

Comprehensive Annual Financial Report
for the year ended June 30, 2002



Kentucky

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

Paul E. Patton, Governor



Prepared by:
Finance and Administration Cabinet
T. Kevin Flanery, Secretary

Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Stuart Weatherford, Director



Paul E. Patton
Governor



COMMONWEALTH OF KENTUCKY
OFFICE OF THE GOVERNOR

PAUL E. PATTON
GOVERNOR

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

January 4, 2002

My Fellow Kentuckians:

I am proud to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 2001.

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

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

Sincerely,

Paul E. Patton

Paul E. Patton



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

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

Paul E. Patton, Governor

On the front cover: