322	1,649,160	4,567,783
<u>\$ 1,738,477</u>	<u>\$ 1,110,938</u>	<u>\$ 503,150</u>	<u>\$ 1,850,431</u>	<u>\$ 4,933,538</u>

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## **NOTES TO FINANCIAL STATEMENTS**

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**Note 1**

**SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for state governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements for the 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 units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14 as amended by GASB 39. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and also those that are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable for the organization or when exclusion of the organization would cause the Commonwealth's financial statements to be misleading or incomplete.

Component units may be blended or discretely presented. Blended component units are those that either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. Amounts related to blended component units are included as if the component units were part of the primary government. All other component units are discretely presented, or shown separately from the primary government.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, the Kentucky Grain Insurance Corporation, and the Kentucky School Facilities Construction Commission. (See pages 98 and 99 for a complete list of component units' addresses.)

**Blended Component Units**

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

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

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

**Kentucky Retirement System (KRS 61.645)**

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

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

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

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

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

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

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

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

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**Administrative Entities**

The State Property and Buildings Commission, Kentucky Asset/Liabilities Commission, Kentucky Tobacco Settlement Trust Corporation, Kentucky Savings Bond Authority, and the Board of Agriculture are legally separate entities of an administrative nature. They are comprised of elected and appointed officials from various state agencies, and have no cost associated with them. Therefore, there is no separate presentation for these entities.

**State Property and Buildings Commission (KRS 56.450)**

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

**Kentucky Asset/Liability Commission (KRS 56.861)**

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

**Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)**

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

**Kentucky Savings Bond Authority (KRS 293.030)**

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

**Board of Agriculture (KRS 246.120)**

The board is a body corporate that acts as an advisory board to the Commissioner of Agriculture, aids in the collection of information concerning crops, promulgates industrial information, and acts as an immigration committee. The board consists of five ex officio members and nine citizens of the Commonwealth appointed by the Governor.

**Discretely Presented Component Units**

The component units' columns in the combined financial statements include the data of the discretely presented component units described below. They are reported together in a separate column labeled "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 distinguish it as being legally separate from the Commonwealth. The authority is charged with developing comprehensive plans for the management of the Kentucky River Basin. The Governor appoints the twelve members of this authority.

**Kentucky Housing Corporation (KRS 198A.030)**

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

**Bluegrass State Skills Corporation (KRS 154.12-205)**

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the KY Cabinet for Economic Development in creating and expanding programs offering skills, training and education. The board of directors consists of six ex officio members and twelve members appointed by the Governor.

**Kentucky School Facilities Construction Commission (KRS 157.617)**

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

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

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#### **Kentucky Center for the Arts Corporation (KRS 153.410)**

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

#### **Kentucky Educational Television Authority (KET) (KRS 168.030)**

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

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

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

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

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. The authority is governed by a board of directors consisting of 15 members appointed by the governor. KHEAA also oversees the Kentucky Educational Savings Plan Trust and the Kentucky Higher Education Student Loan Corporation, both of which are component units of KHEAA.

#### **Kentucky Council on Postsecondary Education (KRS 164.011)**

This council was established in 1997 under the direction of the Kentucky Postsecondary Education Improvement Act. The board consists of 16 members—13 citizens appointed by the Governor, one faculty member, one student, and the Commissioner of Education. This council coordinates change and improvement in Kentucky's postsecondary education system. This council strives to increase literacy, improve work-related skills, and to raise the number of students attending college and completing college degrees.

#### **Kentucky Infrastructure Authority (KRS 224A.030)**

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

#### **Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)**

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

#### **Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)**

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

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

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

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

**Kentucky Local Correctional Facilities Construction Authority**  
(KRS 441.615)

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

**Appalachian/Kentucky Artisans Gateway Center Authority**  
(KRS 148.561) (Kentucky Artisan Center)

This authority is an independent, de jure municipal corporation and is a body corporate and politic. It is governed by a board of directors consisting of thirteen members. The authority operates and manages the Kentucky Artisan Center at Berea.

**State Colleges, Universities and Kentucky Community and Technical College System** (KRS 164.350)

Each board of regents or board of trustees is appointed by the Governor, and constitutes a body corporate with the power to receive and administer revenue and property.

**C. Government-Wide Financial Statements**

**Government-Wide Financial Statements** - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary component units are not included in government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and 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 with the difference between the two shown as net assets. Net assets are reported in three categories:

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

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

**Restricted Net Assets**

(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government		Total Primary Government	Component Units-Major
	Governmental Type Activities	Business Type Activities		
Capital projects	\$ 393,895	\$	\$ 393,895	\$ 61,919
Highways	283,277		283,277	
Unemployment benefits		368,132	368,132	
Loans				25,573
Education		3,066	3,066	687,714
Research				194,100
Other		10,975	10,975	53,210
<b>Totals</b>	<b>\$ 677,172</b>	<b>\$ 382,173</b>	<b>\$ 1,059,345</b>	<b>\$ 1,022,516</b>

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

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A significant feature of the government-wide **Statement of Activities** is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permit both direct and indirect program expenses to be presented together in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

### D. Fund Financial Statements

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

#### Governmental Funds

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

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

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

A description of significant governmental funds follows:

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

**Special Revenue Funds** - a category of governmental funds that accounts for specific revenue sources, other than for major capital projects, dedicated to specific operations. 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

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2004

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, the term "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes decreases in economic benefits and emphasizes the accrual basis of accounting.

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

Furthermore, the Commonwealth has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's 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 the separate audit reports.

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

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

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

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

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

**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 both earned and measurable. Expenses are recognized at the time liabilities are incurred.

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

Specific activities reported under Internal Service Funds are:

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

### Fiduciary Funds

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of funds includes pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

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

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2004

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

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

1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Fees Fund holding monies for Kentucky Counties with a population of 70,000 or more

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

### E. Presentation of Component Units

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

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

Kentucky Community and Technical College System  
Kentucky Housing Corporation  
Kentucky Higher Education Assistance Authority  
Kentucky School Facilities Construction Commission  
University of Kentucky  
University of Louisville

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

Kentucky Agricultural Finance Corporation  
Kentucky Artisan Center at Berea  
Kentucky Center for the Arts Corporation  
Kentucky Economic Development Finance Authority  
Kentucky Educational Television Authority  
Kentucky Grain Insurance Corporation  
Kentucky Infrastructure Authority  
Kentucky Local Correctional Facilities Construction Authority  
Kentucky River Authority  
Kentucky State Fair Board  
Bluegrass State Skills Corporation  
Council on Postsecondary Education

Kentucky Access  
Eastern Kentucky University  
Kentucky State University  
Morehead State University  
Murray State University  
Northern Kentucky University  
Western Kentucky University

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2004, the primary government provided \$302,547,600 to the University of Kentucky, \$171,572,300 to the University of Louisville, and \$184,493,000 to the Kentucky Community and Technical College System. In addition, the State received \$185,225,751 in proceeds from the Kentucky Lottery Corporation.

### F. Cash and Cash Equivalents

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2004 are \$1,693,456,773.

### 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.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

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

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

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

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

**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 except software which has a threshold of \$500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

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

The primary government values fixed assets at historical cost, estimated historical cost or fair market value at the time of donation. At June 30, 2004, the following table 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.

Assets are depreciated on the straight-line basis over their estimated useful lives. The table below shows the useful life by asset type for the primary government.

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

The Kentucky Center for the Arts Corporation's discretely presented component unit financial statements for Fiscal Year 2004, do not contain the Center's capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

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

**COMMONWEALTH OF KENTUCKY**

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**Cost by Asset type**

(Expressed in Thousands)

**Governmental Activities:**

	<b>Historical Cost</b>	<b>Donated Fair Market Value</b>	<b>Estimated Cost</b>	<b>Totals</b>
Land	\$ 61,045	\$ 17,171	\$ 26,155	\$ 104,371
Improvements other than buildings	8,541	525		9,066
Buildings	610,540	49,270	291,525	951,335
Equipment	445,855	2,142	47,602	495,599
Easements and other intangibles	24,724		19,359	44,083
Construction in progress	2,357,126			2,357,126
Infrastructure	15,127,436			15,127,436
<b>Totals</b>	<b>\$ 18,635,267</b>	<b>\$ 69,108</b>	<b>\$ 384,641</b>	<b>\$ 19,089,016</b>

**Business-Type Activities:**

	<b>Historical Cost</b>	<b>Donated Fair Market Value</b>	<b>Estimated Cost</b>	<b>Totals</b>
Land	\$ 5,683	\$ 1,630	\$ 12,203	\$ 19,516
Improvements other than buildings	89,103			89,103
Buildings	134,922	1,713	49,589	186,224
Equipment	55,959	1,289	1,897	59,145
Easements and other intangibles	2,322			2,322
Construction in progress	61,090			61,090
<b>Totals</b>	<b>\$ 349,079</b>	<b>\$ 4,632</b>	<b>\$ 63,689</b>	<b>\$ 417,400</b>

**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.

**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 16.

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

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

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

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

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

**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 \$ 1,807,249,254 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

**Note 2**

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

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

**Governmental Activities** - Beginning net assets for the Commonwealth's governmental activities have been restated to include amounts which were omitted in the prior year. The net effect is an increase of \$56,614,000.

**Business Type Activities** - Beginning net assets for the Commonwealth's business type activities have been restated for the reasons noted below in the section for Enterprise Funds. The net effect is an increase of \$11,508,000 on the net assets of the business. Kentucky Council on Post Secondary Education type activities.

**General Fund** – The General Fund was restated to remove amounts included in error last year. The effect on fund balance is a decrease of \$80,000.

**Capital Projects Fund** – The Capital Projects Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net decrease of \$35,876,000.

**Debt Service Fund** – The Turnpike Authority of Kentucky's Debt Service Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net decrease of \$19,606,000.

**Special Revenue Fund** – The Agency Revenue Fund, the Other Special Revenue Fund, and the Federal Fund within the Special Revenue Fund were restated for prior period errors. The restatements decreased Agency Revenue and Other Special Revenue fund balances by \$1,765,000 and \$1,193,000 respectively and increased Federal fund balances by \$49,000. The net effect of all restatements on the Special Revenue fund balance is a decrease of \$2,909,000.

**Enterprise Funds** – The State Parks Fund and the Horse Park Fund within the Enterprise Funds were restated to include amounts not reported last year. The effect on net assets is an increase of \$9,205,800 and \$2,303,000 respectively. The net effect of these restatements on the Enterprise Funds net assets is an increase of \$11,508,800.

**Internal Service Funds** – The Property Management Fund within the Internal Service Funds was restated to include amounts which were not included in the past. The effect on net assets is an increase of \$33,208,000.

**Fiduciary Funds** – Pension Trust Funds - Deferred Compensation was restated to include administrative equity amounts previously omitted. The effect on net assets is an increase of \$4,700,000. Judicial Retirement System and Legislators' Retirement System were each restated due to a prior period error. The effects on net assets of this error are an increase of \$151,000 (JRS) and a decrease of \$151,000 (LRS).

**Component Units – Authorities:**

**Kentucky Council on Postsecondary Education** – The Council was reclassified in FY 04. Its inclusion this year as part of Component Units-Universities results in an decrease of \$25,398,000 on total net assets of authorities.

**Kentucky Center for the Arts Corporation** – To reflect the effects of implementing GASB Statement No. 39, net assets for the Kentucky Center for the Arts Corporation were restated. The effect on net assets is an increase of \$17,666,000.

**Kentucky Access** – Kentucky Access restated net assets for errors made in the prior year. The effect net assets is a decrease of \$1,884,000.

Restatement of all Component Units-Authorities results in an overall decrease in net assets of \$9,616,000.

**Component Units – Universities and Colleges:**

**University of Kentucky** – To reflect the effects of implementing GASB Statement No. 39, net assets for the University of Kentucky were restated. The effect on net assets is an increase of \$62,155,000.

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**University of Louisville** – To reflect the effects of implementing GASB Statement No. 39, net assets for the University of Louisville were restated. The effect on net assets is an increase of \$540,056,000.

**Kentucky Community and Technical College System (KCTCS)**  
To reflect the effects of implementing GASB Statement No. 39, net assets for KCTCS were restated. The effect on net assets is an increase of \$23,174,000.

**Eastern Kentucky University** – To reflect the effects of implementing GASB Statement No. 39, net assets for Eastern Kentucky University were restated. The effect on net assets is an increase of \$36,070,000.

**Western Kentucky University** – To reflect the effects of implementing GASB Statement No. 39, net assets for Western Kentucky University were restated. The effect on net assets is an increase of \$52,938,000.

**Murray State University** – To reflect the effects of implementing GASB Statement No. 39, net assets for Murray State University were restated. The effect on net assets is an increase of \$28,435,000.

**Northern Kentucky University** – To reflect the effects of implementing GASB Statement No. 39, net assets for Northern Kentucky University were restated. The effect on net assets is an increase of \$39,422,000.

**Morehead State University** - To reflect the effects of implementing GASB Statement No. 39, net assets for Morehead State University were restated. The effect on net assets is an increase of \$10,199,000.

**Kentucky Council on Postsecondary Education** – The Council was reclassified in FY 04. Its inclusion this year as part of Component Units-Universities results in an increase of \$25,398,000 on total net assets of universities.

Restatement of all Component Units-Universities and Colleges results in an overall increase in net assets of \$817,847,000.

**Note 3**

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

- A. Enterprise Funds** – The Insurance Administration Fund has a net assets deficit of \$748,665,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.
- B. Internal Service Funds** – The Risk Management Fund has a net assets deficit of \$103,414,000. The deficit is the result of accumulated claims liabilities of the Commonwealth’s self-insured workers’ compensation programs, and is to be funded in future periods.
- C. Component Units – Authorities** – The Kentucky School Facilities Construction Commission has a net assets deficit of \$669,128,000. 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 \$15,717,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

**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, 2004. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

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

2004. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The "Current Taxes Receivable" for Governmental Activities and Business-Type Activities are described below.

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

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

	Governmental Activities			Total Governmental Activities	Business-Type Activities	Total Primary Government
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	
<b>Current Payables</b>						
Personal services	\$ 85,625	\$ 218	\$ 2,988	\$ 88,831	\$ 17,048	\$ 105,879
Utilities, rental and other services	5,317	490	2,370	8,177	642	8,819
Commodities and supplies	35,368	142	1,260	36,770	21,397	58,167
Grants and subsidies	453,579	2,725	21	456,325	1,608	457,933
Capital outlay	15,187	51	295	15,533	156	15,689
Travel	159	2	6	167		167
Other	69,896	89,439	1,272	160,607	4,406	165,013
Total Current Payables	<u>\$ 665,131</u>	<u>\$ 93,067</u>	<u>\$ 8,212</u>	<u>\$ 766,410</u>	<u>\$ 45,257</u>	<u>\$ 811,667</u>
<b>Current Receivables</b>						
Charges for services	\$ 25,897	\$ 18,663	\$ 1,071	\$ 45,631	\$ 122,282	\$ 167,913
Taxes receivable	1,573,172	7,143		1,580,315		1,580,315
Investment receivable	273	11,199		11,472		11,472
Intergovernmental revenue	594,959	125		595,084	3,136	598,220
Other	124,640	27,717		152,357	19,366	171,723
Allowances for uncollectables	(848,030)	(5,389)		(853,419)	(4,298)	(857,717)
Total Current Receivables	<u>\$ 1,470,911</u>	<u>\$ 59,458</u>	<u>\$ 1,071</u>	<u>\$ 1,531,440</u>	<u>\$ 140,486</u>	<u>\$ 1,671,926</u>

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

	Governmental Activities		Total Primary Government
	Major Funds	Non-Major Funds	
<b>Current Taxes Receivable</b>			
Sales and gross receipts	\$ 655,790	\$ 77	\$ 655,867
Individual income	529,044		529,044
Corporate	144,063		144,063
Property	110,738		110,738
License and privilege	61,881	958	62,839
Coal severance	50,296		50,296
Inheritance and estate	5,927	107	6,034
Miscellaneous	15,433	6,001	21,434
Total Current Taxes Receivable	<u>\$ 1,573,172</u>	<u>\$ 7,143</u>	<u>\$ 1,580,315</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

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The State Property and Buildings Commission has issued revenue bonds and entered into lease agreements to finance capital projects for the University of Kentucky, Kentucky State Fair Board, Kentucky Higher Education Assistance Authority and Eastern Kentucky University. The bond issues are shown as liabilities of the State Property and Buildings Commission in the entity wide financial statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

**Future debt service payments for leases receivable as of June 30, 2004, are as follows (Expressed in Thousands):**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 5,095	\$ 5,629	\$ 10,724
2006	5,285	5,452	10,737
2007	5,470	5,265	10,735
2008	5,665	5,066	10,731
2009	5,880	4,851	10,731
2010-2014	33,255	20,393	53,648
2015-2019	39,510	11,884	51,394
2020-2024	25,715	3,048	28,763
Total leases receivable	<u>\$ 125,875</u>	<u>\$ 61,588</u>	<u>\$ 187,463</u>

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

**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 \$1,221,877,108 and \$1,064,902,034 for the Component Units. At year end, the bank balance was \$1,216,187,736 and \$1,064,950,032 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	\$ 804,382,329	\$	\$	\$ 797,931,957	\$ 804,382,329
Cash with fiscal agents	66,445,867			66,445,867	66,445,867
Imprest & change	6,453,402			6,453,402	6,453,402
Money market	23,784,000			24,545,000	23,784,000
Total	<u>\$ 901,065,598</u>	<u>\$</u>	<u>\$</u>	895,376,226	901,065,598
Cash on deposit with federal government				320,811,510	320,811,510
Total Cash				<u>\$ 1,216,187,736</u>	<u>\$ 1,221,877,108</u>

**Cash - Component Units**

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 867,075,563	\$ 4,168,194	\$ 38,823,016	\$ 910,066,773	\$ 910,018,775
Money market	31,310,576	101,689,618	21,632,541	154,632,735	154,632,735
Nonnegotiable certificates of deposit	250,524			250,524	250,524
Total Cash	<u>\$ 898,636,663</u>	<u>\$ 105,857,812</u>	<u>\$ 60,455,557</u>	<u>\$ 1,064,950,032</u>	<u>\$ 1,064,902,034</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 fair value of at least 102 percent of the cost of the repurchase agreement. The fair value of securities underlying repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

**Investments - Primary Government**

	Categories			Net	
	1	2	3	Investment	Fair Value
Collateralized mortgage obligations	\$ 60,575,152	\$	\$ 58,708,927	\$ 60,652,090	\$ 60,575,152
Commercial paper	146,140,529	1,647,691		206,682,763	206,497,147
Common stocks	14,806,870,487	129,704,288		14,936,574,775	14,936,574,775
Corporate bonds	3,046,771,841	62,950,828		3,109,830,625	3,109,722,669
Government securities	2,626,318,706	55,057,169	136,547,835	2,818,159,104	2,817,923,710
Negotiable certificates of deposit	494,336			494,964	494,336
Open-end mutual funds		19,703,478	128,932,258	148,635,736	148,635,736
Repurchase agreements	1,319,444,975		177,342,000	1,496,811,689	1,496,786,975
Securities lending collateral	1,058,684,000		683,199,087	1,741,883,087	1,741,883,087
State and municipal obligations	545,649,678	2,847,529		549,157,397	548,497,207
<b>Totals</b>	<b>\$ 23,610,949,704</b>	<b>\$ 271,910,983</b>	<b>\$ 1,184,730,107</b>	<b>25,068,882,230</b>	<b>25,067,590,794</b>
Government securities				1,171,451,869	1,171,451,869
Securities lending collateral				1,029,905,024	1,029,905,024
Mutual Funds				620,734,655	620,734,655
Mortgages				375,287,453	375,287,453
Real estate				27,312,681	28,474,180
State investment pool				1,881,490,000	1,881,490,000
KERS short term investment pool					
Held by brokers/dealers					
under securities loaned:					
Common stocks				1,079,603,429	1,079,603,429
Corporate bonds				222,654,549	222,654,549
Government securities				1,892,859,690	1,892,859,690
<b>Total Investments</b>				<b>\$ 33,370,181,580</b>	<b>\$ 33,370,051,643</b>

**Investments - Component Units**

	Categories			Net	
	1	2	3	Investment	Fair Value
Commercial paper	\$ 415,684,256	\$ 4,996,468	\$ 249,553,000	\$ 4,996,468	\$ 4,996,468
Common stocks	162,191,370		31,686,000	665,237,256	665,237,256
Corporate bonds	30,313,059	42,946,169		236,823,539	236,823,539
Equity in health care corps	178,660,557	267,730,185	15,015,000	30,313,059	30,313,059
Government securities	3,725,911			461,405,742	461,405,742
Negotiable certificates of deposit	97,631,968		188,295,000	3,725,911	3,725,911
Mutual funds	305,960,660	1,591,789		461,405,742	461,405,742
Repurchase agreements	437,464			3,725,911	3,725,911
State and municipal obligations	3,257,761	57,899,000	6,410,135	285,926,968	285,926,968
Other				307,552,449	307,552,449
<b>Totals</b>	<b>\$ 1,197,863,006</b>	<b>\$ 375,163,611</b>	<b>\$ 490,959,135</b>	<b>2,068,429,819</b>	<b>2,068,429,819</b>
Guaranteed investment contracts				102,692	102,692
Real estate				13,569,000	13,569,000
Mortgages				5,170,479	5,170,479
Mutual funds				145,430,055	145,430,055
State investment pool				339,188,851	339,002,728
Other				117,970,224	117,970,224
<b>Total Investments</b>				<b>\$ 2,689,861,120</b>	<b>\$ 2,689,674,997</b>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
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**Securities Lending Program** – State statutes authorize the Commonwealth to enter into securities lending agreements. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth’s securities in exchange for cash. The cash is invested in short-term securities. After rebate and expenses the Commonwealth receives 75 percent of the profit earned, with a 10 basis point minimum. The securities transferred are a part of the total investments reported above. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$2,426,235.10 in securities lending income. On June 30, 2004, the fair value of the securities transferred was \$1,147,246,287.71 and the fair value of the securities purchased by the Commonwealth was \$1,171,451,868.75. 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.

**Cash and Investment Summary**

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

	<u>Current Cash And Investments</u>	<u>Noncurrent Investments</u>	<u>Total</u>
Governmental activities	\$ 563,877,000	\$ 2,409,307,000	\$ 2,973,184,000
Business-type activities	\$ 478,514,000	\$ 509,248,000	987,762,000
Fiduciary activities	\$ 1,714,433,000	\$ 28,916,549,000	30,630,982,000
	<u>\$ 2,756,824,000</u>	<u>\$ 31,835,104,000</u>	<u>\$ 34,591,928,000</u>

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**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

**Note 6**

**CAPITAL ASSETS**

*Capital asset activity for the year ended June 30, 2004  
(Expressed in Thousands):*

	<b>Primary Government</b>			<b>Ending Balance</b>
	<b>Beginning Balance Restated</b>	<b>Additions</b>	<b>Decreases</b>	
<b>Primary Government:</b>				
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 96,525	\$ 8,998	\$ (1,152)	\$ 104,371
Construction in progress	2,373,438	695,797	(712,109)	2,357,126
Infrastructure	14,588,395	557,643	(18,602)	15,127,436
Total capital assets not being depreciated	<u>17,058,358</u>	<u>1,262,438</u>	<u>(731,863)</u>	<u>17,588,933</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	9,165	257	(356)	9,066
Buildings	794,604	157,769	(1,038)	951,335
Machinery and Equipment	498,263	41,511	(44,175)	495,599
Easements and Other Intangibles	32,958	13,560	(2,435)	44,083
Total capital assets, being depreciated/amortized	<u>1,334,990</u>	<u>213,097</u>	<u>(48,004)</u>	<u>1,500,083</u>
<i>Less accumulated depreciation/amortization:</i>				
Improvements other than buildings	(4,579)	(551)	1,619	(3,511)
Buildings	(319,877)	(25,521)	2,001	(343,397)
Machinery and Equipment	(302,473)	(43,244)	31,881	(313,836)
Easements and Other Intangibles	(2,887)	(1,014)	81	(3,820)
Total accumulated depreciation	<u>(629,816)</u>	<u>(70,330)</u>	<u>35,582</u>	<u>(664,564)</u>
Total capital assets, being depreciated/amortized, net	<u>705,174</u>	<u>142,767</u>	<u>(12,422)</u>	<u>835,519</u>
Governmental activities capital assets, net	<u>\$ 17,763,532</u>	<u>\$ 1,405,205</u>	<u>\$ (744,285)</u>	<u>\$ 18,424,452</u>
<b>Business-type activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 19,403	\$ 113	\$ (5,879)	\$ 19,516
Construction in progress	64,754	2,215	(5,879)	61,090
Total capital assets, not being depreciated	<u>84,157</u>	<u>2,328</u>	<u>(5,879)</u>	<u>80,606</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	81,511	7,592		89,103
Buildings	184,852	1,372		186,224
Machinery and Equipment	57,540	10,557	(8,952)	59,145
Easements and Other Intangibles	2,321	1		2,322
Total capital assets, being depreciated/amortized	<u>326,224</u>	<u>19,522</u>	<u>(8,952)</u>	<u>336,794</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(45,878)	(1,790)		(47,668)
Buildings	(65,184)	(5,602)	91	(70,695)
Machinery and Equipment	(40,417)	(3,033)	2,449	(41,001)
Easements and Other Intangibles	(178)			(178)
Total accumulated depreciation	<u>(151,657)</u>	<u>(10,425)</u>	<u>2,540</u>	<u>(159,542)</u>
Total capital assets, being depreciated/amortized, net	<u>174,567</u>	<u>9,097</u>	<u>(6,412)</u>	<u>177,252</u>
Business-type activities capital assets, net	<u>\$ 258,724</u>	<u>\$ 11,425</u>	<u>\$ (12,291)</u>	<u>\$ 257,858</u>

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

	<u>Governmental activities</u>	<u>Business-type activities</u>
General Government	\$ 6,042	\$
Legislative and Judicial	987	
Commerce	6,047	
Education and Humanities	4,076	
Human Resources	3,896	
Justice	14,736	
Natural Resources and Environmental Protection	2,840	
Public Protection and Regulation	572	
Transportation	14,367	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	16,767	
State Parks		7,220
Lottery Corporation		2,194
Horse Park		669
Insurance Administration		342
Total depreciation expense by activities	<u>\$ 70,330</u>	<u>\$ 10,425</u>

**Discretely presented major component units**

Capital asset activity for the year ended June 30, 2004  
(Expressed in Thousands):

	<u>Component Units</u>			
	<u>Beginning Balance Restated</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 90,027	\$ 7,581	\$ (924)	\$ 96,684
Construction in progress	164,494	93,922	(105,509)	152,907
Totals, capital assets not being depreciated	<u>254,521</u>	<u>101,503</u>	<u>(106,433)</u>	<u>249,591</u>
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	63,819	2,506		66,325
Buildings	1,959,586	158,963	(3,055)	2,115,494
Machinery and Equipment	786,863	119,609	(33,268)	873,204
Easements and Other Intangibles	9,046	71		9,117
Total capital assets, being depreciated/amortized	<u>2,819,314</u>	<u>281,149</u>	<u>(36,323)</u>	<u>3,064,140</u>
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(40,765)	(1,734)	0	(42,499)
Buildings	(764,094)	(56,665)	716	(820,043)
Machinery and Equipment	(493,718)	(84,969)	30,898	(547,789)
Easements and Other Intangibles	(5,776)	0		(5,776)
Total accumulated depreciation	<u>(1,304,353)</u>	<u>(143,368)</u>	<u>31,614</u>	<u>(1,416,107)</u>
Total capital assets, being depreciated/amortized, net	<u>1,514,961</u>	<u>137,781</u>	<u>(4,709)</u>	<u>1,648,033</u>
Component units capital assets, net	<u>\$ 1,769,482</u>	<u>\$ 239,284</u>	<u>\$ (111,142)</u>	<u>\$ 1,897,624</u>

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

Kentucky Housing Corporation	\$ 704
Kentucky Higher Education Assistance Authority	2,485
Kentucky School Facilities Construction Commission	
University of Kentucky	75,563
University of Louisville	30,313
Kentucky Community and Technical College System	34,303
Total depreciation expense by activities	<u>\$ 143,368</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

**Note 7**

**Interfund Transactions**

The table below shows the interfund operating transfers for the fiscal year 2004  
(Expressed in Thousands):

<b>Transfers In</b>	<b>Transfers Out</b>				
	<b>General Fund</b>	<b>Transportation Fund</b>	<b>Federal Fund</b>	<b>Agency Revenue Fund</b>	<b>Capital Projects Fund</b>
General Fund	\$	\$	\$ 176	\$ 68,714	\$ 15,181
Transportation Fund					1,320
Federal Fund				9,839	
Agency Revenue Fund	43,981		18,846		2,292
Capital Projects Fund	2,824	7,872	1,449	10,091	
Non-Major Governmental Funds	348,534	159,413	1,351	179,713	40,110
State Parks Fund	28,413		307	45	7,993
Kentucky Horse Park Fund	2,021		18		442
Insurance Administration Fund					
Unemployment Compensation Fund				12	
Internal Service Funds	1,755		20	124	4,135
Fiduciary Funds	414				
<b>Total</b>	<b>\$ 427,942</b>	<b>\$ 167,285</b>	<b>\$ 22,167</b>	<b>\$ 268,538</b>	<b>\$ 71,473</b>

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 2004  
(Expressed in Thousands):

<b>Interfund Receivables</b>	<b>Interfund Payables</b>			
	<b>General Fund</b>	<b>Transportation Fund</b>	<b>Federal Fund</b>	<b>Agency Revenue Fund</b>
General Fund	\$	\$ 758	\$ 77,219	\$ 20,982
Transportation Fund	30		338	1,750
Federal Fund	8,390	41,194		22,986
Agency Revenue Fund	21,163	9,795	13,108	3
Capital Projects Fund	2,077	281	82	1,311
Non-Major Governmental Funds	18,607	633	4,174	4,145
State Parks Fund	12	2	13	18
Kentucky Horse Park Fund				
Insurance Administration Fund	3	2	4	17
Unemployment Compensation Fund				
Internal Service Funds	1,235	455	36	230
Fiduciary Funds	123	4		21
<b>Totals</b>	<b>\$ 51,640</b>	<b>\$ 53,124</b>	<b>\$ 94,974</b>	<b>\$ 51,463</b>

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.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

**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	Fiduciary Funds	Total
\$ 56,561	\$ 1,256	\$ 173,800	\$ 150	\$ 28,166	\$	\$ 9,160	\$ 5,352	\$ 358,516
173							4,284	5,777
619					1,162	203		11,823
322,368				21,178		1,004	956	410,625
33,583	224		36	7		676		56,762
192,957	265	11,426			3,306	1,293		938,368
								36,758
								2,481
								-
13								25
								6,034
								414
<u>\$ 606,274</u>	<u>\$ 1,745</u>	<u>\$ 185,226</u>	<u>\$ 186</u>	<u>\$ 49,351</u>	<u>\$ 4,468</u>	<u>\$ 12,336</u>	<u>\$ 10,592</u>	<u>\$ 1,827,583</u>

**Interfund Payables**

Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 45	\$ 15,810	\$ 1,571	\$ 150	\$ 26,502	\$	\$ 2,712	\$ 1,373	\$ 147,122
38						33	6	2,195
	1,259			12		203		74,044
336	19,144	2	13	7		27	2,506	66,104
	675		1			2,755		7,182
1	80,052	2		10	736	2		108,362
				1				46
4								4
	2						177	203
	4						1	3
1		88		1		161		2,211
								148
<u>\$ 425</u>	<u>\$ 116,946</u>	<u>\$ 1,663</u>	<u>\$ 164</u>	<u>\$ 26,533</u>	<u>\$ 736</u>	<u>\$ 5,893</u>	<u>\$ 4,063</u>	<u>\$ 407,624</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 a pension benefit shall be increased, if necessary, so

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2004

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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 the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

**COMMONWEALTH OF KENTUCKY**  
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**June 30, 2004**

	<u>Kentucky Legislators' Retirement Plan</u>	<u>Kentucky Judicial Retirement Plan</u>
Contribution rates:		
State	45.20%	22.84%
Plan members	5.00%	5.00%
Portion of State Contribution for Health Insurance		
Annual pension costs (Thousands)	\$651	\$2,134
Contributions made (Thousands)	\$709	\$2,134
Actuarial valuation date	June 30, 2004	June 30, 2004
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	Market value	Market value
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Inflation Rate		
Projected salary increases	5.50%	5.50%
Increases in Health Insurance Cost	6% - 10%	6% - 10%
(Dollar amounts in thousands)		
ARC	\$ 651	\$ 2,134
Interest on NPO		277
Adjustment to ARC		(277)
Annual pension cost	651	2,134
Contributions made	709	2,134
Increase (Decrease) in NPO	(58)	
NPO beginning of year		3,465
NPO end of year	<u>\$ (58)</u>	<u>\$ 3,465</u>

**COMMONWEALTH OF KENTUCKY**  
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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%	14.745% - 16.225%
8.00%	5% - 7%	7.625% - 9.105%
21.58%	5.89% - 12.66%	0.75%
\$10,211	\$153,182	\$322,047
\$9,608	\$124,442	\$322,047
June 30, 2004	June 30, 2004	June 30, 2004
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 smoothing of investment gains and losses	Five-year smoothing of investment gains and losses	Five-year smoothed market
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%
\$ 9,611	\$ 150,234	\$ 322,047
1,066	7,506	
(647)	(4,558)	
<u>10,030</u>	<u>153,182</u>	<u>322,047</u>
<u>9,608</u>	<u>124,442</u>	<u>322,047</u>
422	28,740	
12,921	90,979	
<u>\$ 13,343</u>	<u>\$ 119,719</u>	<u>\$</u>

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
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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 (Overfunded) 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>
<b>Kentucky Employees Retirement System</b>						
<u>Non-Hazardous</u>						
June 30, 2002	\$ 6,654,084,196	\$ 6,026,094,764	\$ (627,989,432)	110.4	\$ 1,595,809,458	(39.4)
June 30, 2003	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
<u>Hazardous</u>						
June 30, 2002	\$ 376,384,302	\$ 322,069,164	\$ (54,315,138)	116.9	\$ 125,275,925	(43.4)
June 30, 2003	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
<b>State Police Retirement System</b>						
June 30, 2002	\$ 438,955,465	\$ 380,790,346	\$ (58,165,119)	115.3	\$ 44,314,696	(131.3)
June 30, 2003	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6
<b>Judicial Retirement Plan</b>						
June 30, 2002	\$ 265,693,347	\$ 185,310,835	\$ (80,382,512)	143.4	\$ 26,208,973	(306.7)
June 30, 2003	234,298,628	202,838,112	(31,460,516)	115.5	26,159,412	(120.3)
June 30, 2004	247,388,763	218,117,389	(29,271,374)	113.4	25,905,022	(113.0)
<b>Legislators' Retirement Plan</b>						
June 30, 2002	\$ 67,892,070	\$ 51,095,992	\$ (16,796,078)	132.9	\$ 4,879,301	(344.2)
June 30, 2003	59,379,470	49,168,446	(10,211,024)	120.8	2,695,000	(378.9)
June 30, 2004	62,786,767	50,213,770	(12,572,997)	125.0	2,585,000	(486.4)
<b>Kentucky Teachers' Retirement System</b>						
June 30, 2002	\$ 13,588,847,000	\$ 15,695,574,000	\$ 2,106,727,000	86.6	\$ 2,313,663,000	91.1
June 30, 2003	13,863,786,000	16,594,781,000	2,730,995,000	83.5	2,497,731,000	109.3
June 30, 2004	14,255,131,000	17,617,626,000	3,362,495,000	80.9	2,641,533,000	127.3

Membership of the retirement systems, at June 30, 2004, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Fund	Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TOTAL
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous					
Retirees and beneficiaries receiving benefits	28,892	1,549	29,129	4,005	992	246	134	35,803	100,750
Terminated plan members - vested	4,833	260	6,927	361	46	24	49	3,003	15,503
Terminated plan members - non-vested	20,951	1,772	37,509	1,287	201				61,720
Active plan members	47,599	4,014	80,922	9,349	999	244	227	71,950	215,304
Total Members	102,275	7,595	154,487	15,002	2,238	514	410	110,756	393,277
Number of participating employers	411		1,389		1	1	1	199	2,002

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Three year trend for contributions  
(Expressed in thousands):

	Annual Required Contribution	Percentage Contributed
<b><u>Kentucky Employees Retirement System</u></b>		
<b><u>Non-Hazardous</u></b>		
2002	\$ 93,993	101.8%
2003	96,958	75.2%
2004	125,691	79.3%
<b><u>Hazardous</u></b>		
2002	\$ 23,601	100.9%
2003	24,351	95.3%
2004	24,543	100.8%
<b><u>State Police Retirement System</u></b>		
2002	\$ 9,563	100.0%
2003	9,444	80.8%
2004	9,611	100.0%
<b><u>Judicial Retirement Plan</u></b>		
2002	\$ 3,878	105.6%
2003	2,134	100.0%
2004	2,134	100.0%
<b><u>Legislator's Retirement Plan</u></b>		
2002	\$ 692	110.0%
2003	651	109.0%
2004	651	109.0%
<b><u>Kentucky Teachers' Retirement System</u></b>		
2002	\$ 284,795	100.0%
2003	322,047	100.0%
2004	364,351	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 \$480,612,182 in the 457 Plan at June 30, 2004, \$280,031,604 was applicable to the Commonwealth, while the remaining \$200,580,580 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$572,391,244 at June 30, 2004, of which \$255,453,689 was applicable to the state while the remaining \$316,937,560 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, 2004, are summarized in Note 15, Changes in Long-Term Obligations.

**COMMONWEALTH OF KENTUCKY**  
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*At June 30, 2004, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):*

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

Buildings  
 Equipment  
 Total  
 Less: Accumulated depreciation  
 Total Net of Depreciation

Primary Government		
Governmental Activities	Business-Type Activities	Component Units-Major
\$		\$ 44,455
43,949	340	15,275
43,949	340	59,730
(16,859)	(160)	(3,172)
<u>\$ 27,090</u>	<u>\$ 180</u>	<u>\$ 56,558</u>

*Future minimum rental commitments for capitalizable leases as of June 30, 2004, are as follows (Expressed in Thousands):*

	Primary Government		Component Units-Major	Total
	Governmental Activities	Business-Type Activities	University and College Funds	
2005	\$ 8,022	\$ 114	\$ 9,720	\$ 17,856
2006	5,845	98	7,160	13,103
2007	3,498	46	5,809	9,353
2008	1,939	12	5,035	6,986
2009		2	4,753	4,755
2010-2014			23,633	23,633
2015-2019			21,699	21,699
2020-2024			7,196	7,196
2025-2029			80	80
Total minimum lease payments	19,304	272	85,085	104,661
Less: Amount representing interest (3.50-25%)	(2,052)	(27)	(21,285)	(23,364)
Present value of future minimum lease payments	<u>\$ 17,252</u>	<u>\$ 245</u>	<u>\$ 63,800</u>	<u>\$ 81,297</u>

**Note 11**

**RISK MANAGEMENT**

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

**Fire and Tornado Insurance:**

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$500,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$765,468 reported in the Program at June 30, 2004, 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 2004 and 2003 were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 1,407,000	\$ 1,900,000
Incurred claims	3,069,211	1,115,304
Changes in estimates		
Claims payments	(3,710,743)	(1,608,304)
Balance at Fiscal Year End	<u>\$ 765,468</u>	<u>\$ 1,407,000</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.

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The actuarially determined aggregate claims liability of \$95,541,237 reported in the Program at June 30, 2004, 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 2004 and 2003 were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 94,552,483	\$ 90,306,276
Claims and claims adjustments incurred:		
Current year	20,319,865	21,341,688
Prior year	(4,312,334)	(2,688,796)
Total Claims and Claims Adjustments Incurred:	16,007,531	18,652,892
Claims and claims adjustment payments:		
Current year	(3,655,564)	(3,733,009)
Prior year	(11,363,213)	(10,673,676)
Total Claims and Claims Adjustment Payments	(15,018,777)	(14,406,685)
Balance at Fiscal Year End	<u>\$ 95,541,237</u>	<u>\$ 94,552,483</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 2004 and 2003 were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability \$	22,654,575	\$ 21,178,961
Claims and claims adjustments incurred	2,649,206	5,114,890
Changes in estimates	(1,376,374)	
Claims and claims adjustment payments	(3,582,585)	(3,639,276)
Balance at Fiscal Year End	<u>\$ 20,344,822</u>	<u>\$ 22,654,575</u>

**Note 12**

**RISK POOLS**

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

**Risk Pools - Enterprise Funds**

**Workers' Compensation Insurance:**

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$909,003,565, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$2,085,039,042, discounted at 7.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$21,418,361 as reported in the financial statements is the present value is the aggregate actuarially determined liability of \$46,801,769, discounted at 7.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2003. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 2,165,474,600	\$ 2,393,132,269
Claims and claims adjustments incurred	3,491,639	
Changes in estimates	46,801,769	(139,477,491)
Claims and claims adjustment payments	(83,927,197)	(88,180,178)
Balance at Fiscal Year End	<u>\$ 2,131,840,811</u>	<u>\$ 2,165,474,600</u>

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**Coal Workers’ Pneumoconiosis Fund:**

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

In accordance with House Bill No. 1 from the December 1996 Special Session, the Kentucky Workers’ Compensation Funding Commission shall impose a pneumoconiosis assessment to pre-fund the liabilities of the CWPF and to finance its administration. The assessment is 3.0 percent of workers’ compensation premiums received on or after January 1, 1997, from employers engaged in the severance or processing of coal and an additional assessment of \$0.025 per ton imposed upon coal severed on or after January 1, 1997. All pneumoconiosis assessments collected by the Funding Commission are to be credited to a separate account within the Benefit Reserve Fund and to be transferred as necessary to pay administrative expenses and current claims of the CWPF.

The Coal Workers’ Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$8,124,606, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$10,090,604, discounted at 7.0 percent. The claims adjustment liability of \$844,959, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,049,423, 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 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 9,553,619	\$ 2,615,938
Claims and claims adjustments incurred	1,859,586	
Changes in estimates	1,049,423	7,073,797
Claims and claims adjustment payments	(1,322,601)	(136,116)
Balance at Fiscal Year End	<u>\$ 11,140,027</u>	<u>\$ 9,553,619</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 funds the Program and special fuels received in the Commonwealth funds the program.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims against the owners or operators for damages sustained as a result of leaking storage tanks. Claims paid by the Program are subject to deductibles that are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at \$1,000 per occurrence for owners or operators of five or less tanks, and at \$5,000 for owners or operators of six to ten tanks, and at \$25,000 for owners of more than ten tanks.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$173,266,000 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program’s aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability, restated	\$ 177,188,000	\$ 195,186,000
Claims and claims adjustments incurred	24,721,000	10,645,000
Changes in estimates		
Claims and claims adjustment payments	(28,643,000)	(28,643,000)
Balance at Fiscal Year End	<u>\$ 173,266,000</u>	<u>\$ 177,188,000</u>

**Bond Pool:**

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

**COMMONWEALTH OF KENTUCKY**

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The Commission, based on the standards considered in the application process, rates accepted members. The members are rated and assessed an initial membership fee based on this rating. This fee ranges from \$1,000 to \$2,500. Additionally members pay tonnage fees of \$.05 per ton of surface mined coal and \$.01 per ton for underground mined coal. Provisions are also in effect where the tonnage fee is suspended for members who have participated in the Program for 36 months, or when the Program balance exceeds \$7 million.

The coal companies participating in the Program are required to post a permit specific bond based on the number of acres permitted and their rating in the Program. The Bond Pool in turn provides coverage for reclamation costs that exceed the permit specific bond but limits claims to the total amount of bond required by the permit. The Bond Pool does not pay claims for costs incurred in excess of the required bond amount.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$21,452,273, as reported in the financial statements, is the aggregate actuarially determined claims liability. There were no changes in claims adjustment liability during fiscal year 2004. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 13,594,597	\$ 13,594,597
Claims and claims adjustments incurred		
Changes in estimates	7,857,676	
Claims and claims adjustment payments		
Balance at Fiscal Year End	<u>\$ 21,452,273</u>	<u>\$ 13,594,597</u>

**Mine Subsidence Insurance:**

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

not more than \$500. The Mine Subsidence Program also limits its coverage to \$50,000 per structure.

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability of \$155,000 as reported in the financial statements, is the aggregate actuarially determined claims liability. Changes in the Program's claims liability amount in Fiscal Years 2004 and 2003 were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability	\$ 65,000	\$ 0
Claims and claims adjustments incurred	223,598	65,000
Changes in estimates		79,391
Claims and claims adjustment payments	<u>(133,598)</u>	<u>(79,391)</u>
Balance at Fiscal Year End	<u>\$ 155,000</u>	<u>\$ 65,000</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 that Kentucky may continue flexible regulation of health coverage.

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

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

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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 2004 and 2003 were:

	Fiscal Year 2004	Fiscal Year 2003
Beginning of fiscal year liability \$	5,530,547	\$ 5,531
Claims and claims adjustments incurred	4,760,766	5,525,016
Changes in estimates		
Claims and claims adjustment payments	(2,380,433)	
Balance at Fiscal Year End	<u>\$ 7,910,880</u>	<u>\$ 5,530,547</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, 2004, 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 2003 was also zero.

**Note 13**

**DEFEASANCE OF LONG-TERM DEBT**

The State Property and Buildings Commission issued \$117,145,000 of Revenue and Revenue Refunding Bonds, Project 77, dated August 20, 2003. The net proceeds of this issue were \$118,788,071 with a premium of \$2,641,634 and issuance cost and underwriters’ discount of \$998,563. The net proceeds of the refunding portion were placed in escrow accounts to advance refund certain University of Kentucky Community Colleges Educational Buildings Refunding Revenue Bonds (Series A,C,F and H) and for the current refunding of Kentucky Asset/Liability Commission Notes (2002 General Fund Series A), State Property and Buildings Commission Revenue and Revenue Refunding Bonds (Project 54), University of Kentucky Community and Colleges Educational Buildings Revenue Bonds (Series I), and (Series J). The net savings (reduction in cash flow) for the Refunding Bonds will be \$2,896,525 and the present value of the savings is \$1,668,971 at a rate of 4.268%.

The State Property and Buildings Commission issued \$39,985,000 of Revenue and Revenue Refunding Bonds, Project 80, Series A, dated October 30, 2003. The net proceeds of this issue were \$41,987,124 with a premium of \$2,464,306 and issuance cost and underwriters’ discount of \$462,182. The net proceeds of the refunding portion were placed in an escrow account to refund a portion of the State Property and Buildings Commission Project 66, Series A, Revenue Bonds. The net savings (reduction in cash flow) for the Refunding Bonds will be \$1,627,742 and the present value of the savings is \$1,207,275 at a rate of 4.152%.

The State Property and Buildings Commission issued \$389,835,000 of Revenue and Revenue Refunding Bonds, Project 82, dated February 25, 2004. The net proceeds of this issue were \$436,533,612 with a premium of \$50,735,811 and issuance cost and underwriters’ discount of \$4,037,199. The proceeds were placed in escrow accounts to refund outstanding University of Kentucky Community Colleges Educational Buildings Revenue Bonds, 1994 Series A, C, F and H (Second Series), and to advance refund State Property and Buildings Commission Revenue and Revenue Refunding Bonds for Projects 57, 59, 60, 63, 64, 67, 68, 69 (Series A), 72, and 74. The net savings (reduction in cash flow) for the Refunding Bonds will be \$25,940,116 and the present value of the savings is \$24,050,754 at a rate of 3.818%.

The State Property and Buildings Commission issued \$195,910,000 of Revenue and Revenue Refunding Bonds, Project 83, dated April 28, 2004. The net proceeds of this issue were \$219,866,240 with a premium of \$25,964,579 and issuance cost and underwriters’ discount of \$2,008,339. The proceeds were placed in an escrow account to refund State Property and Buildings Commission Revenue and

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Revenue Refunding Bonds for Projects 60, 63, 67, 69 (Series A), 74, 77, and 79. The net savings (reduction in cash flow) for the Refunding Bonds will be \$5,942,972 and the present value of the savings is \$6,281,351 at a rate of 3.792%.

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2004 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated July 1, 2003, were issued for the Harlan County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$700,411 maturing June 1, 2004 through June 1, 2014 and carrying interest rates from 1.20% to 3.30%.

Revenue refunding bonds dated July 1, 2003, were issued for the Spencer County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$647,829 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 1.50% to 3.50%.

Revenue refunding bonds dated July 1, 2003, were issued for the Christian County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$610,391 maturing January 1, 2004 through July 1, 2015 and carrying interest rates from 1.00% to 3.375%.

Revenue refunding bonds dated July 1, 2003, were issued for the Owensboro Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$447,177 maturing April 1, 2004 through April 1, 2015 and carrying interest rates from 1.25% to 3.25%.

Revenue refunding bonds dated July 1, 2003 were issued for the Breckinridge County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$997,114 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 1.20% to 3.375%.

Revenue refunding bonds dated July 1, 2003 were issued for the Magoffin County School District Finance Corporation to refund a 1991 and a 1992 issue. The Commission's portion of the refunding issue was \$735,711 maturing September 1, 2003 through September 1, 2010 and carrying interest rates from 1.00% to 3.25%.

Revenue refunding bonds dated July 1, 2003, were issued for the Green County School District Finance Corporation to refund 1994 issue. The Commission's portion of the refunding issue was \$610,000 maturing September 1, 2003 through September 1, 2014 and carrying interest rates from 2.30% to 3.30%.

Revenue refunding bonds dated July 1, 2003 were issued for the Owen County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$118,403 maturing March 1, 2004 through March 1, 2014 and carrying interest rates from 2.00% to 2.90%.

Revenue refunding bonds dated July 1, 2003 were issued for the Gallatin County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$159,104 maturing December 1, 2003 through December 1, 2013 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated October 1, 2003 were issued for the Carter County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$2,070,469 maturing February 1, 2004 through February 1, 2009 and carrying interest rates from 2.00% to 2.50%.

Revenue refunding bonds dated October 1, 2003 were issued for the Henderson County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$450,451 maturing April 1, 2004 through October 1, 2013 and carrying interest rates from 1.80% to 3.35%.

Revenue refunding bonds dated October 1, 2003 were issued for the Paintsville Independent School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$116,433 maturing May 1, 2004 through May 1, 2014 and carrying interest rates from 1.50% to 3.60%.

Revenue refunding bonds dated November 1, 2003 were issued for the Letcher County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$413,988 maturing June 1, 2004 through June 1, 2014 and carrying interest rates from 1.70% to 3.90%.

Revenue refunding bonds dated December 1, 2003 were issued for the Metcalfe County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$143,714 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated January 1, 2004 were issued for the Estill County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$489,029 maturing August 1, 2004 through August 1, 2016 and carrying interest rates from 2.00% to 3.60%.

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Revenue refunding bonds dated January 1, 2004 were issued for the Warren County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$938,454 maturing March 1, 2005 through March 1, 2014 and carrying interest rates from 2.00% to 3.35%.

Revenue refunding bonds dated February 1, 2004 were issued for the Adair County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$322,010 maturing August 1, 2004 through August 1, 2014 and carrying interest rates from 1.20% to 3.70%.

Revenue refunding bonds dated February 1, 2004 were issued for the Whitley County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$209,688 maturing April 1, 2004 through October 1, 2013 and carrying interest rates from 1.00% to 3.25%.

Revenue refunding bonds dated February 1, 2004 were issued for the Floyd County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$2,871,263 maturing May 1, 2004 through May 1, 2015 and carrying interest rates from 1.10% to 3.50%.

Revenue refunding bonds dated March 1, 2004 were issued for the Jackson County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$235,623 maturing September 1, 2004 through September 1, 2014 and carrying an interest rate of 3.10%.

Revenue refunding bonds dated March 1, 2004 were issued for the Daviess School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$128,917 maturing August 1, 2004 through August 1, 2015 and carrying interest rates from 2.00% to 3.625%.

Revenue refunding bonds dated March 1, 2004 were issued for the Cloverport Independent School District Finance Corporation to a refund 1995 issue. The Commission's portion of the refunding issue was \$508,541 maturing September 1, 2004 through September 1, 2023 and carrying interest rates from 1.15% to 4.30%.

Revenue refunding bonds dated March 1, 2004 were issued for the Union County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$626,900 maturing May 1, 2005 through May 1, 2013 and carrying interest rates from 1.15% to 3.30%.

Revenue refunding bonds dated March 1, 2004 were issued for the Lincoln County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$200,327 maturing June 1, 2004 through December 1, 2015 and carrying interest rates from 1.00% to 3.50%.

Revenue refunding bonds dated March 1, 2004 were issued for the Providence Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$96,347 maturing April 1, 2005 through April 1, 2015 and carrying interest rates from 1.30% to 3.50%.

Revenue refunding bonds, Series 2004A, dated March 15, 2004 were issued for the Butler County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$169,429 maturing May 1, 2004 through May 1, 2012 and carrying an interest rate of 2.85%.

Revenue refunding bonds, Series 2004B, dated March 15, 2004 were issued for the Butler County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$482,971 maturing August 1, 2004 through August 1, 2016 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated March 1, 2004 were issued for the Casey County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was \$255,982 maturing June 1, 2004 through December 1, 2013 and carrying an interest rate of 2.00%.

Revenue refunding bonds dated April 1, 2004 were issued for the Taylor County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$192,120 maturing October 1, 2004 through October 1, 2014 and carrying interest rates from 2.00% to 3.625%.

Revenue refunding bonds dated April 1, 2004 were issued for the Martin County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$587,490 maturing June 1, 2005 through June 1, 2015 and carrying interest rates from 2.00% to 3.875%.

**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.

**Note 15**

**SHORT-TERM AND LONG-TERM OBLIGATIONS**

**Short-Term Obligations**

The Commonwealth issued no short-term obligations during Fiscal Year 2004.

**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, 2004.

**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, principal and interest payments on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2004, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

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

The Commission issued \$1,094,690,000 in project revenue bonds as follows:

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2004

\$117,145,000, Project 77, dated August 20, 2003, maturing through August 1, 2023, with interest payable each February 1 and August 1 at 2.00% to 5.25%; and

\$151,225,000, Project 78, dated October 9, 2003, maturing through October 1, 2016, with interest payable each April 1 and October 1 at 1.38% to 5.14%; and

\$145,290,000, Project 79, dated October 9, 2003, maturing through October 1, 2023, with interest payable each April 1 and October 1 at 4.1% to 5.125%; and

\$39,985,000, Project 80 Series A, dated October 30, 2003, maturing through May 1, 2024, with interest payable each May 1 and November 1 at 2% to 5.25%; and

\$55,300,000, Project 81, dated November 19, 2003, maturing through November 1, 2013, with interest payable each May 1 and November 1 at 2% to 5%; and

\$389,835,000, Project 82, dated February 25, 2004, maturing through October 1, 2019, with interest payable each April 1 and October 1 at 2% to 5.25%; and

\$195,910,000, Project 83, dated April 28, 2004, maturing through October 1, 2020, with interest payable each April 1 and October 1 at 2% to 5.25%.

**The Turnpike Authority of Kentucky** was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of Transportation, Commissioner of Highways, State Highway Engineer, and Secretary of Economic Development. The Secretary of the Finance and Administration Cabinet currently serves as the Authority's Treasurer.

The Authority issued \$16,180,000 in Economic Development Road Revenue Refunding Bonds as follows:

\$16,180,000, Economic Development Road Revenue Refunding Bonds, dated June 10, 2004. The Bonds are not subject to redemption prior to maturity at July 1, 2010. The interest rates range from 4% to 5% and both have a yield of 3.6%.

**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 \$288,980,000 in revenue and refunding revenue bonds as follows:

**Eastern Kentucky University** issued \$12,660,000 in Consolidated Educational Buildings Revenue Bonds, Series V, dated June 1, 2004, maturing to May 1, 2019 at 3% to 4.8%.

**Morehead State University** issued \$5,620,000 Consolidated Educational Buildings Refunding and Improvement Revenue Bonds, Series M, dated January 1, 2004, maturing through May 1, 2024, at 2% to 3.625%.

**Murray State University** issued \$5,355,000 in Housing and Dining System Revenue Bonds and Consolidated Educational Buildings Revenue Bonds as follows:

\$2,500,000, Housing and Dining System Revenue Bonds, Series P, dated June 18, 2004, maturing through September 1 2024, at 1.1% to 4.25%; and

\$2,855,000, Consolidated Educational Buildings Revenue Bonds, Series H (Second Series), dated September 1, 2003, maturing through May 1 2012, at 2% to 3.8%.

**Northern Kentucky University** issued \$9,450,000 in Consolidated Educational Building Revenue Bonds, Series L, dated January 1, 2004, maturing May 1, 2005, through 2023 at 2% to 4.25%.

**University of Kentucky** issued \$185,425,000 in Housing and Dining System Revenue Bonds, Housing and Dining Refunding Revenue Bonds, Consolidated Educational Building Refunding Revenue Bonds, and Consolidated Educational Building Refunding Revenue Bonds as follows:

\$52,815,000, Housing and Dining System Revenue Bonds, Series S, dated August 1, 2003, maturing through June 1 2023, at 2% to 5%; and

\$4,235,000, Housing and Dining System Refunding Revenue Bonds, Series M and O (Second Series), dated October 1, 2003, \$3,225,000 maturing each June 1 through 2022 at 1.50% to 4.375%; \$420,000 term bonds due June 1, 2015, at 4%, \$255,000 due June 1, 2017 at 4%, and \$335,000 due June 1, 2024, at 4.50%; and

\$29,775,000, Consolidated Educational Buildings Revenue Bonds, Series S, dated July 1, 2003, maturing each May 1, through 2024, at 2% to 4.5%; and

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2004

\$17,635,000, Consolidated Educational Buildings Revenue Bonds, Series T, dated October 1, 2003, maturing each May 1 through 2023, at 1% to 4.5%; and

\$9,335,000, Consolidated Educational Buildings Revenue Bonds, Series O (Second Series) dated October 29, 2003, maturing each May 1 through 2012, at 2% to 3.7%; and

\$19,520,000, Consolidated Educational Building Refunding Revenue Bonds, Series E, J, L (Third Series) dated January 1, 2004, maturing May 1, 2005, through 2011, at 2% to 2.75%; and

\$52,110,000, Consolidated Educational Building Refunding Revenue Bonds, Series P, Q, R (Second Series) dated March 31, 2004, maturing May 1, 2005, through 2021, at 2% to 4.5%.

**University of Louisville** issued \$5,815,000 in Housing System Refunding Revenue Bonds and \$32,545,000 in Consolidated Educational Buildings Revenue Bonds as follows:

\$5,815,000 in Housing System Refunding Revenue Bonds, Series F, dated August 1, 2003 maturing each November 1, through 2014 at 2.5% to 4.2%; and

\$21,310,000 in Consolidated Educational Buildings Revenue Bonds, Series N, dated June 1, 2003 maturing July 9, 2003, through 2023 at 2% to 4.125%; and

\$11,235,000 in Consolidated Educational Buildings Revenue Bonds, Series O, dated October 1, 2003 maturing May 1, 2004, through 2023 at 2% to 4.25%.

**Western Kentucky University** issued bonds that mature in varying amounts through May 1, 2023, with interest payable at annual rates ranging from 2.0% to 5.0%.

\$9,830,000, Consolidated Educational Buildings Refunding Bonds, Series O, dated July 1, 2003; and

\$11,135,000, Consolidated Educational Buildings Revenue Bonds, Series P, dated September 1, 2003; and

\$11,145,000, Consolidated Educational Buildings Revenue Bonds, Series Q, dated December 1, 2003.

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

limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued \$250,140,000 in Housing Revenue Bonds which consisted of the following:

\$155,140,000, 2003 Series F (Non-AMT) Housing Revenue Bonds, dated October 29, 2003, of which \$69,245,000 were serial bonds due biannually through July 1, 2018, at 1.45% to 4.50%. \$52,505,000 term bonds, due July 1, 2013 at 3.415%; \$12,230,000 term bonds, due January 1, 2024, at 4.85%; \$7,130,000 term bond, due July 1, 2024, at 4.85%; \$7,745,000 term bonds, due January 1, 2033, at 4.95%, and \$6,285,000 term bonds due July 1, 2033, at 4.95% and

\$45,000,000 2003 Series G (AMT) Housing Revenue Bonds, dated January 29, 2004, of which \$9,700,000 were serial bonds maturing July 1, 2004 through 2014, at 1.25% to 4.15%. Also, \$10,910,000 term bonds, due July 1, 2022, at 4.75%; \$9,100,000 term bonds, due July 1, 2027, at 5.0%; \$555,000 term bonds, due July 1, 2033, at 4.95%; and \$14,735,000 term bonds, due January 1, 2034, at 4.95%.

\$17,175,000 2004 Series A (Non-AMT) Housing Revenue Bonds, dated June 24, 2004, maturing January 1, 2010 through July 1, 2017, at 3.45% to 4.55%.

\$22,825,000 2004 Series B (AMT) Housing Revenue Bonds, dated June 24, 2004, of which \$10,360,000 were serial bonds maturing July 1, 2005 through 2009, at 1.55% to 3.70%. Also, \$3,000,000 term bonds, due January 1, 2024, at 5.00%; and \$9,465,000 term bonds, due July 1, 2024, at 5.00%.

\$10,000,000 2004 Series C (AMT) Housing Revenue Bonds, dated June 24, 2004, maturing July 1, 2034 at a variable interest rate.

**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 \$11,300,000 in Revolving Fund Program Revenue Bonds, as follows:

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

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\$6,255,000, Wastewater Revolving Fund Program Revenue Bonds, 2004 Series I, dated June 30, 2004, with \$3,865,000 serial bonds maturing through June 1, 2022 at 3% to 5%, and term bonds of \$1,485,000 due June 1, 2021 at 5.25% and \$905,000 due June 1, 2024 at 5%.

\$5,045,000, Drinking Water Revolving Fund Program Revenue Bonds, 2004 Series C, dated June 30, 2004, with \$3,120,000 serial bonds maturing through June 1, 2022 at 3% to 5%, and term bonds of \$1,195,000 due June 1, 2021 at 5.25% and \$730,000 due June 1, 2024 at 5%.

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

The Authority issued no bonds during the year ended June 30, 2004.

**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.

\$28,925,000 is outstanding on Multi-County Correctional Facilities Revenue Refunding Bonds-Series 1994; serial bonds' rates vary from 4.95% to 5.40%.

**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.

**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 basic financial statements.

The Corporation issued no bonds during the year ended June 30, 2004.

**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, 2004.

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

*The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2004, are as follows (Expressed in Thousands):*

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 2,249,703	1.38%-7.65%	2024
Turnpike Authority of KY	975,728	4.00%-9.63%	2020
<b>Total</b>	<b>\$ 3,225,431</b>		

*Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2004, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2005	\$ 184,645	\$ 166,455	\$ 351,100
2006	194,769	153,216	347,985
2007	213,164	143,900	357,064
2008	253,163	127,592	380,755
2009	227,050	110,318	337,368
2010-2014	1,005,005	399,979	1,404,984
2015-2019	760,685	195,924	956,609
2020-2024	386,950	452,687	839,637
<b>Total</b>	<b>\$ 3,225,431</b>	<b>\$ 1,750,071</b>	<b>\$ 4,975,502</b>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky School Facilities Construction Commission *	\$ 675,088	1.25-5.4%	2025
Kentucky Housing Corporation *	1,323,047	1.10-7.39%	2035
Kentucky Infrastructure Authority *	212,115	3.0-8.4%	2024
Kentucky Higher Education Assistance Authority	1,004,170	1.65-5.30%	2033
Kentucky Local Correctional Facilities Construction Authority *	28,925	4.95-5.50%	2014
University of Kentucky *	326,541	1.00-6.50%	2025
University of Louisville	182,001	1.10-5.40%	2023
Eastern Kentucky University	48,715	3.0-6.3%	2024
Western Kentucky University *	102,565	1.08-4.90%	2030
Murray State University *	18,127	1.10-5.6%	2024
Morehead State University	35,525	2.0-5.75%	2024
Kentucky State University	9,270	2.6-5.6%	2014
Northern Kentucky University	41,905	3.0-7.8%	2023
<b>Total Component Unit Revenue Bonds Payable</b>	<b>\$ 4,007,994</b>		

\* Amounts reflect original issue

*Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2004, are as follows (Expressed in Thousands):*

Year Ending June 30	Principal	Interest	Totals
2005	\$ 235,585	\$ 134,439	\$ 370,024
2006	327,858	125,259	453,117
2007	173,089	117,652	290,741
2008	157,139	110,199	267,338
2009	153,979	103,447	257,426
2010-2014	682,686	426,105	1,108,791
2015-2019	503,866	277,440	781,306
2020-2024	409,455	224,399	633,854
2025-2029	542,843	153,253	696,096
2030-2034	193,684	21,119	214,803
2035-2039	627,810	21,228	649,038
<b>Total</b>	<b>\$ 4,007,994</b>	<b>\$ 1,714,540</b>	<b>\$ 5,722,534</b>

## COMMONWEALTH OF KENTUCKY

### Notes to Financial Statements

June 30, 2004

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#### NOTES PAYABLE:

At June 30, 2004, the following entities had notes payable as follows:

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

The commission issued \$171,260,000 in project refunding notes as follows:

\$171,260,000 is outstanding on Project Notes, 2003 General Fund Series A, dated July 17, 2003, is due January 15, 2004 and each July 15, 2004 through 2013 at 1% to 5%.

**Kentucky Horse Park Foundation** (reported as a component unit of The Kentucky Horse Park) has an outstanding notes payable of \$451,000 at June 30, 2004. The liability is \$411,000, from an unsecured operating line of credit, and carrying quarterly interest payments at prime. The line of credit expires September 17, 2004. The remaining \$40,000 is an unsecured note carrying interest at 7% and maturing December 31, 2005.

**The Kentucky Housing Corporation** reported \$21,828,000 in Notes Payable for the current portion of long-term debt/Notes Payable during Fiscal Year 2004. The Corporation has three lines of credit. The first is a bond anticipation line of credit used only to preserve tax-exempt bond issue capacity and borrowings and matures April 30, 2005.

The second line is a loan refunding line of credit has proceeds applied to the retirement of the 1991 Series C-1 and 1991 D-1 Housing Revenue Bonds on January 1, 2004. The line bears interest at the one-month LIBOR plus 20 basis points and matures on January 1, 2009.

The last is a loan warehousing line of credit used only for the purchase of single-family mortgage loans. The line provides for borrowings up to \$40,000, bears interest at the one-month LIBOR plus 20 basis points and matures December 1, 2005.

**Kentucky Educational Television** reported Notes Payable of \$341,000 for the year ending June 30, 2004, relating to payments to PBS in connection with the acquisition of Literacy Link assets.

**The University of Louisville** reported \$700,000 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.

**Morehead State University** had Notes Payable of \$460,000, which includes \$400,000 in a 5.00% Note Payable to an individual, repayable in annual installments with the final installment due June, 2008; and \$60,000 in a 5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2008.

**Murray State University** reported Notes Payable of \$14,382,000 for various purposes.

**Northern Kentucky University** reported \$2,338,000 in Notes Payable for various purposes.

**Western Kentucky University** reported Notes Payable of \$1,835,505 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. These payments represent the principal and interest allocation for the Garret Conference Center and the Downing University Center, title to which was retained by the University, of the Housing and Dining Revenue Series H and Series K bonds transferred to the WKU Student Life Foundation, Inc. In addition, they reported \$315,495 for various purposes.

**The University of Kentucky** reported Notes Payable of \$3,485,000 for various purposes.

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

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

*Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2004, are as follows (Expressed in Thousands)*

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 45,740	\$ 7,286	\$ 53,026
2006	44,820	5,518	50,338
2007	37,330	3,548	40,878
2008	6,095	2,543	8,638
2009		2,260	2,260
2010-2014	52,985	3,342	56,327
Total	<u>\$ 186,970</u>	<u>\$ 24,497</u>	<u>\$ 211,467</u>

*Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2004, are as follows (Expressed in Thousands)*

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 50,823	\$ 1,362	\$ 52,185
2006	11,558	804	12,362
2007	3,384	711	4,095
2008	2,320	624	2,944
2009	8,716	587	9,303
2010-2014	1,442	2,307	3,749
2015-2019	1,547	1,914	3,461
2020-2024	2,045	1,529	3,574
Thereafter	5,130	1,287	6,417
Total	<u>\$ 86,965</u>	<u>\$ 11,125</u>	<u>\$ 98,090</u>

*Changes in long-term liabilities for the fiscal year ended June 30, 2004, 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>
<b>Governmental Activities</b>						
Compensated absences	\$ 230,144	\$ 119,258	\$ (122,624)	\$ 226,778	\$ 120,803	\$ 105,975
Capital leases	21,209	5,591	(9,548)	17,252	7,116	10,136
Claims liability	118,615	21,726	(23,689)	116,652	16,812	99,840
Notes payable	69,695	171,260	(53,985)	186,970	45,740	141,230
Bonds payable	3,165,223	1,110,870	(1,050,662)	3,225,431	185,256	3,040,175
Unamortized premiums	53,370	103,317	(15,187)	141,500	8,127	133,373
Unamortized discounts	(32,911)		5,855	(27,056)	(1,553)	(25,503)
Deferred amount on refunding	(6,360)	(12,389)	361	(18,388)	(1,056)	(17,332)
Judgments and contingent liabilities	272,427	14,807	(20,925)	266,309	29,748	236,561
Unfunded employer pension contributions	107,365	29,162		136,527		136,527
<b>Total Governmental Activities</b>	<u>\$ 3,998,777</u>	<u>\$ 1,563,602</u>	<u>\$ (1,290,404)</u>	<u>\$ 4,271,975</u>	<u>\$ 410,993</u>	<u>\$ 3,860,982</u>
<b>Business-Type Activities</b>						
Compensated absences	\$ 8,467	\$ 3,544	\$ (3,693)	\$ 8,318	\$ 2,481	\$ 5,836
Capital leases	228	104	(87)	245	97	148
Claims and claims adjustment liability	1,189,538	90,765	(146,038)	1,134,265	126,497	1,007,768
Notes payable		451		451	411	40
Prize liability	247,934	14,455	(31,185)	231,204	48,533	182,671
Judgments and contingent liabilities	97		(2)	95	70	25
<b>Total Business-Type Activities</b>	<u>\$ 1,446,264</u>	<u>\$ 109,319</u>	<u>\$ (181,005)</u>	<u>\$ 1,374,578</u>	<u>\$ 178,089</u>	<u>\$ 1,196,488</u>
<b>Total Primary Government</b>	<u>\$ 5,445,041</u>	<u>\$ 1,672,921</u>	<u>\$ (1,471,409)</u>	<u>\$ 5,646,553</u>	<u>\$ 589,082</u>	<u>\$ 5,057,470</u>
<b>Component Units (Major)</b>						
Compensated absences	\$ 20,798	\$ 11,894	\$ (20,370)	\$ 12,322	\$ 9,978	\$ 2,344
Capital leases	62,327	15,078	(13,605)	63,800	7,359	56,441
Notes payable	10,159	208,416	(151,282)	67,293	48,201	19,092
Bonds payable	3,330,807	844,210	(716,109)	3,458,908	179,538	3,279,370
<b>Total Component Units</b>	<u>\$ 3,424,091</u>	<u>\$ 1,079,598</u>	<u>\$ (901,366)</u>	<u>\$ 3,602,323</u>	<u>\$ 245,076</u>	<u>\$ 3,357,247</u>

**Note 16**

**COMMITMENTS AND CONTINGENCIES**

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

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, 2004 and 2003 amounted to \$90.8 million and \$81.1 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

**Compensated Absences** - Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2004, the estimated liability for annual and compensatory leave was \$226,777,788 for the governmental funds, and \$8,318,639 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$12,322,000 at June 30, 2004.

**Sick Leave** - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2004. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was \$329,438,073 and \$9,590,470 respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 2004, had contractual commitments of approximately \$584,669,043 for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 17 percent State funds, 80 percent Federal funds, and the remaining 3 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

# COMMONWEALTH OF KENTUCKY

## Notes to Financial Statements

June 30, 2004

accounting, deferred revenue may represent unavailable revenues. "Unavailable" means that the assets are not available to finance expenditures of the current fiscal period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

### Note 17

## SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2004, and prior to December 31, 2004, and reported other subsequent events for the same period, as described below.

**Kentucky Infrastructure Authority** issued a total of \$43,015,000 in bonds. These include \$25,640,000 in Revenue Refunding and Improvement Bonds, Series 2004A, and \$17,375,000 in Taxable Revenue Refunding Bonds, Series 2004B. Maturities occur each August 1 through the year 2022. Interest is payable on each February 1 and August 1, commencing in 2005. The Series 2004A bonds carry interest rates ranging from 2.250-5.250%. The Series 2004B carry interest rates from 2.250-5.290%. The proceeds of Series 2004A bonds will be used to refund existing bonds of the Authority and to finance infrastructure projects. Series 2004B bond proceeds will be used to refund existing bonds of the Authority, to fund a debt service account, and to pay bond issuance costs.

**Kentucky Local Correctional Facilities Construction Authority** issued \$21,670,000 in Series 2004 Bonds, dated October 13, 2004. Interest is payable on May 1, 2005 and semi-annually on each May 1 and November 1 thereafter until maturity. These bonds mature annually on November 1 until November 1, 2014 as follows: \$1,845,000 3.00% bonds due in 2005; \$1,940,000 3.00% bonds due in 2006; \$1,995,000 2.25% bonds due in 2007; \$2,040,000 3.00% due in 2008; \$2,105,000 3.00% bonds due in 2009; \$2,170,000 5.25% bonds due in 2010; \$2,280,000 5.25% due in 2011; \$2,400,000 5.25% due in 2012; \$2,530,000 5.25% due in 2013; and \$2,365,000 5.25% due in 2014. These are Multi-County Correctional Facilities Revenue Refunding Bonds.

**The Turnpike Authority of Kentucky** issued \$41,510,000 of Economic Development Road Revenue Refunding Bonds (Revitalization Projects) 2004 Series B. The proceeds of these bonds, dated October 5, 2004, will be used to refund certain revenue bonds previously issued by the Authority to pay a portion of the costs of certain public highway projects. Bonds mature each July 1, starting in 2005 and going through 2015. Interest is payable on each January 1 and July 1. Interest rates range from 2.0% to 5.25%.

**The Kentucky Asset/Liability Commission** issued \$500,000,000 General Fund Tax and Revenue Anticipation Notes, 2004 Series A to finance General Fund cash flow requirements of the Commonwealth for the fiscal year ending June 30, 2005. These Notes are dated July 13, 2004, bear interest of 3%, yield 1.55%, and are due on June 29, 2005. Principal and interest are payable at maturity.

**The Kentucky Housing Corporation** issued a total of \$105,000,000 bonds during the subsequent period. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth. Bonds issued include the following:

2004 Series D and Series E Housing Revenue Bonds, dated September 16, 2004, total \$60,000,000. The Series D bonds consist of \$16,025,000 serial bonds biannually due each July 1 and January 1 through July 1, 2017; \$13,265,000 4.90% term bonds due July 1, 2024; \$11,880,000 4.25% term bonds due July 1, 2029; \$2,575,000 5.00% term bonds due July 1, 2030; 11,255,000 5.05% bonds due January 1, 2035. The \$5,000,000 2004 Series E Bonds (AMT) are Variable Rate Term bonds due January 1, 2035.

2004 Series F Bonds, dated November 18, 2004, total \$45,000,000. The Series F bonds consist of \$8,970,000 serial bonds due biannually on each July 1 and January 1 through January 1, 2017; \$1,480,000 4.50% term bond due January 1, 2017; \$1,485,000 4.25% term bond due July 1, 2017; \$11,760,000 4.60% term bond due July 1, 2025; \$12,290,000 3.90% term bond due July 1, 2031 ("PAC Bond"); \$4,195,000 4.90% term bond due July 1, 2034; and \$4,820,000 4.90% term bond due January 1, 2035.

**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, 2004, and maturing as to principal through 2024 is displayed in the spreadsheet on page 97.

**Kentucky Higher Education Student Loan Corporation** issued \$350,000,000 in Student Loan Revenue Bonds. These include the following: \$18,850,000 Senior Series 2004A-1; \$57,550,000 Senior Series 2004A-2; \$57,600,000 Senior Series 2004A-3; \$57,600,000 Senior Series 2004A-4; \$72,400,000 Senior Series 2004A-5; \$75,000,000 Senior Series 2004A-6; and \$11,000,000 Subordinate Series 2004B-1. These are dated August 12, 2004 for all except for Senior Series 2004A-6 which is dated December 16, 2004. These bonds are issued to finance the origination and acquisition of Eligible Loans; to refinance a portion of the Corporation's line of credit; and to make a deposit to the Debt Service Reserve Fund. The bonds mature on June 1, 2034 and interest is payable on June 1 and December 1 until maturity or earlier redemption, commencing December 1, 2004.

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**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

**KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

<b>School District</b>	<b>Delivery Date</b>	<b>Principal at Issue</b>	<b>State Share</b>	<b>Interest Rates (%)</b>
Barren County	07/14/04	\$ 14,120,000	\$ 323,440	3.50 - 5.00
Bath County	07/19/04	850,000	850,000	2.00 - 5.00
Berea Independent	11/16/04	6,435,000	36,672	1.90 - 3.70
Boyle County	07//15/04	555,000	555,000	3.00 - 5.00
Bullitt County	11/09/04	5,595,000	182,435	2.00 - 3.625
Calloway County	12/01/04	1,955,000	476,721	2.00 - 3.70
Campbell County	11/10/04	7,050,000	641,839	3.00 - 3.75
Campbellsville Independent	12/09/04	1,420,000	135,177	2.20 - 3.85
Carroll County	07/16/04	395,000	395,000	2.00 - 5.00
Casey County	07/13/04	9,290,000	4,130,388	2.00 - 4.75
Dayton Independent	11/24/04	645,000	134,490	2.00 - 3.75
Estill County	07/15/04	2,350,000	1,814,531	3.50 - 4.75
Fleming County	07/15/04	855,000	806,403	3.00 - 4.90
Franklin County	10/27/04	2,120,000	371,741	2.00 - 3.75
Gallatin County	7/13/2004	556,000	520,564	4.10 - 5.00
Glasgow Independent	07/08/04	8,705,000	6,101,514	4.00 - 4.75
Harlan County	07/13/04	3,950,000	3,950,000	3.00 - 4.75
Jackson Independent	11/01/04	925,000	79,567	2.00 - 3.75
Kenton County	07/19/04	41,895,000	9,561,125	3.00 - 5.00
Letcher County	07/13/04	15,080,000	1,149,091	3.25 - 5.00
Madison County	11/01/04	3,235,000	572,461	2.00 - 3.70
McCracken County	10/19/04	3,345,000	706,570	2.00 - 3.80
Middlesboro Independent	07/08/04	475,000	475,000	4.75
Nelson County	09/09/04	3,885,000	653,705	2.00 - 3.80
Oldham County	10/26/04	6,435,000	437,355	2.00 - 3.75
Paris Independent	11/01/04	940,000	148,392	1.90 - 3.80
Perry County	07/14/04	3,865,000	1,303,177	2.70 - 4.90
Pikeville Independent	07/09/04	755,000	214,053	3.40 - 5.00
Pulaski County	10/28/04	1,365,000	89,254	2.00 - 3.75
Walton-Verona Independent	07/12/04	1,295,000	207,958	2.70 - 5.00
Webster County	11/17/04	2,880,000	103,852	1.90 - 3.625
Woodford County	11/30/04	7,830,000	982,770	2.00 - 3.75
		<u>\$ 161,051,000</u>	<u>\$ 38,110,245</u>	

**COMMONWEALTH OF KENTUCKY**

**Notes to Financial Statements**

**June 30, 2004**

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

Bluegrass State Skills Corporation Capital Plaza Tower 500 Mero Street Frankfort, Kentucky 40601	Kentucky State University Office of Administrative Affairs 400 East Main Street Frankfort, Kentucky 40601
Turnpike Authority of Kentucky Room 92, Capitol Annex Building Frankfort, Kentucky 40601	Kentucky Lottery Corporation 1011 West Main Street Louisville, Kentucky 40202-2623
Kentucky Transportation Cabinet 200 Mero Street Frankfort, Kentucky 40601	Kentucky State Fair Board Kentucky Fair and Exposition Center P.O. Box 37130 Louisville, Kentucky 40233-7130
Kentucky Center for the Arts 5 Riverfront Plaza Louisville, Kentucky 40202-2989	Kentucky Educational Television 600 Cooper Drive Lexington, Kentucky 40502
Kentucky Economic Development Finance Authority Capital Plaza Tower 500 Mero Street Frankfort, Kentucky 40601	Kentucky Higher Education Assistance Authority 1050 U.S. 127 South, Suite 102 Frankfort, Kentucky 40601
Kentucky Housing Corporation 1231 Louisville Road Frankfort, Kentucky 40601	Kentucky Infrastructure Authority 375 Versailles Road Frankfort, Kentucky 40601
Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road Frankfort, Kentucky 40601	Kentucky Local Correctional Facilities Construction Authority Suite 261 Capitol Annex Frankfort, Kentucky 40601
Teachers' Retirement System 479 Versailles Road Frankfort, Kentucky 40601	Kentucky Judicial Form Retirement System P.O. Box 791 Frankfort, Kentucky 40602
University of Louisville 2301 South 3rd Street 108 Grawemeyer Hall Louisville, Kentucky 40292	Kentucky Horse Park 4089 Iron Works Parkway Lexington, Kentucky 40511
Western Kentucky University Vice President for Finance and Administration 1 Big Red Way Bowling Green, Kentucky 42101-3576	University of Kentucky 301 Peterson Service Building Lexington, Kentucky 40506-0005
Murray State University 322 Sparks Hall Murray, Kentucky 42071	Eastern Kentucky University Vice President for Business Affairs 521 Lancaster Avenue Richmond, Kentucky 40475-3101
	Morehead State University Office of Accounting and Budgetary Control 207Howell-McDowell Administration Building Morehead, Kentucky 40351-1689

**COMMONWEALTH OF KENTUCKY**  
**Notes to Financial Statements**  
**June 30, 2004**

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

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

Kentucky Community and Technical College System  
300 N. Main Street  
Versailles, Kentucky 40383

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

Kentucky River Authority  
70 Wilkinson Boulevard  
Frankfort, Kentucky 40601

Council on Postsecondary Education  
1024 Capital Center Drive, Suite 320  
Frankfort, Kentucky 40601

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

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

Kentucky Public Employees'  
Deferred Compensation Authority  
105 Sea Hero Road, Suite 1  
Frankfort, KY 40601-8862

Kentucky Personnel Cabinet  
Workers' Compensation Branch  
200 Fair Oaks Lane, Suite 511  
Frankfort, KY 40601

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

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**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, 2004**  
(Expressed in Thousands)

	<b>General Fund</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 6,794,700	\$ 6,508,500	\$ 6,653,613	\$ 145,113
Licenses, fees, and permits	29,100	29,300	22,321	(6,979)
Intergovernmental	6,900	6,900	77,045	70,145
Charges for services	3,000	3,600	12,422	8,822
Fines and forfeits	51,500	69,800	54,400	(15,400)
Interest and other investment income	(8,000)	1,500	1,025	(475)
Lottery proceeds	148,900	163,800	173,800	10,000
Other revenues	43,900	51,600	51,718	118
Total Budgeted Revenues	<u>7,070,000</u>	<u>6,835,000</u>	<u>7,046,344</u>	<u>211,344</u>
<b>Non-Budgeted:</b>				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues			109,483	109,483
Escheat				
Transfers in (interfund)			200,045	200,045
Transfers in (intrafund)				
Total Non-Budgeted Revenues			<u>309,528</u>	<u>309,528</u>
Total Revenues	<u>7,070,000</u>	<u>6,835,000</u>	<u>7,355,872</u>	<u>520,872</u>
<b>Expenditures</b>				
General Government	2,106,223	2,065,960	1,939,379	126,581
Legislative and Judicial	276,959	276,958	253,017	23,941
Commerce	71,143	69,661	56,539	13,122
Education and Humanities	3,153,485	3,067,456	3,050,161	17,295
Human Resources	1,375,455	1,421,094	1,406,840	14,254
Justice	487,012	482,013	469,627	12,386
Natural Resources and Environmental Protection	57,655	59,630	58,580	1,050
Public Protection and Regulation	57,841	53,784	50,525	3,259
Transportation	5,587	5,588	4,980	608
Total Expenditures	<u>7,591,360</u>	<u>7,502,144</u>	<u>7,289,648</u>	<u>212,496</u>
Excess of Revenues over (under) Expenditures	<u>(521,360)</u>	<u>(667,144)</u>	<u>66,224</u>	<u>733,368</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(521,360)	(667,144)	66,224	733,368
Fund Balance at July 1, as Restated		268,792	268,792	
Non-Budgeted Items			(5,095)	(5,095)
Fund Balance at June 30	<u>\$ (521,360)</u>	<u>\$ (398,352)</u>	<u>\$ 329,921</u>	<u>\$ 728,273</u>



**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, 2004**  
(Expressed in Thousands)

	Agency Revenue Fund			
	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$	\$	\$	\$
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Lottery proceeds				
Other revenues				
Total Budgeted Revenues				
<b>Non-Budgeted:</b>				
Taxes			194,245	
Licenses, fees, and permits			115,343	
Intergovernmental			18,210	
Charges for services			1,791,071	
Fines and forfeits			19,182	
Interest and other investment income			21,215	
Other revenues			356,917	
Escheat			131	
Transfers in (interfund)			521,868	
Transfers in (intrafund)			1,249,348	
Total Non-Budgeted Revenues			4,287,530	
Total Revenues			4,287,530	
<b>Expenditures</b>				
General Government	2,467,515	2,539,950	1,638,307	901,643
Legislative and Judicial	22,780	21,540	10,211	11,329
Commerce	37,017	38,849	34,052	4,797
Education and Humanities	70,512	62,471	52,271	10,200
Human Resources	656,374	875,826	771,395	104,431
Justice	71,218	74,628	60,099	14,529
Natural Resources and Environmental Protection	48,332	50,090	31,054	19,036
Public Protection and Regulation	82,465	82,220	64,546	17,674
Transportation	148,748	152,366	77,161	75,205
Total Expenditures	3,604,961	3,897,940	2,739,096	1,158,844
Excess of Revenues over (under) Expenditures			1,548,434	
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses			1,548,434	
Fund Balance At July 1, As Restated			745,971	
Non-Budgeted Items			(1,521,725)	
Fund Balance At June 30	\$	\$	\$ 772,680	\$

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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, 2004**

(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 6,794,700	\$ 6,508,500	\$ 6,653,613	\$ 145,113
Licenses, fees, and permits	29,100	29,300	22,321	(6,979)
Intergovernmental	6,900	6,900	77,045	70,145
Charges for services	3,000	3,600	12,422	8,822
Fines and forfeits	51,500	69,800	54,400	(15,400)
Interest and other investment income	(8,000)	1,500	1,025	(475)
Lottery proceeds	148,900	163,800	173,800	10,000
Other revenues	43,900	51,600	51,718	118
Total Budgeted Revenues	<u>7,070,000</u>	<u>6,835,000</u>	<u>7,046,344</u>	<u>211,344</u>
<b>Non-Budgeted:</b>				
Other revenues			109,483	109,483
Transfers in (interfund)			200,045	200,045
Total Non-Budgeted Revenues			<u>309,528</u>	<u>309,528</u>
Total Revenues	<u>7,070,000</u>	<u>6,835,000</u>	<u>7,355,872</u>	<u>520,872</u>
<b>Expenditures</b>				
General Government:				
<b>Cabinet of the General Government:</b>				
Governor's Office	8,558	8,110	7,050	1,060
Department of Veterans Affairs	15,184	15,599	15,209	390
Office of the State Budget Director	3,365	3,333	3,238	95
Small Business Advocacy	75	75	48	27
Unified Prosecutorial System: Commonwealth Attorneys	26,545	26,557	25,723	834
County Attorneys	22,177	22,233	21,756	477
Department of Agriculture	19,494	19,645	18,985	660
Office of the Attorney General	12,963	12,703	12,703	
Auditor of Public Accounts	5,235	5,281	5,281	
Registry of Election Finance	1,437	1,446	1,399	47
Department of Military Affairs	10,694	21,559	17,787	3,772
Department of Local Government	9,624	9,608	8,542	1,066
Local Government: Economic Assistance Fund	31,184	36,231	36,231	
Economic Development Fund	41,208	40,687	38,687	2,000
Area Development Fund	831	831	810	21
Secretary of State	2,260	2,281	2,195	86
Secretary of Treasury	2,217	2,174	2,056	118
Board of Elections	6,026	6,191	4,962	1,229
Personnel Board	579	558	522	36
School Facilities Construction Commission	84,929	79,279	76,807	2,472
Executive Branch Ethics Commission	326	345	338	7
Commission on Human Rights	1,927	1,953	1,904	49
Commission on Women	270	270	263	7
Council on Postsecondary Education	117,851	133,779	123,087	10,692
Education Professional Standards Board	10,679	10,679	8,853	1,826
Emergency Medical Services Board	2,504	2,445	2,340	105
Governor's Office of Technology	300	300	293	7
Budget Reserve Trust Fund	31,009	50,765		50,765
Kentucky Infrastructure Authority	8,311	8,311	4,156	4,155
<b>Personnel Cabinet: General Operations</b>	3,257	3,286	3,192	94
State Salary Compensation Fund	11,490			

	Original	Final	Actual	Variance
<b>Cabinet for Universities:</b>				
Eastern Kentucky University	\$ 73,515	\$ 71,448	\$ 71,448	\$
Kentucky State University	22,632	22,079	22,079	
Morehead State University	42,738	41,599	41,599	
Murray State University	51,473	50,142	50,142	
Northern Kentucky University	47,093	45,127	45,127	
University of Kentucky	308,519	302,548	302,548	
University of Louisville	174,950	171,572	171,572	
Western Kentucky University	72,040	68,644	68,644	
Kentucky Community and Technical College System	189,098	184,493	184,493	
<b>Revenue Cabinet:</b> General Operations	66,032	65,620	62,896	2,724
Office of Property Valuation Administrators	28,222	28,296	27,588	708
<b>Finance and Administration Cabinet:</b>				
General Administration & Support	8,631	8,521	8,188	333
Special Accounts - Capital Construction	400	400	400	
Debt Service	248,758	230,009	225,501	4,508
Office of the Controller	5,939	5,817	5,665	152
Department for Administration	3,513	3,486	3,355	131
Department for Facilities Management	7,590	7,667	7,476	191
Kentucky Higher Education Assistance Authority	72,322	72,322	70,457	1,865
Special Accounts - Tobacco Settlement	109,100	86,951	86,951	
County Costs	21,927	19,727	18,846	881
Appropriations Not Otherwise Classified:				
Judgements	51,854	40,754	9,765	30,989
Board of Claims Awards	600	1,000	934	66
Guardian Ad Litem	3,400	5,700	5,700	
Prior Year Claims	400	927	527	400
Unredeemed Checks Refunded	1,000	2,308	988	1,320
Involuntary Commitments	60	60	52	8
Blanket Employee Bonds	100	100	82	18
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	250	325	309	16
Master Commissioner Employers Retirement	200	200	150	50
Master Commissioner Social Security	343	414	414	
Workers' Compensation	532	582	580	2
Attorney General Expense	225	225	129	96
Medical Malpractice Liability Insurance Reimbursements	60	185	159	26
<b>Total General Government</b>	<b>2,106,223</b>	<b>2,065,960</b>	<b>1,939,379</b>	<b>126,581</b>
<b>Legislative and Judicial:</b>				
General Assembly	21,379	21,378	12,871	8,507
Legislative Research Commission	35,491	35,491	31,562	3,929
Judicial Retirement System	2,519	2,519	2,519	
Court of Justice - Court Facility Use	533	533		533
Court of Justice - Operation and Administration	150,490	150,490	150,490	
Court of Justice - Local Facility Support	66,547	66,547	55,575	10,972
<b>Total Legislative and Judicial</b>	<b>276,959</b>	<b>276,958</b>	<b>253,017</b>	<b>23,941</b>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>Commerce:</b>				
<b>Economic Development Cabinet:</b>				
Office of the Secretary	\$ 7,862	\$ 7,882	\$ 6,986	\$ 896
Administration and Support	2,111	1,855	1,844	11
Financial Incentives	15,826	14,366	4,640	9,726
Community Development	2,879	2,766	2,547	219
Business Development	2,476	2,348	2,074	274
<b>Tourism Cabinet:</b> Office of the Secretary	1,674	1,927	1,723	204
Breaks Interstate Park	196	196	191	5
Travel Development	6,900	6,799	5,950	849
Kentucky State Fair Board	712	712	549	163
Kentucky Horse Park	1,650	1,663	1,622	41
Department of Parks	28,857	29,147	28,413	734
<b>Total Commerce</b>	<u>71,143</u>	<u>69,661</u>	<u>56,539</u>	<u>13,122</u>
<b>Education, Arts and Humanities Cabinet:</b>				
Office of the Secretary	3,151	3,111	3,042	69
Commission on Deaf and Hard of Hearing	886	844	821	23
Kentucky Heritage Council	921	912	889	23
Kentucky Arts Council	4,524	4,324	4,168	156
Department of Education:				
Support Education Excellence In KY (SEEK)	2,372,391	2,362,379	2,359,814	2,565
Executive Policy and Management	1,185	1,172	1,159	13
Bureau of Support Services	10,532	10,602	10,529	73
Learning Results Services	574,806	511,132	498,701	12,431
Kentucky Education Television Authority	14,548	14,511	14,145	366
Kentucky Historical Society	6,185	6,028	5,872	156
Kentucky Center for the Arts Corporation	604	604	589	15
Libraries and Archives -				
Direct Local Aid	6,380	6,359	6,311	48
General Operations	7,257	6,953	6,658	295
Teachers' Retirement System	97,489	97,489	97,489	
<b>Workforce Development Cabinet:</b>				
Administration and Program Support	1,117	1,058	1,031	27
Teacher Retirement Employer Contribution Match	4,743	4,629	4,513	116
Department for the Blind	1,493	1,328	1,290	38
Department of Employment Services	69			
Department for Technical Education	23,160	22,985	22,400	585
Department for Adult Education & Literacy	10,808			
Department of Vocational Rehabilitation	11,236	11,036	10,740	296
<b>Total Education and Humanities</b>	<u>3,153,485</u>	<u>3,067,456</u>	<u>3,050,161</u>	<u>17,295</u>
<b>Human Resources:</b>				
<b>Cabinet for Families and Children:</b>				
Administrative Services	29,163	27,475	27,078	397
Office of Family Resources and Youth Services Centers		49,875	49,875	
Community Based Services	284,364	281,813	275,917	5,896
<b>Cabinet for Health Services:</b>				
Administrative Support	4,533	4,473	4,353	120
Office of the Inspector General	5,341	5,093	4,967	126
Department of Public Health	56,082	55,928	54,526	1,402
Department for Mental Health and Mental Retardation	172,522	173,029	167,900	5,129
Department for Medicaid Services	18,028	18,028	18,028	
Medicaid Services Benefits	761,756	761,756	761,756	
Office Of Certificate Of Need	134	121	118	3
Commission for Children With Special Health Care Needs	16,710	16,710	16,200	510
Office of Aging Services	26,822	26,793	26,122	671
<b>Total Human Resources</b>	<u>1,375,455</u>	<u>1,421,094</u>	<u>1,406,840</u>	<u>14,254</u>

	Original	Final	Actual	Variance
<b>Justice Cabinet:</b>				
Office of the Secretary	\$ 7,827	\$ 7,351	\$ 7,153	\$ 198
Department of State Police	82,075	77,792	75,719	2,073
Department of Juvenile Justice	83,790	82,686	80,574	2,112
Department of Corrections:				
Management	16,332	16,293	15,817	476
Adult Institutions	199,784	198,034	191,523	6,511
Local Jail Allotment	15,804	15,804	15,738	66
Community Services and Local Facilities	81,400	84,053	83,103	950
<b>Total Justice</b>	<u>487,012</u>	<u>482,013</u>	<u>469,627</u>	<u>12,386</u>
<b>Natural Resources and Environmental Protection Cabinet:</b>				
General Administration & Support	9,506	9,702	9,681	21
Kentucky River Authority	379	379	310	69
Environmental Quality Commission				
Kentucky Nature Preserves Commission	1,053	1,053	1,049	4
Department for Environmental Protection	22,925	23,005	22,853	152
Department for Natural Resources	12,961	15,054	14,842	212
Department for Surface Mining Reclamation and Enforcement	10,831	10,437	9,845	592
<b>Total Natural Resources and Environmental Protection</b>	<u>57,655</u>	<u>59,630</u>	<u>58,580</u>	<u>1,050</u>
<b>Public Protection and Regulation Cabinet:</b>				
General Operations	261	240	134	106
Board of Claims and Crime Victims Compensation	857	856	771	85
Board of Tax Appeals	499	499	401	98
Kentucky Racing Commission	523	523	436	87
Public Service Commission	14,530	10,932	9,124	1,808
Department - for Public Advocacy	25,390	25,416	25,264	152
of Alcoholic Beverage Control	1,663	1,492	1,361	131
of Housing, Buildings, and Construction	2,318	2,370	2,297	73
for Mines and Minerals	9,365	9,043	8,634	409
<b>Labor Cabinet - Office of the Secretary:</b>	422	410	297	113
Department of Workplace Standards	2,013	2,003	1,806	197
<b>Total Public Protection and Regulation</b>	<u>57,841</u>	<u>53,784</u>	<u>50,525</u>	<u>3,259</u>
<b>Transportation Cabinet:</b>				
Public	5,587	5,588	4,980	608
<b>Total Transportation</b>	<u>5,587</u>	<u>5,588</u>	<u>4,980</u>	<u>608</u>
Total Expenditures	7,591,360	7,502,144	7,289,648	212,496
Excess of Revenues Over (Under) Expenditures	(521,360)	(667,144)	66,224	733,368
Fund Balance at July 1, as Restated		268,792	268,792	
Non-Budgeted Items			(5,095)	(5,095)
Fund Balance at June 30	<u>\$ (521,360)</u>	<u>\$ (398,352)</u>	<u>\$ 329,921</u>	<u>\$ 728,273</u>

**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, 2004**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Revenues</b>				
<b>Budgeted:</b>				
Taxes	\$ 990,889	\$ 977,907	\$ 970,860	\$ (7,047)
Licenses, fees, and permits	116,382	114,310	119,379	5,069
Charges for services	23,770	16,465	16,196	(269)
Fines and forfeits	9	5	57	52
Interest and other investment income	5,500	10,800	7,558	(3,242)
Other revenues	2,660	3,115	2,684	(431)
Total Budgeted Revenues	1,139,210	1,122,602	1,116,734	(5,868)
<b>Non-Budgeted:</b>				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Escheat				
Transfers in (interfund)			5,776	5,776
Transfers in (intrafund)			321	321
Total Non-Budgeted Revenue			6,097	6,097
Total Revenues	1,139,210	1,122,602	1,122,831	229
<b>Expenditures</b>				
<b>Cabinet of the General Government:</b>				
Governor's Office				
Kentucky Infrastructure Authority				
Office of the State Budget Director				
Governor's Office for Technology	125			
Executive Branch Ethics Commission				
Department of Veterans Affairs				
School Facilities Construction Commission				
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				
Secretary of 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				
Architects				
Landscape Architects				
Examiners of Psychologists				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
						194,245	
						115,343	
						18,210	
		15				1,791,071	
		32				19,182	
		243				21,215	
		5,423,326				356,917	
						131	
		11,824				521,868	
		3,918				1,249,348	
		5,439,358				4,287,530	
		5,439,358				4,287,530	
358	184	109	75	1,297	1,447	1,363	84
50,312	50,312	407	49,905	2,567	5,067	2,466	2,601
	1,261	453	808	1,318	1,317	716	601
				714	714	664	50
				2	2	1	1
				19,332	20,266	19,378	888
				2,290			
				45	45	14	31
739	739	579	160	200	200	162	38
435	435	349	86	5	5	2	3
2,130	4,464	3,560	904	3,574	6,154	1,845	4,309
2,351	2,351	2,175	176	2,807	2,507	1,392	1,115
				4,377	4,377	3,121	1,256
				203	203		203
18,188	111,972	68,814	43,158	18,796	24,743	18,973	5,770
				15,848	15,848	15,035	813
				161	161	101	60
52,431	52,431	35,965	16,466	902	1,402	776	626
				1,007	1,007	574	433
				835	825	692	133
				782	782	485	297
				65	65	55	10
				371	371	301	70
				232	232	192	40
				191	191	147	44
				52	52	44	8
				6	8	7	1
				25	31	28	3
				504	504	429	75
				72	72	58	14
	1,000	315	685	117	1,217	117	1,100
				249	249	228	21
4,379	4,379	1,459	2,920	830	830	675	155
				258	258	253	5
				58	58	43	15
				176	176	126	50

**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, 2004**

(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
	\$	\$	\$	\$
Board of: (Continued)				
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Emergency Medical Services				
Geologists				
Personnel				
Pharmacy				
Physical Therapists				
Podiatry				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Ky. Board of Investigators				
Athletics Commission				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
Commission on Women				
<b>Personnel Cabinet:</b>				
General Operations				
Public Employee Deferred Compensation Authority				
<b>Cabinet for Universities:</b>				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
<b>Revenue Cabinet:</b>				
General Operations	1,418	1,401	1,401	
Office of Property Valuation				
<b>Finance and Administration Cabinet:</b>				
Office of the Secretary	3,664	3,664	3,664	
Office of the Controller				
Kentucky Higher Education Assistance Authority				
County Costs				
Department for Administration	283	283	283	
Office Of Governmental Services Center				
Department for Facilities Management				
Daviess County Fiscal Court				
<b>Total General Government</b>	5,490	5,348	5,348	

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	145	95	50
				707	706	706	
				53	53	45	8
				134	134	94	40
				76	76	58	18
				2,100	2,100	2,022	78
				4,269	4,429	3,814	615
				63	63	47	16
				157	157	147	10
				11	11	8	3
				86	86	75	11
				189	189	117	72
				83	83	57	26
100	1,355	699	656	172	172	72	100
				135	135	82	53
				2	2		2
				876	876	857	19
				280	280	205	75
				16	16	8	8
				1,354	1,354	1,099	255
				86	86	78	8
				238	238	154	84
					55	46	9
				167	28	27	1
				2,302	2,303	1,927	376
				632	632	514	118
171	458	447	11	24	24	5	19
3,161	19,099	13,721	5,378	4,707	15,812	7,594	8,218
				5	32		32
				13,771	12,843	11,326	1,517
				5,622	5,622	4,412	1,210
				134,269	154,269	154,252	17
				29,429	33,429	33,340	89
				98,312	98,312	62,929	35,383
				83,163	83,163	67,862	15,301
				77,205	100,205	99,176	1,029
				1,001,308	1,083,088	766,724	316,364
				353,107	353,107	32,980	320,127
				118,042	118,042	91,678	26,364
				257,186	257,186	114,565	142,621
				4,149	4,119	2,730	1,389
				4,464	4,464	4,115	349
				2,870	2,870	2,432	438
4,000	4,000	1,103	2,897	414	414	300	114
890	1,158	1,158		97,352	100,200	93,042	7,158
				1,425	1,625	1,381	244
				3,773	3,773	3,374	399
				1,516	1,516	1,233	283
				40	40	40	
				80,761			
<u>139,645</u>	<u>255,598</u>	<u>131,313</u>	<u>124,285</u>	<u>2,467,515</u>	<u>2,539,950</u>	<u>1,638,307</u>	<u>901,643</u>

**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, 2004**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Legislative and Judicial:</b>				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operations and Administration				
<b>Total Legislative and Judicial</b>				
<b>Commerce:</b>				
<b>Economic Development Cabinet:</b>				
Office of the Secretary				
Administration and Support				
Financial Incentives				
Community Development				
Business Development				
<b>Tourism Cabinet:</b> Office of the Secretary				
Travel Development				
Department of Parks				
Department of Fish and Wildlife Resources				
<b>Total Commerce</b>				
<b>Education, Arts, and Humanities Cabinet:</b>				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
Office of the Secretary				
Department of Education:				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Libraries and Archives:				
Direct Local Aid				
General Operations				
Teachers' Retirement System				
<b>Workforce Development Cabinet:</b>				
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				
<b>Total Education and Humanities</b>				
<b>Human Resources:</b>				
<b>Cabinet for Families and Children:</b>				
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		1	566	565		565
				1,611	1,611		1,611
				20	173	142	31
4,111	5,634	3,537	2,097	20,583	19,191	10,069	9,122
4,112	5,635	3,537	2,098	22,780	21,540	10,211	11,329
				4,141	5,546	4,521	1,025
				46	46		46
				2,227	2,079	1,696	383
155	155	130	25	454	454	283	171
				291	41	41	
				1,200	1,200	981	219
					825	620	205
7,650	8,951	8,763	188	28,658	28,658	25,910	2,748
7,805	9,106	8,893	213	37,017	38,849	34,052	4,797
				260	294	285	9
				150	238	203	35
766	766	538	228	227	750	582	168
621	734	595	139	613	683	497	186
				237	395	93	302
497,995	631,820	607,499	24,321	5,851	6,001	4,616	1,385
574	573	539	34	2,264	3,064	1,809	1,255
700	791	767	24	1,076	1,337	1,122	215
382	382	345	37	571	571	548	23
424	424	331	93	9	9	9	
1,837	2,131	2,033	98	1,831	1,831	1,624	207
				7,572	7,572	6,434	1,138
175	175	168	7	6,696	6,696	5,051	1,645
7,637	8,262	8,208	54	1,979	2,371	2,271	100
49,350	64,025	42,848	21,177				
45,819	56,946	53,503	3,443	7,444	7,444	5,319	2,125
13,037	15,180	15,157	23	19,673	20,260	19,542	718
15,149				11,104			
44,194	44,194	42,585	1,609	2,955	2,955	2,266	689
678,660	826,403	775,116	51,287	70,512	62,471	52,271	10,200
38,459	38,459	25,698	12,761	4,501	4,502	4,407	95
42,377	42,377	38,257	4,120	66	66	49	17
476,833	486,204	432,081	54,123	123,640	139,244	128,018	11,226
	211	113	98				

**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, 2004**  
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
<b>Cabinet for Health Services:</b>				
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				
<b>Total Human Resources</b>				
<b>Justice Cabinet:</b>				
Office of the Secretary				
Department of State Police	35,000	35,000	35,000	
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Institutions				
Community Service and Local Facilities				
<b>Total Justice</b>	35,000	35,000	35,000	
<b>Natural Resources and Environmental Protection Cabinet:</b>				
General Administration & Support				
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				
<b>Total Natural Resources and Environmental Protection</b>				
<b>Public Protection and Regulation Cabinet:</b>				
General Operations				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
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
\$ 2,272	\$ 3,022	\$ 2,567	\$ 455	\$ 5,798	\$ 5,789	\$ 4,704	\$ 1,085
10,982	10,232	8,508	1,724	3,009	2,940	1,701	1,239
127,621	152,621	139,509	13,112	65,914	65,914	46,102	19,812
41,356	41,865	35,594	6,271	206,415	206,924	164,833	42,091
44,742	52,742	38,981	13,761	20,806	20,806	16,773	4,033
2,270,733	3,120,695	3,074,548	46,147	201,949	401,188	376,934	24,254
				251	235	126	109
9,823	10,720	9,776	944	23,263	27,263	26,855	408
18,885	21,373	19,619	1,754	762	955	893	62
<u>3,084,083</u>	<u>3,980,521</u>	<u>3,825,251</u>	<u>155,270</u>	<u>656,374</u>	<u>875,826</u>	<u>771,395</u>	<u>104,431</u>
13,385	13,385	9,886	3,499	2,164	2,144	1,134	1,010
10,261	18,728	11,030	7,698	7,621	11,109	9,200	1,909
17,250	17,250	15,191	2,059	15,692	15,692	7,651	8,041
2,700	2,700	1,454	1,246	37,941	37,941	36,333	1,608
800	1,450	854	596	1,865	1,865	1,201	664
215	315	252	63	5,305	5,305	4,134	1,171
	10	7	3	630	572	446	126
<u>44,611</u>	<u>53,838</u>	<u>38,674</u>	<u>15,164</u>	<u>71,218</u>	<u>74,628</u>	<u>60,099</u>	<u>14,529</u>
1,596	1,596	1,442	154	277	276	147	129
				3,698	3,698	1,568	2,130
					223	220	3
25	71	25	46	298	426	240	186
19,662	21,245	14,213	7,032	34,482	35,253	24,544	10,709
4,915	7,566	5,073	2,493	3,810	4,447	2,164	2,283
17,390	17,390	14,771	2,619	5,767	5,767	2,171	3,596
22,000	22,000	17,311	4,689				
<u>65,588</u>	<u>69,868</u>	<u>52,835</u>	<u>17,033</u>	<u>48,332</u>	<u>50,090</u>	<u>31,054</u>	<u>19,036</u>
				2,096	1,950	1,473	477
557	558	199	359	2,937	2,936	1,739	1,197
				13,665	13,642	11,980	1,662
					140	34	106
272	272	239	33	24	1,024	139	885
1,385	1,609	1,491	118	3,078	4,667	3,232	1,435
				4,295	3,970	3,465	505
				3,604	3,604	2,792	812
				9,330	9,330	7,537	1,793
	85	45	40	12,288	10,611	10,520	91
				23,208	22,006	15,643	6,363
599	849	671	178	2,043	2,443	2,036	407

**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, 2004**  
(Expressed in Thousands)

	<b>Transportation</b>			
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
<b>Labor Cabinet:</b>				
Office of the Secretary	\$	\$	\$	\$
Department of Workplace Standards				
<b>Total Public Protection and Regulation</b>				
<b>Transportation Cabinet:</b>				
Administration & Support	78,901	72,233	60,299	11,934
Revenue Sharing	277,122	274,543	229,704	44,839
Air Transportation				
Highways	874,374	895,847	794,895	100,952
Highways-Public Transportation				
Vehicle Regulation	32,659	30,124	29,537	587
Debt Service	161,312	160,847	153,295	7,552
Transfers To Capital Construction	8,284	8,284	8,284	
Road Fund Judgments				
1990 Economic Development Bond Projects				
<b>Total Transportation</b>	<u>1,432,652</u>	<u>1,441,878</u>	<u>1,276,014</u>	<u>165,864</u>
Total Expenditures	<u>1,473,142</u>	<u>1,482,226</u>	<u>1,316,362</u>	<u>165,864</u>
Excess of Revenues over (under)				
Expenditures	<u>(333,932)</u>	<u>(359,624)</u>	<u>(193,531)</u>	<u>166,093</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds From Sale of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(333,932)	(359,624)	(193,531)	166,093
Fund Balances at July 1		357,691	357,691	
Non-Budgeted Items			(783)	(783)
Fund Balances at June 30	<u>\$ (333,932)</u>	<u>\$ (1,933)</u>	<u>\$ 163,377</u>	<u>\$ 165,310</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
3,281	3,680	3,351	329	5,897	5,897	3,956	1,941
6,094	7,053	5,996	1,057	82,465	82,220	64,546	17,674
				27	26	3	23
9	9		9	7,579	7,583	4,715	2,868
1,049,586	1,049,586	463,837	585,749	84,933	88,733	40,408	48,325
38,197	38,197	23,643	14,554	874	874	438	436
3,546	4,346	3,928	418	8,318	8,133	3,654	4,479
				47,017	47,017	27,943	19,074
1,091,338	1,092,138	491,408	600,730	148,748	152,366	77,161	75,205
5,121,936	6,300,160	5,333,023	967,137	3,604,961	3,897,940	2,739,096	1,158,844
		106,335				1,548,434	
		106,335				1,548,434	
		85,027				745,971	
		(13,831)				(1,521,725)	
\$	\$	\$	\$	\$	\$	\$	\$
		177,531				772,680	

## COMMONWEALTH OF KENTUCKY

### Required Supplementary Information

June 30, 2004

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#### **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 reservation of appropriations.

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

**COMMONWEALTH OF KENTUCKY**  
**Required Supplementary Information**  
**June 30, 2004**

**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, 2004, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Financial statement funds (same as budgetary funds)	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
Fund balance/retained earnings June 30, 2004:				
Budgetary basis	\$ (329,921)	\$ (163,377)	\$ (177,531)	\$ (772,680)
Adjustments:				
Accrued revenues	(260,402)	(64,561)	(288,814)	(40,577)
Accrued expenditures	173,106	26,549	340,208	27,317
Accrued transfers (net)	12,452			(523)
Total Accruals (1)	<u>(74,844)</u>	<u>(38,012)</u>	<u>51,394</u>	<u>(13,783)</u>
Reclassifications and other adjustments:				
Inventory balances (1)	(5,389)	(25,331)	(66)	(4,282)
To reclassify financial and other resources into financial statement fund types (2)	(1,303)	(1,647)	87,618	499,203
To record financial resources available as non-budgeted funds (3)	<u>22,000</u>			
Fund Balance/Retained Earnings Fund balance/retained earnings June 30, 2004:				
GAAP Basis	<u>\$ (389,457)</u>	<u>\$ (228,367)</u>	<u>\$ (38,585)</u>	<u>\$ (291,542)</u>

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

**COMMONWEALTH OF KENTUCKY**  
**Required Supplementary Information**  
**June 30, 2004**

**Infrastructure Assets Reported Using the Modified Approach**

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 61,750 lane miles of roads and approximately 9,000 bridges that the Commonwealth is responsible to maintain.

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

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

**Pavements**

Measurement Scale

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

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

Established Minimum Condition Level

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

Assessed Conditions

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

<u>Condition</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Good	42.0%	48.3%	50.4%	51.7%	51.5%
Fair	38.2%	34.4%	29.0%	31.2%	30.8%
Poor	19.8%	17.3%	20.6%	17.1%	17.7%

**Bridges**

Measurement Scale

KYTC utilizes the National Bridge Inspection Program to monitor the condition of the nearly 9,000 bridges under its jurisdiction. The National Bridge Inspection Program rates bridges, including the deck, superstructure and substructure, using a 0 to 9 point scale. The ratings are based on the following descriptions:

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Established Minimum Condition Level

No more than 7% of the bridges shall be rated as “structurally deficient.”

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,

**COMMONWEALTH OF KENTUCKY**

**Required Supplementary Information**

**June 30, 2004**

superstructure, or substructure). The following table reports the percentage of bridges whose condition was assessed as “structurally deficient” in the stated year:

<u>Calendar Year</u>	<u>Structurally Deficient</u>
2003	5.3%
2002	5.2%
2001	5.3%
2000	4.9%
1999	4.9%

**Estimated and Actual Costs to Maintain**

The following table presents the Commonwealth’s estimate of spending necessary to preserve and maintain the pavements, bridges, and maintenance condition at, or above, the “Established Condition Levels” cited above and the actual amount spent during the past four fiscal years (in millions):

	Roadways	Bridges	Total
Fiscal Year 2005:			
Estimated	\$ 665.0	\$ 100.0	\$ 765.0
Fiscal Year 2004:			
Estimated	\$ 645.0	\$ 100.0	\$ 745.0
Actual	\$ 642.8	\$ 100.3	\$ 742.8
Fiscal Year 2003:			
Estimated	\$ 601.7	\$ 93.3	\$ 695.0
Actual	\$ 630.2	\$ 93.8	\$ 724.0
Fiscal Year 2002:			
Estimated	N/A	N/A	N/A
Actual	\$ 576.1	\$96.6	\$ 672.7
Fiscal Year 2001:			
Estimated	N/A	N/A	N/A
Actual	N/A	N/A	\$ 700.6

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

	<b>Fiscal and Policy Year Ended</b>									
	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>State Workers' Compensation</b>										
Earned Premiums	\$ 12,991	\$ 14,470	\$ 14,095	\$ 16,121	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146
Administrative Expense	401	542	554	404	513	526	533	545	777	480
Incurred Claims as Originally Estimated	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,093	3,010	2,615	2,819	2,702	3,128	3,790	3,846	3,733	3,656
One Year Later	5,797	5,882	5,626	5,697	5,833	6,332	7,216	7,320	7,449	
Two Years Later	7,588	7,560	7,156	7,179	7,604	7,811	8,987	9,260		
Three Years Later	8,721	8,632	8,173	8,017	8,726	8,678	10,252			
Four Years Later	9,346	9,552	8,824	8,653	9,305	9,441				
Five Years Later	9,813	10,241	9,211	9,313	9,818					
Six Years Later	10,185	10,775	9,685	9,707						
Seven Years Later	10,695	11,191	9,971							
Eight Years Later	11,014	11,516								
Nine Years Later	11,242									
Re-estimation of Incurred Claims:										
End of Fiscal Year	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320
One Year Later	12,883	14,502	13,006	12,876	13,623	16,584	19,315	20,172	20,514	
Two Years Later	13,266	14,519	12,627	13,473	15,543	16,033	19,186	18,805		
Three Years Later	13,526	14,021	12,762	14,416	15,617	16,189	19,067			
Four Years Later	13,797	14,507	14,270	14,492	15,497	15,449				
Five Years Later	14,028	15,345	14,050	15,001	15,039					
Six Years Later	14,405	15,350	14,657	14,870						
Seven Years Later	14,290	15,471	14,196							
Eight Years Later	14,304	15,618								
Nine Years Later	14,637									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	(1,910)	(909)	786	(1,627)	(1,741)	(126)	31	696	827	

SOURCE: Compilation Report

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## **OTHER SUPPLEMENTARY INFORMATION**

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## **COMBINING FINANCIAL STATEMENTS**

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## NON-MAJOR GOVERNMENTAL FUNDS

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### **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 then leased to the Transportation Cabinet of the Commonwealth.

### **Special Revenue Funds**

The **Other Special Revenue Fund** accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity, but not usually appropriated by the General Assembly.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

The **Special Benefits Fund** accounts for other fiduciary monies that will be expended for designated operations.

**COMMONWEALTH OF KENTUCKY  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2004  
 (Expressed in Thousands)**

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
<b>Assets</b>		
Cash and cash equivalents	\$ 910	\$ 18,371
Cash with fiscal agents	24,001	
Investments, net of amortization	6,148	192,100
Receivables, net		2,429
Notes receivable		
Capital lease receivable	125,875	
Interfund receivables	1	79,760
Inventories		
Total Assets	<u>\$ 156,935</u>	<u>\$ 292,660</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities:</b>		
Accounts payable	\$	\$ 4,958
Interfund payables	1,107	
Interfund loan payable		
Deferred revenue	125,875	
Total Liabilities	<u>126,982</u>	<u>4,958</u>
<b>Fund Balances:</b>		
Reserved for:		
Inventories		
Deposit with fiscal agents	24,001	
Unreserved, reported in:		
Special revenue funds		
Debt service fund	5,952	287,702
Total Fund Balances	<u>29,953</u>	<u>287,702</u>
Total Liabilities and Fund Balances	<u>\$ 156,935</u>	<u>\$ 292,660</u>

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 5,895	\$ 108,737	\$ 132,111	\$ 266,024
100,003	24,411	55,048	24,001
42,228	1,663	13,138	377,710
6,907			59,458
			6,907
2,954		25,647	125,875
48			108,362
<u>\$ 158,035</u>	<u>\$ 134,811</u>	<u>\$ 225,944</u>	<u>\$ 968,385</u>
\$ 2,003	\$ 1	\$ 6,982	\$ 13,944
16,058	79,760	20,021	116,946
		579	579
18,166	140	7,504	151,685
<u>36,227</u>	<u>79,901</u>	<u>35,086</u>	<u>283,154</u>
48			48
			24,001
121,760	54,910	190,858	367,528
			293,654
<u>121,808</u>	<u>54,910</u>	<u>190,858</u>	<u>685,231</u>
<u>\$ 158,035</u>	<u>\$ 134,811</u>	<u>\$ 225,944</u>	<u>\$ 968,385</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Debt Service Funds</b>	
	<b>Primary Government</b>	<b>Turnpike Authority of Kentucky</b>
<b>Revenues</b>		
Taxes	\$	\$
Licenses, fees, and permits		
Intergovernmental		
Charges for services	17,644	
Fines and forfeits		
Interest and other investment income	1,488	6,347
Increase (decrease) in fair value of investments	(4)	
Other revenues	4,851	3,299
Total Revenues	<u>23,979</u>	<u>9,646</u>
<b>Expenditures</b>		
Current:		
General government		
Legislative and judicial		
Commerce		
Education and humanities		
Human resources		
Justice		
Natural resources and environmental protection		
Public protection and regulation		
Transportation		
Debt service:		
Principal retirement	148,111	138,055
Interest and fiscal charges	121,686	59,738
Other expenditures	73,059	4,993
Total Expenditures	<u>342,856</u>	<u>202,786</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(318,877)</u>	<u>(193,140)</u>
<b>Other Financing Sources (Uses)</b>		
Transfers in	242,738	175,861
Transfers out		
Capitalized leases		
Proceeds from the sale of bonds:		
New issues	143,883	
Refunding issues	585,699	16,180
Premiums	102,228	1,088
Proceeds from notes	171,260	
Payments to refunded bond escrow agent	(927,227)	(17,268)
Total Other Financing Sources (Uses)	<u>318,581</u>	<u>175,861</u>
Net Change in Fund Balances	(296)	(17,279)
Fund Balances at July 1, as Restated	30,249	304,981
Increase (Decrease) in Inventory		
Fund Balances at June 30	<u>\$ 29,953</u>	<u>\$ 287,702</u>

Special Revenue Funds			Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	
\$ 82,971	\$	\$ 192	\$ 83,163
1,450		11,569	13,019
678		74	752
17,895		88,197	123,736
18,879		3,155	22,034
18,645	(1,409)	3,763	28,834
(4,768)		(1,044)	(5,816)
55,309	19,464	22,649	105,572
<u>191,059</u>	<u>18,055</u>	<u>128,555</u>	<u>371,294</u>
34,327	4,851	88,965	128,143
10		105	115
2,288		31,232	2,288
349		26,038	31,581
154		72	26,192
4,023		10,521	72
		(3,385)	14,544
		48,776	(3,385)
			48,776
			286,166
			181,424
			78,052
<u>41,151</u>	<u>4,851</u>	<u>202,324</u>	<u>793,968</u>
<u>149,908</u>	<u>13,204</u>	<u>(73,769)</u>	<u>(422,674)</u>
209,434	156,679	153,656	938,368
(341,635)	(175,861)	(88,778)	(606,274)
18			18
			143,883
			601,879
			103,316
			171,260
			(944,495)
<u>(132,183)</u>	<u>(19,182)</u>	<u>64,878</u>	<u>407,955</u>
17,725	(5,978)	(8,891)	(14,719)
104,087	60,888	199,749	699,954
(4)			(4)
<u>\$ 121,808</u>	<u>\$ 54,910</u>	<u>\$ 190,858</u>	<u>\$ 685,231</u>

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## **SCHEDULE OF FUND ACTIVITIES**

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**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES BY SOURCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed In Thousands)**

Revenues by Source	<b>June 30, 2004</b>
Taxes:	
Sales and gross receipts	\$ 2,689,485
Income:	
Individual	2,785,155
Corporations	311,741
Property	513,063
Coal severance	190,371
Licenses and privileges	126,506
Inheritance and estate	64,748
Miscellaneous	3,503
Total Taxes	<u>6,684,572</u>
Licenses, fees, and permits	22,318
Intergovernmental	16,406
Charges for services	23,369
Fines and forfeits	54,444
Interest and other investment income	7,154
Securities lending income	15,549
Increase (decrease) in fair value of investments	(106)
Other revenues	160,562
Total Revenues by Source	<u>\$ 6,984,268</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed In Thousands)

	<b>June 30, 2004</b>
<b>General Government:</b>	
Cabinet for General Government:	
Personal services	\$ 196,724
Utilities, rentals, and other services	28,146
Commodities and supplies	6,157
Grants and subsidies	1,220,939
Capital outlay	168
Travel	1,958
Judgments and contingent liabilities	(8,947)
Total Cabinet for General Government	<u>1,445,145</u>
Finance and Administration Cabinet:	
Personal services	20,942
Utilities, rentals, and other services	5,752
Commodities and supplies	17,498
Grants and subsidies	50,792
Capital Outlay	78
Travel	178
Judgments and contingent liabilities	10,982
Total Finance and Administration Cabinet	<u>106,222</u>
Total General Government	<u>1,551,367</u>
<b>Legislative and Judicial:</b>	
Personal services	167,565
Utilities, rentals, and other services	63,306
Commodities and supplies	11,215
Grants and subsidies	3,381
Capital outlay	3,239
Travel	3,251
Total Legislative and Judicial	<u>251,957</u>
<b>Commerce:</b>	
Economic Development Cabinet:	
Personal services	6,098
Utilities, rentals, and other services	985
Commodities and supplies	281
Grants and subsidies	6,940
Capital Outlay	86
Travel	107
Total Economic Development Cabinet	<u>14,497</u>
Commerce Cabinet:	
Personal services	4,829
Utilities, rentals, and other services	813
Commodities and supplies	100
Grants and subsidies	2,097
Capital Outlay	6
Travel	87
Total Commerce Cabinet	<u>7,932</u>
Total Commerce	<u>\$ 22,429</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed In Thousands)

	<b>June 30, 2004</b>
<b>Education and Humanities:</b>	
Personal services	\$ 85,046
Utilities, rentals, and other services	12,027
Commodities and supplies	5,382
Grants and subsidies	2,912,527
Capital outlay	243
Travel	2,442
Judgments and contingent liabilities	9
Total Education and Humanities	<u>3,017,676</u>
<b>Human Resources:</b>	
Personal services	156,338
Utilities, rentals, and other services	38,733
Commodities and supplies	5,286
Grants and subsidies	1,179,296
Capital Outlay	1,421
Travel	4,937
Judgments and contingent liabilities	1,990
Total Human Resources	<u>1,388,001</u>
<b>Justice:</b>	
Personal services	273,704
Utilities, rentals, and other services	32,337
Commodities and supplies	23,341
Grants and subsidies	131,325
Capital outlay	4,752
Travel	2,105
Judgments and Contingent Liabilities	(413)
Total Justice	<u>467,151</u>
<b>Natural Resources and Environmental Protection:</b>	
Personal services	49,346
Utilities, rentals, and other services	4,213
Commodities and supplies	2,397
Grants and subsidies	2,118
Capital outlay	492
Travel	371
Total Natural Resources and Environmental Protection	<u>58,937</u>
<b>Public Protection and Regulation:</b>	
Personal services	38,243
Utilities, rentals, and other services	3,382
Commodities and supplies	860
Grants and subsidies	5,345
Capital outlay	49
Travel	860
Total Public Protection and Regulation	<u>48,739</u>
<b>Transportation:</b>	
Personal services	903
Utilities, rentals, and other services	75
Commodities and supplies	1
Grants	3,672
Capital outlay	31
Travel	2
Total Transportation	<u>4,684</u>
<b>Securities Lending Expense</b>	
	<u>13,123</u>
Total Expenditures	<u>\$ 6,824,064</u>

**COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE**  
**TRANSPORTATION FUND**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed In Thousands)

	<b>June 30, 2004</b>
Revenues:	
Licenses, fees and permits	\$ 112,515
Taxes	968,860
Charges for services	14,478
Fines and forfeits	57
Interest and other investment income	7,323
Increase (decrease) in fair value of investments	(23,544)
Other revenues	2,313
Total Revenues	<u>1,082,002</u>
Expenditures:	
Transportation:	
General administration and support	22,082
Motor vehicle regulation	29,564
Justice - state police	35,278
Highways	1,040,097
Other	2,372
Total Expenditures	<u>1,129,393</u>
Excess of Revenues over (under) Expenditures	(47,391)
Other financing sources (uses):	
Operating transfers in	5,777
Operating transfers out	(167,285)
Capitalized leases	1,609
Total Other Financing Sources (Uses)	<u>(159,899)</u>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(207,290)
Fund Balance at July 1	438,991
Increase (decrease) in inventories	(3,334)
Fund Balance at June 30	<u>\$ 228,367</u>

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## INTERNAL SERVICE FUNDS

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**Internal Service Funds** account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies. Kentucky uses the following Internal Service Funds:

**Fleet Management Fund** accounts for expenses incurred and reimbursements received 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 Commonwealth 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, 2004**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 10,389	\$ 6,357	\$ 790
Receivables, net	6	217	755
Interfunds receivable	396	1,054	517
Inventories	48	269	1,776
Prepaid expenses		2,953	
Total Current Assets	<u>10,839</u>	<u>10,850</u>	<u>3,838</u>
Noncurrent assets:			
Investments, net	2,290	6,803	133
Land			725
Improvements other than buildings			
Buildings		1,667	3,851
Machinery and equipment	74,673	33,554	3,770
Less: Accumulated depreciation	(53,627)	(25,294)	(4,301)
Construction in progress			48
Total Capital Assets	<u>21,046</u>	<u>9,927</u>	<u>4,093</u>
Total Noncurrent Assets, Net	<u>23,336</u>	<u>16,730</u>	<u>4,226</u>
Total Assets	<u>34,175</u>	<u>27,580</u>	<u>8,064</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	12	5,236	539
Interfund payables	1,380	1,606	358
Claims liability			
Capital lease obligations		547	3
Compensated absences		249	138
Deferred revenue		1,244	84
Total Current Liabilities	<u>1,392</u>	<u>8,882</u>	<u>1,122</u>
Noncurrent liabilities:			
Claims liability			
Capital lease obligations		519	7
Compensated absences		3,517	349
Total Noncurrent Liabilities	<u></u>	<u>4,036</u>	<u>356</u>
Total Liabilities	<u>1,392</u>	<u>12,918</u>	<u>1,478</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	21,046	8,862	4,083
Unrestricted	11,737	5,800	2,503
Total Net Assets	<u>\$ 32,783</u>	<u>\$ 14,662</u>	<u>\$ 6,586</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2004
\$ 194	\$ 7,190	\$ 11,299	\$ 36,219
4	88	1	1,071
116	53	75	2,211
192			2,285
		2,103	5,056
<u>506</u>	<u>7,331</u>	<u>13,478</u>	<u>46,842</u>
43	25,236	884	35,389
	6,464		7,189
	2,807		2,807
	225,851		231,369
2,284	1,493		115,774
(1,959)	(112,130)		(197,311)
	11,066		11,114
<u>325</u>	<u>135,551</u>		<u>170,942</u>
<u>368</u>	<u>160,787</u>	<u>884</u>	<u>206,331</u>
<u>874</u>	<u>168,118</u>	<u>14,362</u>	<u>253,173</u>
202	1,242	981	8,212
11	2,416	122	5,893
		16,812	16,812
50			600
138	513	11	1,049
78	135		1,541
<u>479</u>	<u>4,306</u>	<u>17,926</u>	<u>34,107</u>
		99,840	99,840
32			558
<u>155</u>	<u>466</u>	<u>10</u>	<u>4,497</u>
<u>187</u>	<u>466</u>	<u>99,850</u>	<u>104,895</u>
<u>666</u>	<u>4,772</u>	<u>117,776</u>	<u>139,002</u>
243	135,651		169,885
(35)	27,695	(103,414)	(55,714)
<u>\$ 208</u>	<u>\$ 163,346</u>	<u>\$ (103,414)</u>	<u>\$ 114,171</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>	<b>Prison Industries</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 23,390	\$ 53,416	\$ 12,882
Other revenues	140	37	1
Total Operating Revenues	<u>23,530</u>	<u>53,453</u>	<u>12,883</u>
<b>Operating Expenses:</b>			
Personal services	1,397	31,326	4,083
Utilities, rentals, and other services	2,732	18,915	693
Commodities and supplies	7,801	1,157	6,496
Grants and subsidies		16	849
Depreciation and amortization	9,110	2,343	230
Travel	4	73	73
Reinsurance expense			
Claims expense		37	
Total Operating Expenses	<u>21,044</u>	<u>53,867</u>	<u>12,424</u>
Operating Income (Loss)	<u>2,486</u>	<u>(414)</u>	<u>459</u>
<b>Nonoperating Income (Expenses):</b>			
Gain (loss) on sale of fixed assets	522	(995)	(47)
Interest and other investment income		18	
Increase (decrease) in fair value of investments	(107)	(368)	(12)
Interest expense		(95)	
Total Nonoperating Revenues and Expenses	<u>415</u>	<u>(1,440)</u>	<u>(59)</u>
Income (Loss) before Capital Contributions and Transfers	2,901	(1,854)	400
Capital Contributions	316		
Transfers in		51	
Transfers out	<u>(7,374)</u>	<u>(353)</u>	<u>(1,587)</u>
Change in Net Assets	(4,157)	(2,156)	(1,187)
Net Assets at July 1, as Restated	36,940	16,818	7,773
Net Assets at June 30	<u>\$ 32,783</u>	<u>\$ 14,662</u>	<u>\$ 6,586</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2004
\$ 3,258	\$ 26,923	\$ 29,844	\$ 149,713
1	562		741
<u>3,259</u>	<u>27,485</u>	<u>29,844</u>	<u>150,454</u>
2,103	10,566	2,412	51,887
707	13,496	4,419	40,962
762	10,128	26	26,370
			865
61	5,023		16,767
1	25	23	199
		536	536
		<u>20,287</u>	<u>20,324</u>
<u>3,634</u>	<u>39,238</u>	<u>27,703</u>	<u>157,910</u>
<u>(375)</u>	<u>(11,753)</u>	<u>2,141</u>	<u>(7,456)</u>
	(1)		(521)
(8)		57	67
1	(382)	(3)	(871)
(7)			(102)
<u>(14)</u>	<u>(383)</u>	<u>54</u>	<u>(1,427)</u>
(389)	(12,136)	2,195	(8,883)
	5,983		316
	<u>(2,380)</u>	<u>(642)</u>	<u>6,034</u>
(389)	(8,533)	1,553	(14,869)
597	171,879	(104,967)	129,040
<u>\$ 208</u>	<u>\$ 163,346</u>	<u>\$ (103,414)</u>	<u>\$ 114,171</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Fleet Management</b>	<b>Computer Services</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers - public	\$	\$ 1,176
Cash received from customers - state	23,681	52,157
Cash payments to suppliers for goods and services	(8,859)	(17,255)
Cash payments for employee salaries and benefits	(1,401)	(31,909)
Cash payments for claims expense		(37)
Cash payments from other sources	140	
Cash payments to other sources		(16)
Net Cash Provided by Operating Activities	<u>13,561</u>	<u>4,116</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Transfers from other funds		51
Transfers to other funds	(7,374)	(353)
Net Cash Provided by Noncapital Financing Activities	<u>(7,374)</u>	<u>(302)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(369)	(3,453)
Principal paid on revenue bond maturities and equipment contracts		(729)
Interest paid on revenue bonds and equipment contracts		(95)
Proceeds from the sale of capital assets	837	
Net Cash Used for Capital and Related Financing Activities	<u>468</u>	<u>(4,277)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investment securities		
Proceeds from the sale of investment securities	3,370	6,076
Interest and dividends on investments		(350)
Net Cash Used in Investing Activities	<u>3,370</u>	<u>5,726</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,025	5,263
Cash and Cash Equivalents at July 1	364	1,094
Cash and Cash Equivalents at June 30	<u>\$ 10,389</u>	<u>\$ 6,357</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating income (loss)	\$ 2,486	\$ (414)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	9,110	2,343
Miscellaneous nonoperating income (expense)	388	
Change in assets and liabilities:		
(Increase) Decrease in assets:		
Receivables, net	(2)	39
Interfund receivables	293	(205)
Inventories	6	(8)
Prepaid expenses		(317)
Increase (decrease) in liabilities:		
Accounts payable	(93)	2,250
Interfund payables	1,373	905
Claims liability		
Compensated absences		(510)
Deferred revenue		46
Other liabilities		(13)
Net Cash Provided by Operating Activities	<u>\$ 13,561</u>	<u>\$ 4,116</u>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Change in fair value of investments	\$ (107)	\$ (368)
Contributions of capital assets	316	
Capital assets acquired through leases		221
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 209</u>	<u>\$ (147)</u>

<b>Prison Industries</b>	<b>Central Printing</b>	<b>Property Management</b>	<b>Risk Management</b>	<b>Totals June 30, 2004</b>
\$ 2,759	\$ 42	\$ 697	\$ 160	\$ 4,834
9,837	3,348	26,382	29,798	145,203
(5,799)	(1,371)	(20,888)	(4,084)	(58,256)
(4,198)	(2,098)	(10,613)	(2,373)	(52,592)
1		562	(22,023)	(22,060)
(849)			(609)	703
1,751	(79)	(3,860)	869	(1,474)
				16,358
		5,983		6,034
(1,587)		(2,380)	(642)	(12,336)
(1,587)		3,603	(642)	(6,302)
(89)		(2,409)		(6,320)
(2)	(71)			(802)
	(6)			(101)
				837
(91)	(77)	(2,409)		(6,386)
		(23,107)		(23,107)
537	333		10,078	20,394
(12)	(7)	(382)	54	(697)
525	326	(23,489)	10,132	(3,410)
598	170	(26,155)	10,359	260
192	24	33,345	940	35,959
\$ 790	\$ 194	\$ 7,190	\$ 11,299	\$ 36,219
\$ 459	\$ (375)	\$ (11,753)	\$ 2,141	\$ (7,456)
230	61	5,023		16,767
				388
(188)	13	(74)	160	(52)
(182)	89	231	(45)	181
727	84			809
			233	(84)
312	30	674	365	3,538
350	(16)	2,061	10	4,683
			(1,963)	(1,963)
(43)	6	(22)	(32)	(601)
86	29			161
				(13)
\$ 1,751	\$ (79)	\$ (3,860)	\$ 869	\$ 16,358
\$ (12)	\$ 1	\$ (382)	\$ (3)	\$ (871)
				316
				221
\$ (12)	\$ 1	\$ (382)	\$ (3)	\$ (334)

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# CAPITAL ASSETS

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**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE**  
**JUNE 30, 2004**  
(Expressed In Thousands)

	<b>June 30, 2004</b>
<b>Governmental Funds Capital Assets</b>	
Land	\$ 97,182
Improvements other than buildings	6,259
Buildings	719,966
Machinery and equipment	379,825
Other intangibles	2,841
Easements	41,242
Construction in progress	2,346,012
Infrastructure	15,127,436
Total Governmental Funds Capital Assets	<b>\$ 18,720,763</b>

**Investments in Governmental Funds Capital Assets by Source**

General Fund	\$ 122,871
Special Revenue Funds	2,009,364
Donations	89,033
Other	5,578
Capital Projects Fund:	
State appropriations	52,124
Revenue bonds	441,381
Federal grants	102,162
Other	17,645
Infrastructure (A)	15,127,436
Capital assets acquired prior to July 1, 1984 (A)	673,086
Capital assets acquired after July 1, 1984 (A)	80,083
Total Governmental Funds Capital Assets	<b>\$ 18,720,763</b>

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

(A) Capital assets with an undetermined funding source.

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE BY FUNCTION**  
**JUNE 30, 2004**  
(Expressed in Thousands)

<b>FUNCTION</b>	<b>Land</b>	<b>Improvements Other Than Buildings</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>
General Government	\$ 10,747	\$ 2,572	\$ 121,350	\$ 33,189
Legislative & Judicial	55			10,465
Commerce	48,378	1,659	38,470	19,001
Education & Humanities	1,674	118	39,924	32,878
Human Resources	1,856	321	72,658	17,285
Justice	3,762	1,589	289,973	74,071
Natural Resources and Environmental Protection	15,039		1,087	31,654
Public Protection and Regulation				6,174
Transportation	15,671		156,504	155,108
<b>Total Governmental Funds Capital Assets</b>	<b>\$ 97,182</b>	<b>\$ 6,259</b>	<b>\$ 719,966</b>	<b>\$ 379,825</b>

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

<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2004</u>
\$ 2,841	\$ 24,008	\$ 49,416	\$	\$ 244,123
				10,520
		514		108,022
	9,213	427		84,234
		3,833		95,953
		206,785		576,180
	8,021	465		56,266
				6,174
		2,084,572	15,127,436	17,539,291
<u>\$ 2,841</u>	<u>\$ 41,242</u>	<u>\$ 2,346,012</u>	<u>\$ 15,127,436</u>	<u>\$ 18,720,763</u>

**COMMONWEALTH OF KENTUCKY**  
**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS**  
**SCHEDULE OF CHANGES BY FUNCTION**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
<b>General Government</b>	\$ 224,808	\$ 24,402	\$ 5,087	\$ 244,123
<b>Legislative &amp; Judicial</b>	10,542	378	400	10,520
<b>Commerce</b>	94,698	15,175	1,851	108,022
<b>Education &amp; Humanities</b>	81,972	4,982	2,720	84,234
<b>Human Resources</b>	83,175	14,253	1,475	95,953
<b>Justice</b>	496,203	108,591	28,614	576,180
<b>Natural Resources and Environmental Protection</b>	52,690	5,283	1,707	56,266
<b>Public Protection and Regulation</b>	6,444	245	515	6,174
<b>Transportation</b>	16,968,140	1,295,275	724,124	17,539,291
<b>Total Governmental Funds Capital Assets</b>	<u>\$ 18,018,672</u>	<u>\$ 1,468,584</u>	<u>\$ 766,493</u>	<u>\$ 18,720,763</u>

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

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## PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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**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 401 or 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, 2004**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>	<b>State Police Retirement System</b>	<b>County Employees Retirement System</b>
<b>Assets</b>			
Cash and short-term investments:			
Cash	\$ 866	\$ 91	\$ 1,078
Short-term investments	227,866	10,133	235,770
Total Cash and Short-Term Investments	<u>228,732</u>	<u>10,224</u>	<u>236,848</u>
Receivables:			
Investments - accounts receivable			
Interest receivable	29,991	1,969	32,175
Accounts receivable	31,413	1,317	47,850
Total Receivables	<u>61,404</u>	<u>3,286</u>	<u>80,025</u>
Investments at fair value:			
Corporate and government bonds	1,795,887	116,451	1,920,733
Common stocks	4,016,631	278,998	4,226,992
Mortgages	272,632	16,860	316,200
Mutual funds			
Real estate	4,493	493	4,912
Total Investments at Fair Value	<u>6,089,643</u>	<u>412,802</u>	<u>6,468,837</u>
Invested security collateral	881,383	61,294	938,812
Capital assets, net	344	6	579
Prepaid expenses			
Total Assets	<u>7,261,506</u>	<u>487,612</u>	<u>7,725,101</u>
<b>Liabilities</b>			
Investments - accounts payable			
Accounts payable	4,752	177	6,328
Obligations under securities lending	881,383	61,294	938,812
Total Liabilities	<u>886,135</u>	<u>61,471</u>	<u>945,140</u>
<b>Net Assets</b>			
Net assets held in trust for:			
Employee retirement benefit	5,625,563	335,721	5,918,347
Retiree's health insurance	749,808	90,420	861,614
Total Net Assets	<u>\$ 6,375,371</u>	<u>\$ 426,141</u>	<u>\$ 6,779,961</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, 2004</u>
\$ 3,825	\$ 1	\$	\$ 2,084	\$ 7,945
1,002,301	632	627		1,477,329
<u>1,006,126</u>	<u>633</u>	<u>627</u>	<u>2,084</u>	<u>1,485,274</u>
113,272				113,272
	1,246	290		65,671
52,354	187		2,459	135,580
<u>165,626</u>	<u>1,433</u>	<u>290</u>	<u>2,459</u>	<u>314,523</u>
4,324,326	73,519	17,663		8,248,579
7,215,138	179,450	46,250		15,963,459
52,662				658,354
			1,048,460	1,048,460
365,389				375,287
<u>11,957,515</u>	<u>252,969</u>	<u>63,913</u>	<u>1,048,460</u>	<u>26,294,139</u>
683,199				2,564,688
3,451				4,380
208				208
<u>13,816,125</u>	<u>255,035</u>	<u>64,830</u>	<u>1,053,003</u>	<u>30,663,212</u>
54,403				54,403
1,771				13,028
683,199				2,564,688
<u>739,373</u>				<u>2,632,119</u>
13,076,752	255,035	64,830	1,053,003	26,329,251
<u>\$ 13,076,752</u>	<u>\$ 255,035</u>	<u>\$ 64,830</u>	<u>\$ 1,053,003</u>	<u>\$ 1,701,842</u>
				<u>\$ 28,031,093</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, 2004**  
(Expressed in Thousands)

	<b>Kentucky Employees Retirement System</b>	<b>State Police Retirement System</b>	<b>County Employees Retirement System</b>
<b>Additions</b>			
Contributions:			
Employer	\$ 124,442	\$ 9,609	\$ 208,050
Employee	140,625	4,875	161,152
Total Contributions	<u>265,067</u>	<u>14,484</u>	<u>369,202</u>
Investment income:			
Net increase (decrease) in fair value of investments	652,130	46,101	675,015
Interest	155,167	10,257	166,108
Dividends			
Real estate operating income, net			
Securities lending income, net	13,272	886	14,094
Total Investment Income	<u>820,569</u>	<u>57,244</u>	<u>855,217</u>
Less: Investment expense	6,983	461	7,490
Less: Securities lending expense	10,381	692	11,013
Net Investment Income	<u>803,205</u>	<u>56,091</u>	<u>836,714</u>
Total Additions	<u>1,068,272</u>	<u>70,575</u>	<u>1,205,916</u>
<b>Deductions</b>			
Benefit payments	539,756	35,869	405,419
Refunds	9,411	96	13,854
Administrative expenses	6,159	122	9,951
Other deductions, net			
Total Deductions	<u>555,326</u>	<u>36,087</u>	<u>429,224</u>
<b>Change in Net Assets</b>	512,946	34,488	776,692
<b>Net Assets Held in Trust</b>			
Net Assets at July 1, as Restated	5,862,425	391,653	6,003,269
Net Assets at June 30	<u>\$ 6,375,371</u>	<u>\$ 426,141</u>	<u>\$ 6,779,961</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, 2004</u>
\$ 435,627	\$ 2,661	\$ 862	\$ 3,037	\$ 784,288
292,825	1,788	256	117,514	719,035
<u>728,452</u>	<u>4,449</u>	<u>1,118</u>	<u>120,551</u>	<u>1,503,323</u>
763,175	19,675	5,159	104,307	2,265,562
256,194	4,208	1,059	12,959	605,952
118,487	1,941	495		120,923
31,532				31,532
5,989				34,241
<u>1,175,377</u>	<u>25,824</u>	<u>6,713</u>	<u>117,266</u>	<u>3,058,210</u>
4,617	211			19,762
5,445				27,531
<u>1,165,315</u>	<u>25,613</u>	<u>6,713</u>	<u>117,266</u>	<u>3,010,917</u>
<u>1,893,767</u>	<u>30,062</u>	<u>7,831</u>	<u>237,817</u>	<u>4,514,240</u>
885,327	10,175	2,007	82,376	1,960,929
10,484	8	455		34,308
10,548	174	153	1,907	29,014
119,298	784	434	4,311	124,827
<u>1,025,657</u>	<u>11,141</u>	<u>3,049</u>	<u>88,594</u>	<u>2,149,078</u>
868,110	18,921	4,782	149,223	2,365,162
12,208,642	236,114	60,048	903,780	25,665,931
<u>\$ 13,076,752</u>	<u>\$ 255,035</u>	<u>\$ 64,830</u>	<u>\$ 1,053,003</u>	<u>\$ 28,031,093</u>

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## AGENCY FUNDS

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

**Commonwealth Choice** accounts for flexible benefits spending accounts.

**County Fees Fund** accounts for monies held by the Commonwealth for those counties with a population greater than 70,000.

**Special Deposit Trust Fund** accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Commonwealth Choice Program</u>	<u>County Fees Trust Fund</u>	<u>Special Deposit Trust Fund</u>	<u>Totals June 30, 2004</u>
<b>Assets</b>				
Cash and cash equivalents	\$	\$	\$	\$
Cash with fiscal agents	5,974	1,994	221,191	223,185
Investments, net of amortization			57,722	57,722
Receivables, net			211	211
Interfund receivables			148	148
Total Assets	<u>\$ 5,974</u>	<u>\$ 1,994</u>	<u>\$ 279,272</u>	<u>\$ 287,240</u>
<b>Liabilities</b>				
Accounts payable	\$	\$	\$	\$
Interfund payables			116,244	116,244
Amounts held in custody for others	5,974	1,994	4,063	4,063
Total Liabilities	<u>\$ 5,974</u>	<u>\$ 1,994</u>	<u>\$ 279,272</u>	<u>\$ 287,240</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Balances</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2004</u>
<b>COMMONWEALTH CHOICE PROGRAM</b>				
<u>Assets</u>				
Cash with fiscal agents	\$ 4,992	\$ 27,902	\$ 26,920	\$ 5,974
Total assets	<u>\$ 4,992</u>	<u>\$ 27,902</u>	<u>\$ 26,920</u>	<u>\$ 5,974</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 4,992	\$ 27,902	\$ 26,920	\$ 5,974
Total liabilities	<u>\$ 4,992</u>	<u>\$ 27,902</u>	<u>\$ 26,920</u>	<u>\$ 5,974</u>
<b>COUNTY FEES TRUST FUND</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 181	\$ 90,175	\$ 88,362	\$ 1,994
Accounts Receivable	6,248		6,248	
Total assets	<u>\$ 6,429</u>	<u>\$ 90,175</u>	<u>\$ 94,610</u>	<u>\$ 1,994</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 6,429	\$ 90,175	\$ 94,610	\$ 1,994
Total liabilities	<u>\$ 6,429</u>	<u>\$ 90,175</u>	<u>\$ 94,610</u>	<u>\$ 1,994</u>
<b>SPECIAL DEPOSIT TRUST FUND</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 95,308	\$ 755,024	\$ 629,141	\$ 221,191
Investments	157,452	57,722	157,452	57,722
Accounts receivable	501	211	501	211
Interfund receivables	93	148	93	148
Total assets	<u>\$ 253,354</u>	<u>\$ 813,105</u>	<u>\$ 787,187</u>	<u>\$ 279,272</u>
<u>Liabilities</u>				
Interfund payables	\$ 9,149	\$ 4,062	\$ 9,148	\$ 4,063
Accounts payable	101,232	116,246	101,234	116,244
Amounts held in custody for others	142,973	782,950	766,958	158,965
Total liabilities	<u>\$ 253,354</u>	<u>\$ 903,258</u>	<u>\$ 877,340</u>	<u>\$ 279,272</u>
<b>ALL AGENCY FUNDS</b>				
<u>Assets</u>				
Cash & cash equivalents	\$ 95,489	\$ 845,199	\$ 717,503	\$ 223,185
Cash with fiscal agents	4,992	27,902	26,920	5,974
Investments	157,452	57,722	157,452	57,722
Accounts receivable	6,749	211	6,749	211
Interfund receivables	93	148	93	148
Total assets	<u>\$ 264,775</u>	<u>\$ 931,182</u>	<u>\$ 908,717</u>	<u>\$ 287,240</u>
<u>Liabilities</u>				
Interfund payables	\$ 9,149	\$ 4,062	\$ 9,148	\$ 4,063
Accounts payable	101,232	116,246	101,234	116,244
Amounts held in custody for others	154,394	901,027	888,488	166,933
Total liabilities	<u>\$ 264,775</u>	<u>\$ 1,021,335</u>	<u>\$ 998,870</u>	<u>\$ 287,240</u>

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**NON-MAJOR COMPONENT UNITS - COMBINING**

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**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF NET ASSETS  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2004**

(Expressed in Thousands)

	<b>Non-Major Component Units - Authorities</b>	<b>Non-Major Component Units - Universities</b>	<b>Totals June 30, 2004</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 183,444	\$ 138,544	\$ 321,988
Restricted cash	4,331	13,692	18,023
Investments, net of amortization	63,776	13,652	77,428
Accounts receivable, net	33,425	63,200	96,625
Interest receivable	3,517	721	4,238
Inventories	632	5,798	6,430
Prepaid expenses	1,230	4,574	5,804
Other current assets	7,627	2,120	9,747
Total Current Assets	<u>297,982</u>	<u>242,301</u>	<u>540,283</u>
Noncurrent assets:			
Restricted cash	7,546	101,465	109,011
Long-term investments, net	252,339	254,099	506,438
Long-term receivables	425,831	34,035	459,866
Deferred charges	410		410
Land	15,858	40,337	56,195
Improvements other than buildings	380	42,981	43,361
Buildings	285,877	1,052,799	1,338,676
Machinery and equipment	63,537	253,452	316,989
Other capital assets	16,082		16,082
Less: Accumulated depreciation and amortization	(175,324)	(688,009)	(863,333)
Construction in progress	25,092	88,205	113,297
Total Capital Assets	<u>231,502</u>	<u>789,765</u>	<u>1,021,267</u>
Other assets	5,478	50,414	55,892
Total Noncurrent Assets	<u>923,106</u>	<u>1,229,778</u>	<u>2,152,884</u>
Total Assets	<u>1,221,088</u>	<u>1,472,079</u>	<u>2,693,167</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	6,027	41,912	47,939
Current portion of long-term debt:			
Notes payable	238	2,384	2,622
Bonds payable	17,105	27,078	44,183
Capital lease obligations	2,004	4,539	6,543
Compensated absences	1,995	11,213	13,208
Claims liability	7,911	3,569	11,480
Deferred revenues	6,177	36,970	43,147
Payable from restricted assets		6,346	6,346
Other current liabilities	1,002	32,352	33,354
Total Current Liabilities	<u>42,459</u>	<u>166,363</u>	<u>208,822</u>
Noncurrent liabilities:			
Notes payable	103	16,947	17,050
Bonds payable	221,586	228,022	449,608
Capital lease obligations	55,123	55,313	110,436
Compensated absences	785	766	1,551
Other long-term liabilities		55,269	55,269
Total Noncurrent Liabilities	<u>277,597</u>	<u>356,317</u>	<u>633,914</u>
Total Liabilities	<u>320,056</u>	<u>522,680</u>	<u>842,736</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	218,725	461,837	680,562
Restricted for:			
Debt service		24,785	24,785
Other purposes	578,676	338,085	916,761
Unrestricted	103,631	124,692	228,323
Total Net Assets	<u>\$ 901,032</u>	<u>\$ 949,399</u>	<u>\$ 1,850,431</u>

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF ACTIVITIES  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Non-Major Component Units - Authorities</b>	<b>Non-Major Component Units - Universities</b>	<b>Totals June 30, 2004</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 200,108	\$ 974,643	\$ 1,174,751
Depreciation	8,008		8,008
Total expenses	<u>208,116</u>	<u>974,643</u>	<u>1,182,759</u>
<b>Program Revenues:</b>			
Charges for services	79,870	254,234	334,104
Operating grants and contributions	61,400	234,681	296,081
Capital grants and contributions	10,163	7,083	17,246
Total Program Revenues	<u>151,433</u>	<u>495,998</u>	<u>647,431</u>
<b>Net Program (Expense) Revenue</b>	<u>(56,683)</u>	<u>(478,645)</u>	<u>(535,328)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	3,631	35,370	39,001
Unrestricted investment earnings	2,576	18,853	21,429
Gain on sale of capital assets	7	1,814	1,821
Miscellaneous general	180,234	494,114	674,348
Total General Revenues	<u>186,448</u>	<u>550,151</u>	<u>736,599</u>
Change in Net Assets	<u>129,765</u>	<u>71,506</u>	<u>201,271</u>
Net Assets at July 1, as Restated	771,267	877,893	1,649,160
Net Assets at June 30	<u>\$ 901,032</u>	<u>\$ 949,399</u>	<u>\$ 1,850,431</u>

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## NON-MAJOR COMPONENT UNITS - AUTHORITIES

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**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 State Fair Board** - accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

**Kentucky Center for the Arts Corporation** - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

**Kentucky Educational Television Authority** - established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

**Kentucky Economic Development Finance Authority** - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

**Kentucky Artisan Center** - established to celebrate Kentucky's artisan heritage and encourage Kentuckians and those traveling in Kentucky to enjoy artisan products and activities.

**Kentucky Infrastructure Authority** - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

**Kentucky Agricultural Finance Corporation** - created by the 1984 General Assembly to "improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures." This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

**Kentucky Grain Insurance Corporation** - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

**Kentucky Local Correctional Facilities Construction Authority** - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

**Kentucky Access** - provides healthcare to Kentucky's qualifying applicants who are at high risk.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**JUNE 30, 2004**

(Expressed in Thousands)

	<u>Kentucky River Authority</u>	<u>Bluegrass State Skills Corporation</u>	<u>Kentucky State Fair Board</u>	<u>Kentucky Center for the Arts Corporation</u>	<u>Kentucky Educational Television Authority</u>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,748	\$	\$ 7,675	\$ 636	\$ 2,639
Restricted cash	4,331				
Investments, net of amortization					1,656
Accounts receivable, net	417	358	2,443	674	998
Interest receivable	62			25	20
Inventories					341
Prepaid expenses			620	209	401
Other current assets	2				272
Total Current Assets	<u>7,560</u>	<u>358</u>	<u>10,738</u>	<u>1,544</u>	<u>6,327</u>
Noncurrent assets:					
Restricted cash			3,036		918
Long-term investments, net			46,527	15,181	6,282
Long-term receivables					
Deferred charges					1
Land	441		14,073	129	76
Improvements other than buildings	83				
Buildings			234,889	31,571	12,867
Machinery and equipment	439		4,152	15,263	43,025
Other capital assets	12,880				1,243
Less: Accumulated depreciation and amortization	(4,425)		(104,998)	(28,624)	(37,136)
Construction in progress			25,092		
Total Capital Assets	<u>9,418</u>		<u>173,208</u>	<u>18,339</u>	<u>20,075</u>
Other assets			1,144	4,334	
Total Noncurrent Assets	<u>9,418</u>		<u>223,915</u>	<u>37,854</u>	<u>27,276</u>
Total Assets	<u>16,978</u>	<u>358</u>	<u>234,653</u>	<u>39,398</u>	<u>33,603</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	359	122	1,081	444	1,037
Current portion of long-term debt:					
Notes payable					238
Bonds payable					
Capital lease obligations			2,004		
Compensated absences	25	35	956	153	820
Claims liability					
Deferred revenues			4,412	246	380
Other current liabilities	2				
Total Current Liabilities	<u>386</u>	<u>157</u>	<u>8,453</u>	<u>843</u>	<u>2,475</u>
Noncurrent liabilities:					
Notes payable					103
Bonds payable					
Capital lease obligations			55,123		
Compensated absences	61	4			673
Total Noncurrent Liabilities	<u>61</u>	<u>4</u>	<u>55,123</u>		<u>776</u>
Total Liabilities	<u>447</u>	<u>161</u>	<u>63,576</u>	<u>843</u>	<u>3,251</u>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	9,418		162,731	18,339	19,734
Restricted for:					
Other purposes	4,365		3,803	2,978	7,188
Unrestricted	2,748	197	4,543	17,238	3,430
Total Net Assets	<u>\$ 16,531</u>	<u>\$ 197</u>	<u>\$ 171,077</u>	<u>\$ 38,555</u>	<u>\$ 30,352</u>

Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2004
\$ 37,714	\$ 69	\$ 85,035	\$ 2,469	\$ 3,203	\$ 2,882	\$ 38,374	\$ 183,444
14,979	967	46,174					4,331
16		24,046			960	3,513	63,776
157		2,713	1		107	432	33,425
	291						3,517
							632
7,353							1,230
60,219	1,327	157,968	2,470	3,203	3,949	42,319	7,627
							297,982
					3,592		7,546
3,872		179,227	544	706			252,339
39,053		381,492			5,286		425,831
					409		410
	1,139						15,858
	297						380
	6,550						285,877
	641	17					63,537
		1,959					16,082
	(141)						(175,324)
							25,092
	8,486	1,976					231,502
							5,478
42,925	8,486	562,695	544	706	9,287		923,106
103,144	9,813	720,663	3,014	3,909	13,236	42,319	1,221,088
	55	2,102			261	566	6,027
							238
		15,075			2,030		17,105
	6						2,004
	1					7,911	1,995
		1,000				1,138	7,911
							6,177
							1,002
	62	18,177			2,291	9,615	42,459
		194,924			26,662		103
							221,586
	47						55,123
	47	194,924			26,662		785
	109	213,101			28,953	9,615	277,597
							320,056
	8,486	17					218,725
20,093		507,545				32,704	578,676
83,051	1,218		3,014	3,909	(15,717)		103,631
\$ 103,144	\$ 9,704	\$ 507,562	\$ 3,014	\$ 3,909	\$ (15,717)	\$ 32,704	\$ 901,032

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - AUTHORITIES**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority
<b>Expenses:</b>					
Operating and other expenses	\$ 1,858	\$ 2,647	\$ 35,286	\$ 10,512	\$ 27,136
Depreciation			6,306	1,702	
Total expenses	<u>1,858</u>	<u>2,647</u>	<u>41,592</u>	<u>12,214</u>	<u>27,136</u>
<b>Program Revenues:</b>					
Charges for services	1,385		35,083	4,382	1,331
Operating grants and contributions				1,497	9,822
Capital grants and contributions	23			605	
Total Program Revenues	<u>1,408</u>		<u>35,083</u>	<u>6,484</u>	<u>11,153</u>
<b>Net Program (Expense) Revenue</b>	<u>(450)</u>	<u>(2,647)</u>	<u>(6,509)</u>	<u>(5,730)</u>	<u>(15,983)</u>
<b>General Revenues:</b>					
Unrestricted grants and contributions			3,300	331	
Unrestricted investment earnings	18		45	1,987	136
Gain on sale of capital assets				7	
Miscellaneous general	304	2,719	1,101	2,372	14,143
Total General Revenues	<u>322</u>	<u>2,719</u>	<u>4,446</u>	<u>4,697</u>	<u>14,279</u>
Change in Net Assets	<u>(128)</u>	<u>72</u>	<u>(2,063)</u>	<u>(1,033)</u>	<u>(1,704)</u>
Net Assets at July 1, as Restated	16,659	125	173,140	39,588	32,056
Net Assets at June 30	<u>\$ 16,531</u>	<u>\$ 197</u>	<u>\$ 171,077</u>	<u>\$ 38,555</u>	<u>\$ 30,352</u>

Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2004
\$ 30,513	\$ 1,539	\$ 60,262	\$	\$ 73	\$ 3,203	\$ 27,079	\$ 200,108
30,513	1,539	60,262		73	3,203	27,079	208,116
1,569	934	12,908	3,000	28	5,811	13,439	79,870
	1,215	22,944			6	25,916	61,400
	9,535						10,163
1,569	11,684	35,852	3,000	28	5,817	39,355	151,433
(28,944)	10,145	(24,410)	3,000	(45)	2,614	12,276	(56,683)
							3,631
112			14	(35)		299	2,576
							7
34,207	(441)	125,829					180,234
34,319	(441)	125,829	14	(35)		299	186,448
5,375	9,704	101,419	3,014	(80)	2,614	12,575	129,765
97,769		406,143		3,989	(18,331)	20,129	771,267
\$ 103,144	\$ 9,704	\$ 507,562	\$ 3,014	\$ 3,909	\$ (15,717)	\$ 32,704	\$ 901,032

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
COMPONENT UNITS-AUTHORITIES  
FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	<u>Major</u>	<u>Non-major</u>		
	<u>Kentucky School Facilities Construction Commission</u>	<u>Kentucky Agricultural Finance Corporation</u>	<u>Kentucky Grain Insurance Corporation</u>	<u>Totals June 30, 2004</u>
<b>Cash Flows from Operating Activities</b>				
Cash received from customers - public	\$ 107,610	\$ 3,000	\$ 119	\$ 110,729
Cash payments to suppliers for goods and services	(112,618)			(112,618)
Cash payments for employee salaries and benefits	(210)		(73)	(283)
Cash payments from other sources	5,315			5,315
Net Cash Provided by Operating Activities	<u>97</u>	<u>3,000</u>	<u>46</u>	<u>3,143</u>
<b>Cash Flows from Investing Activities</b>				
Purchase of investment securities		(544)		(544)
Proceeds from the sale of investment securities	9,315		2,941	12,256
Interest and dividends on investments	23	13	(18)	18
Net Cash Used in Investing Activities	<u>9,338</u>	<u>(531)</u>	<u>2,923</u>	<u>11,730</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,435	2,469	2,969	14,873
Cash and Cash Equivalents at July 1	865		234	1,099
Cash and Cash Equivalents at June 30	<u>\$ 10,300</u>	<u>\$ 2,469</u>	<u>\$ 3,203</u>	<u>\$ 15,972</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ (67,934)	\$ 3,000	\$ (45)	\$ (64,979)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Miscellaneous nonoperating income (expense)	65,694			65,694
Change in assets and liabilities:				
(Increase) Decrease in assets:				
Receivables, net			91	91
Prepaid Expenses	(1,132)			(1,132)
Increase (decrease) in liabilities:				
Accounts payable	3,466			3,466
Compensated absences	3			3
Net Cash Provided by Operating Activities	<u>\$ 97</u>	<u>\$ 3,000</u>	<u>\$ 46</u>	<u>\$ 3,143</u>
<b>Noncash Investing, Capital, and Financing Activities</b>				
Change in fair value of investments	\$ 300	\$ 2	\$ (2)	\$ 300
Total Noncash Investing, Capital, and Financing Activities	<u>\$ 300</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ 300</u>

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## **NON-MAJOR COMPONENT UNITS - UNIVERSITIES**

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### **Universities, Colleges and Related Entities**

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**

**Kentucky Council on Postsecondary Education** – established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky’s postsecondary education system.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES AND RELATED ENTITIES**  
**JUNE 30, 2004**

(Expressed in Thousands)

	<b>Eastern Kentucky University</b>	<b>Western Kentucky University</b>	<b>Morehead State University</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 31,948	\$ 39,682	\$ 13,164
Restricted cash			323
Investments, net of amortization	5,661	1,699	1,013
Accounts receivable, net	16,981	9,601	5,300
Interest receivable	191	310	7
Inventories	493	1,383	1,630
Prepaid expenses	752	949	
Other current assets		746	383
Total Current Assets	<u>56,026</u>	<u>54,370</u>	<u>21,820</u>
Noncurrent assets:			
Restricted cash	25,735	30,996	
Long-term investments, net	42,643	70,991	43,318
Long-term receivables	6,268	15,708	5,426
Land	6,414	6,527	12,047
Improvements other than buildings	12,725	11,315	
Buildings	209,032	245,629	155,942
Machinery and equipment	44,066	60,409	50,287
Less: Accumulated depreciation and amortization	(149,019)	(120,524)	(111,179)
Construction in progress	9,412	24,325	9,552
Total Capital Assets	<u>132,630</u>	<u>227,681</u>	<u>116,649</u>
Other assets	<u>33,187</u>	<u>6,386</u>	<u>86</u>
Total Noncurrent Assets, Net	<u>240,463</u>	<u>351,762</u>	<u>165,479</u>
Total Assets	<u>296,489</u>	<u>406,132</u>	<u>187,299</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	8,754	5,294	6,130
Current portion of long-term debt:			
Notes payable		232	110
Bonds payable	5,655	4,814	7,220
Capital lease obligations	1,080	619	427
Compensated absences	2,736	2,061	
Claims liability	1,632	784	
Deferred revenues	9,806	13,912	1,707
Payable from restricted assets		1,257	
Other current liabilities	9,442	7,780	767
Total Current Liabilities	<u>39,105</u>	<u>36,753</u>	<u>16,361</u>
Noncurrent liabilities:			
Notes payable		1,919	350
Bonds payable	43,060	96,984	28,305
Capital lease obligations	23,386	1,610	1,463
Compensated absences			
Other long-term liabilities	38	44,447	5,019
Total Noncurrent Liabilities	<u>66,484</u>	<u>144,960</u>	<u>35,137</u>
Total Liabilities	<u>105,589</u>	<u>181,713</u>	<u>51,498</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	90,942	91,834	78,775
Restricted for:			
Debt service	8,162	5,069	
Other purposes	62,501	96,217	40,284
Unrestricted	29,295	31,299	16,742
Total Net Assets	<u>\$ 190,900</u>	<u>\$ 224,419</u>	<u>\$ 135,801</u>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>Kentucky Council on Postsecondary Education</b>	<b>Totals June 30, 2004</b>
\$ 20,436	\$ 30,093	\$ 3,141	\$ 80	\$ 138,544
	8,229	225	4,915	13,692
4,779	8,391	5,279		13,652
115	97	2,555	15,593	63,200
2,021	219	52	1	721
715	1,182	5	971	5,798
779	54	9	149	4,574
<u>28,845</u>	<u>48,265</u>	<u>11,266</u>	<u>21,709</u>	<u>242,301</u>
23,028	15,915		5,791	101,465
52,599	35,153	7,970	1,425	254,099
3,881	2,102	497	153	34,035
8,060	6,034	1,255		40,337
8,813	7,000	3,128		42,981
159,991	187,027	95,178		1,052,799
44,483	43,089	10,549	569	253,452
(123,886)	(99,064)	(84,027)	(310)	(688,009)
22,565	5,821	16,530		88,205
<u>120,026</u>	<u>149,907</u>	<u>42,613</u>	<u>259</u>	<u>789,765</u>
2,937	546	7,272		50,414
<u>202,471</u>	<u>203,623</u>	<u>58,352</u>	<u>7,628</u>	<u>1,229,778</u>
<u>231,316</u>	<u>251,888</u>	<u>69,618</u>	<u>29,337</u>	<u>1,472,079</u>
7,750	7,198	1,965	4,821	41,912
1,926	116			2,384
2,314	4,965	2,110		27,078
181	2,232			4,539
3,368	1,571	957	520	11,213
1,153				3,569
4,750	4,497	2,298		36,970
	5,089			6,346
1,038	460	623	12,242	32,352
<u>22,480</u>	<u>26,128</u>	<u>7,953</u>	<u>17,583</u>	<u>166,363</u>
12,456	2,222			16,947
15,573	36,940	7,160		228,022
1,643	27,211			55,313
		492	274	766
383	4,714	668		55,269
<u>30,055</u>	<u>71,087</u>	<u>8,320</u>	<u>274</u>	<u>356,317</u>
<u>52,535</u>	<u>97,215</u>	<u>16,273</u>	<u>17,857</u>	<u>522,680</u>
88,932	70,480	40,615	259	461,837
4,021	7,533			24,785
61,953	55,250	12,326	9,554	338,085
23,875	21,410	404	1,667	124,692
<u>\$ 178,781</u>	<u>\$ 154,673</u>	<u>\$ 53,345</u>	<u>\$ 11,480</u>	<u>\$ 949,399</u>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES AND RELATED ENTITIES**  
**JUNE 30, 2004**  
(Expressed in Thousands)

	<b>Eastern Kentucky University</b>	<b>Western Kentucky University</b>	<b>Morehead State University</b>
<b>Expenses:</b>			
Operating and other expenses	\$ 189,592	\$ 204,633	\$ 110,104
Total Expenses	<u>189,592</u>	<u>204,633</u>	<u>110,104</u>
<b>Program Revenues:</b>			
Charges for services	3,560	90,372	33,912
Operating grants and contributions	76,361	28,054	33,627
Capital grants and contributions	5,188		
Total Program Revenues	<u>85,109</u>	<u>118,426</u>	<u>67,539</u>
<b>Net Program (Expense) Revenue</b>	<u>(104,483)</u>	<u>(86,207)</u>	<u>(42,565)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions		28,097	
Unrestricted investment earnings	1,526	9,875	2,028
Gain on sale of capital assets	1,858	122	(1,585)
Miscellaneous general	113,591	85,875	45,564
Total General Revenues	<u>116,975</u>	<u>123,969</u>	<u>46,007</u>
Change in Net Assets	<u>12,492</u>	<u>37,762</u>	<u>3,442</u>
Net Assets at July 1, as Restated	178,408	186,657	132,359
Net Assets at June 30	<u>\$ 190,900</u>	<u>\$ 224,419</u>	<u>\$ 135,801</u>

<b>Murray State University</b>	<b>Northern Kentucky University</b>	<b>Kentucky State University</b>	<b>KY Council Postsecondary Education</b>	<b>Totals June 30, 2004</b>
<b>\$</b> 126,946	<b>\$</b> 122,338	<b>\$</b> 55,467	<b>\$</b> 165,563	<b>\$</b> 974,643
126,946	122,338	55,467	165,563	974,643
51,465	62,018	11,832	1,075	254,234
24,373	24,415	15,932	31,919	234,681
	200	1,230	465	7,083
75,838	86,633	28,994	33,459	495,998
(51,108)	(35,705)	(26,473)	(132,104)	(478,645)
5,625	223	1,425		35,370
4,738	373	419	(106)	18,853
1,419				1,814
60,837	45,916	24,039	118,292	494,114
72,619	46,512	25,883	118,186	550,151
21,511	10,807	(590)	(13,918)	71,506
157,270	143,866	53,935	25,398	877,893
<b>\$</b> 178,781	<b>\$</b> 154,673	<b>\$</b> 53,345	<b>\$</b> 11,480	<b>\$</b> 949,399

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## **STATISTICAL SECTION**

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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)**

<b>SOURCE</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Taxes:</b>				
Sales & gross receipts	\$ 2,739,653	\$ 2,873,176	\$ 3,018,770	\$ 3,167,442
Individual income	1,964,960	2,080,418	2,201,574	2,390,823
Corporation income	340,913	289,508	291,536	338,354
Property	386,389	409,175	440,973	405,528
License & privilege	137,578	130,778	145,178	162,122
Severance	177,826	185,019	185,744	187,126
Inheritance & estate	79,531	82,673	93,962	105,550
Miscellaneous	117,077	104,819	109,451	114,903
Total Taxes	<u>5,943,927</u>	<u>6,155,566</u>	<u>6,487,188</u>	<u>6,871,848</u>
Intergovernmental revenue	3,307,139	3,394,888	3,625,241	3,809,686
Charges for services	222,309	277,165	262,366	289,555
Licenses, fees & permits	160,975	163,331	164,557	170,454
Fines & forfeitures	40,720	40,485	48,538	47,265
Interest & investments	112,124	148,908	155,878	191,986
Other income	133,506	133,524	193,206	218,883
Total Non-Tax Income	<u>3,976,773</u>	<u>4,158,301</u>	<u>4,449,786</u>	<u>4,727,829</u>
Total Revenues	<u>\$ 9,920,700</u>	<u>\$ 10,313,867</u>	<u>\$ 10,936,974</u>	<u>\$ 11,599,677</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)**

<b>FUNCTIONS</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
General government	\$ 418,256	\$ 494,599	\$ 593,500	\$ 652,980
Legislative & judicial	132,421	147,563	150,604	165,645
Commerce	42,430	42,704	44,408	45,953
Education & humanities	2,835,220	2,962,449	3,076,843	3,187,712
Human resources	3,818,430	3,819,907	4,208,762	4,253,354
Justice	255,424	282,999	340,100	402,149
Natural resources and environmental protection	110,509	96,094	103,356	112,923
Public protection and regulation	86,411	94,124	105,763	115,479
Transportation	980,083	1,061,589	1,092,563	1,135,102
Securities lending expense				
Capital outlay	82,040	79,245	99,702	135,106
Debt service	416,756	392,130	332,127	438,029
Total Expenditures	<u>\$ 9,177,980</u>	<u>\$ 9,473,403</u>	<u>\$ 10,147,728</u>	<u>\$ 10,644,432</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.

1999	2000	2001	2002	2003	2004
\$ 3,255,990	\$ 3,546,343	\$ 3,609,499	\$ 3,699,098	\$ 3,653,169	\$ 3,766,057
2,538,948	2,701,349	2,768,302	2,681,443	2,763,769	2,785,161
312,579	307,939	288,418	211,382	283,436	311,741
424,471	440,438	457,216	480,890	492,507	516,106
170,480	139,922	146,422	120,902	166,222	140,987
173,094	169,154	177,774	187,588	177,868	195,782
79,168	76,751	83,267	89,753	96,784	65,977
120,765	3,390	3,203	3,653	143,857	151,387
<u>7,075,495</u>	<u>7,385,286</u>	<u>7,534,101</u>	<u>7,474,709</u>	<u>7,777,612</u>	<u>7,933,198</u>
3,825,985	4,602,881	4,208,631	4,821,756	5,093,078	5,150,705
298,952	359,782	426,173	506,924	548,226	616,638
188,304	203,608	200,239	308,209	252,123	265,699
53,024	49,986	54,297	54,169	73,691	95,745
140,328	163,893	232,100	201,933	149,146	50,971
185,881	230,325	616,361	406,869	506,272	625,008
<u>4,692,474</u>	<u>5,610,475</u>	<u>5,737,801</u>	<u>6,299,860</u>	<u>6,622,536</u>	<u>6,804,766</u>
<u>\$ 11,767,969</u>	<u>\$ 12,995,761</u>	<u>\$ 13,271,902</u>	<u>\$ 13,774,569</u>	<u>\$ 14,400,148</u>	<u>\$ 14,737,964</u>

1999	2000	2001	2002	2003	2004
\$ 556,913	\$ 541,008	\$ 672,605	\$ 2,036,798	\$ 1,889,243	\$ 1,933,909
186,168	212,978	216,608	239,515	246,838	265,847
49,927	52,941	51,283	58,741	62,486	65,518
3,250,456	3,351,422	3,442,741	3,584,412	3,752,918	3,823,798
4,368,927	5,109,752	5,110,365	5,563,087	5,650,039	5,984,514
451,532	511,106	553,499	564,427	575,237	563,890
120,938	125,724	127,048	143,924	135,349	149,401
130,245	131,350	124,725	120,764	139,299	112,587
1,356,322	1,502,356	1,588,052	1,724,061	1,695,652	1,724,342
266,165	225,409	309,011	483,145	244,419	13,123
357,698	302,708	410,058	337,546	460,256	293,761
<u>\$ 11,095,291</u>	<u>\$ 12,066,754</u>	<u>\$ 12,605,995</u>	<u>\$ 14,856,420</u>	<u>\$ 14,851,736</u>	<u>\$ 15,476,332</u>

**DESCRIPTION OF TAX SOURCES ALL GOVERNMENTAL FUND TYPES****JUNE 30, 2004**

**SALES AND USE** - On July 1, 1960, Kentucky became the 34<sup>th</sup> 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 2004, 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% on the gross value of coal mined in Kentucky or thirty cents per ton, whichever is greater, was raised to 4.5% 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% of coal severance and processing taxes for FY 1986-87 and 12% for subsequent years. The percentage has increased over the years to a level of approximately 40% for FY 2001-02. The 2000 session of the General Assembly produced legislation that allowed for a tax credit of 2.25% to 3.75% 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 one cent per gallon reached five cents per gallon by 1926. Effective April 1, 1948, the tax per gallon was raised to seven cents, with two-seventh of the total set aside for rural and secondary roads. In 1952, the tax was expanded to include special fuels which were to be taxed at the same rate as gasoline. On July 1, 1972, the tax rate increased to nine cents per gallon. Effective July 1, 1980, the rate was changed to 9% 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 repealed 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 \$.50 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% on the first \$3,000 of income to 5% on all over \$5,000. In 1950, a rate of 6% 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 \$39,400 in 2003) and interest on federal obligations.

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 provisions of the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth and Tax Relief Reconciliation Act of 2003.

The rates applied to net income which remain unchanged since 1950 are: 2% of the first \$3,000; 3% of the next \$1,000; 4% of the next \$1,000; 5% of the next \$3,000; and 6% 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 \$1,830 for 2003. A low income tax credit of 5% to 100% 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% 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% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to 5% of the first \$25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4% of the first \$25,000 and 5.8% on the excess. Tax rates beginning on January 1, 1980, were: first \$25,000 at 3%; next \$25,000 at 4%; next \$50,000 at 5%; and the excess over \$100,000 at 6%. 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% 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% 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%; next \$25,000 at 5%; next \$50,000 at 6%; next \$150,000 at 7%; and all over \$250,000 at 8.25%.

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 2000 General Assembly amended KRS 141.200 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept. Affiliated corporations may

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 30 percent federal bonus depreciation, five-year net operating loss carryback and other provisions of the Job Creation and Worker Assistance Act of 2002. Also, the General Assembly has not adopted the 50 percent federal bonus depreciation and increase in the Section 179 election to expense deduction and other provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

**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 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% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 58% from 31.5 cents per \$100 in 1978 to 13.1 cents per \$100 in 2004.

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.

## COMMONWEALTH OF KENTUCKY

**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.

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 phase-out 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. Due to the repeal of the federal state death tax credit, the Kentucky estate tax will not apply to deaths occurring after December 31, 2004.

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% tax on gross revenues received by all providers of hospital services, a 2% 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% of the funding for the program is provided by the state with the remaining 75% 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% for the period July 1, 1997, through June 30, 1998; and 0.5% 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

**COMMONWEALTH OF KENTUCKY  
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
FOR CALENDAR YEARS 1994-2003**

(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
	1994	\$ 89,570,464	95,287,728	153,225,083	153,225,083	242,795,547	
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	109,108,366	116,072,730	126,697,051	126,697,051	235,805,417	242,769,781	97.1%
1998	116,105,606	123,516,602	135,870,575	135,870,575	251,976,181	259,387,177	97.1%
1999	124,798,246	132,764,091	138,392,876	138,392,876	263,191,122	271,156,967	97.1%
2000	134,604,823	143,196,620	141,579,703	141,579,703	276,184,525	284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%
2002	153,558,852	163,360,481	178,290,246	178,290,246	331,849,099	341,650,727	97.1%
2003	162,167,033	172,518,120	188,846,577	188,846,577	351,013,610	361,364,697	97.1%

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 1994-2003**

(Expressed in Thousands, Except Percentages)

For the Year Ended June 30	Total	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
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	416,490	386,890	92.9%	20,605	407,495	97.8%
2002	429,425	407,380	94.9%	25,650	433,030	100.8%
2003	450,348	414,399	92.0%	20,369	434,768	96.5%

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)

For the Year Ended June 30	Estimated Population	Assessed Value	General Long-Term Bonded Debt	General Bonded Debt	
				Ratio to Assessed Value	Per Capita
1995	3,887	\$ 256,370,647	\$ 3,133,332	1.2%	806
1996	3,920	254,367,477	3,134,342	1.2%	800
1997	3,953	235,805,417	3,133,332	1.3%	793
1998	3,985	251,976,181	2,833,433	1.1%	711
1999	4,018	263,191,122	2,178,683	0.8%	542
2000	4,049	276,184,525	2,315,533	0.8%	572
2001	4,069	293,913,645	2,944,839	1.0%	724
2002	4,093	331,849,099	3,405,046	1.0%	832
2003	4,118	351,013,610	3,165,223	0.9%	769
2004	4,143	Projected 361,895,032	Estimated 3,225,432	0.9%	779

SOURCE: U.S. Department of Commerce, Bureau of the Census.

NOTE: General long-term bonded debt includes adjustments to eliminate bonds accounted for by Proprietary Funds and State Universities and adjustments for updated amortization schedules, bonds redeemed prior to scheduled maturity, and adjustments 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)

For the Year Ended June 30	General Long - Term Debt Service	Total Expenditures	Ratio
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	416,619	14,856,420	2.8%
2003	460,256	14,851,736	3.1%
2004	545,642	15,476,332	3.5%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Reports.

**COMMONWEALTH OF KENTUCKY  
UNIVERSITY AND COLLEGE FUNDS REVENUE BOND COVERAGE  
FOR THE LAST TEN FISCAL YEARS**

(Expressed in Thousands, Except Ratio Data)

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
1995	\$ 254,402	\$ 81,113	3.14
1996	251,153	84,791	2.96
1997	270,837	84,962	3.19
1998	276,395	88,252	3.13
1999	329,681	84,782	3.89
2000	293,988	86,164	3.41
2001	301,649	83,069	3.63
2002	269,609	66,828	4.03
2003	112,670	53,825	2.09
2004	329,073	54,034	6.09

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

**COMMONWEALTH OF KENTUCKY  
DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 1994-2003**

<b>For the Year Ended December 31</b>	<b>Estimated Population</b>	<b>Per Capita Income</b>	<b>Unemployment Rate</b>
1994	3,849,088	\$ 18,389	5.4%
1995	3,887,427	19,056	5.4%
1996	3,919,535	19,957	5.6%
1997	3,952,747	20,979	5.4%
1998	3,985,390	22,118	4.6%
1999	4,018,053	22,702	4.5%
2000	4,048,832	24,258	4.1%
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%
2003	4,117,827	26,252	6.2%

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 1994-2003**

(Expressed in Thousands, Except Number of Units)

<b>For the Year Ended December 31</b>	<b>Non-Residential Construction</b>		<b>Residential Construction</b>		<b>Bank Deposits</b>
	<b>Number of Units</b>	<b>Value</b>	<b>Number of Units</b>	<b>Value</b>	
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	39,497,000
2001	See Note	See Note	17,685	1,817,684	42,282,000
2002	See Note	See Note	19,459	2,080,766	40,092,000
2003	See Note	See Note	20,404	2,346,693	34,325,268

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 1994-2003**

(Expressed in Thousands, Except Percent Data)

Source	1994		1995		1996		1997		1998	
	Amount	Percent								
Farm	\$ 1,062,592	2.1%	\$ 651,984	1.2%	\$ 1,005,924	1.7%	\$ 1,089,030	1.9%	\$ 957,190	1.6%
Agriculture services, forestry, fisheries and others	319,445	0.6%	341,495	0.6%	343,124	0.6%	381,650	0.7%	423,380	0.7%
Mining	1,435,725	2.8%	1,322,910	2.4%	1,280,840	2.2%	1,285,732	2.2%	1,348,968	2.2%
Manufacturing	10,975,287	21.2%	11,424,900	21.0%	11,589,170	20.1%	12,115,301	21.0%	12,666,832	20.8%
Construction	2,875,033	5.6%	2,877,756	5.3%	3,076,508	5.3%	3,327,836	5.8%	3,612,018	5.9%
Wholesale and retail trade	7,355,968	14.2%	7,828,796	14.4%	8,196,534	14.2%	8,799,661	15.3%	9,356,004	15.3%
Finance, insurance and real estate	2,330,102	4.5%	2,469,422	4.5%	2,638,070	4.6%	2,879,266	5.0%	3,102,800	5.1%
Transportation and public utilities	3,577,361	6.9%	3,702,916	6.8%	3,923,834	6.8%	4,139,689	7.2%	4,687,916	7.7%
Services	10,454,944	20.2%	11,128,883	20.4%	11,967,410	20.8%	12,756,524	22.1%	13,716,312	22.5%
Government and government enterprises	9,692,029	18.7%	10,032,371	18.4%	10,424,575	18.1%	10,820,753	18.8%	11,125,965	18.2%
Earnings by Place of Work	<u>\$ 50,078,486</u>	<u>100.0%</u>	<u>\$ 51,781,433</u>	<u>100.0%</u>	<u>\$ 54,445,989</u>	<u>100.0%</u>	<u>\$ 57,595,442</u>	<u>100.0%</u>	<u>\$ 60,997,385</u>	<u>100.0%</u>

Source	1999		2000		2001		2002*		2003**	
	Amount	Percent								
Farm	\$ 730,192	1.1%	\$ 1,361,530	2.0%	\$ 973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%
Agriculture services, forestry, fisheries and others	462,975	0.7%	502,305	0.7%	521,571	0.7%	521,000	0.7%	383,250	0.5%
Mining	1,350,661	2.1%	1,197,845	1.7%	1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%
Manufacturing	13,373,527	20.7%	13,945,732	20.3%	13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%
Construction	3,922,877	6.1%	4,196,268	6.1%	4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%
Wholesale and retail trade	10,032,800	15.5%	10,537,792	15.3%	10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%
Finance, insurance and real estate	3,296,512	5.1%	3,690,749	5.4%	3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%
Transportation and public utilities	5,005,048	7.7%	5,337,433	7.8%	5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%
Services	14,716,433	22.8%	15,629,585	22.7%	16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%
Government and government enterprises	11,770,589	18.2%	12,452,644	18.1%	13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%
Earnings by Place of Work	<u>\$ 64,661,614</u>	<u>100.0%</u>	<u>\$ 68,851,883</u>	<u>100.0%</u>	<u>\$ 70,491,141</u>	<u>100.0%</u>	<u>\$ 72,498,000</u>	<u>100.0%</u>	<u>\$ 80,127,750</u>	<u>100.0%</u>

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

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

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

\*\* 2003 annual estimates computed with BEA table SQ5N by adding 4 quarters of 2003 and dividing by 4.

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

\*\* 2003 amounts are based on the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system used in previous years. This affects comparability of amounts. NAICS will be used in the future fiscal years.

**COMMONWEALTH OF KENTUCKY**  
**TOP 10 MANUFACTURERS**  
 (Ranked by Number of Employees)  
**June 30, 2004**

<u>Company</u>	<u>Number of Locations</u>	<u>Number of Employees</u>
Ford Motor Co.	2	10,900
United Parcel Service, Inc.	12	10,419
Toyota Motor Corp.	4	8,519
General Electric Co.	10	8,227
Delta Airlines	2	5,799
Dana Corp.	14	5,038
Johnson Controls, Inc.	14	4,088
Lexmark International, Inc.	1	3,500
Fidelity Investments	1	2,750
Alcan, Inc.	8	2,400

SOURCE:  
 2003 Kentucky Directory of Manufacturers, Harris InfoSource in cooperation with the Kentucky Cabinet for Economic Development.

**COMMONWEALTH OF KENTUCKY  
SCHEDULE OF MISCELLANEOUS STATISTICS  
JUNE 30, 2004**

Adoption of Kentucky Constitution	1792
Form of Government	Legislative, Executive, Judicial
Land Area (square miles)	39,650
Miles of Highways, Roads and Streets	79,641
Police Protection:	
Statewide Jurisdiction	
Number of Kentucky State Police Posts	16
Number of Sworn Officers	960
Number of Other Statewide Agencies	7
Number of Officers	640
County Jurisdictions	
Number of Sheriffs	120
Number of Deputies	1,644
Number of County Departments	7
Number of County Officers	143
Local Jurisdictions	
Number of Departments	245
Number of Sworn Officers	5,193
College and Universities	
Number of Departments	8
Number of Sworn Officers	147
Other law Enforcement/Task Forces/Airport Security/ County Schools Security	
Number of Departments	15
Number of Sworn Officers	200
Higher Education:	
State-Supported Universities and Community and Technical Colleges	
Number of Campuses	25
Number of Full-Time Instructional Faculty	6,623
Number of Students, Fall 2003	198,621
Private Colleges and Universities	
Number of Campuses	21
Number of Full-Time Instructional Faculty	1,400
Number of Students, Fall 2003	30,440
State Supported Recreation:	
Number of Resort Parks	17
Number of Recreation Parks	24
Number of Historic Sites	10
Area of State Parks (acres)	45,137
Number of 2003 Overnight Visitors	548,245
Permanent Full-Time Executive Branch Employees	34,998
SOURCES: Kentucky Revised Statutes Kentucky Transportation Cabinet Kentucky State Police Kentucky Council on Postsecondary 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:

*Brett Antle*  
*Ellen Ballard*  
*Paula Dewitt*  
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*Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2004*

*Ernie Fletcher, Governor*

*Front Cover: Capitol dome as seen from the rose garden.*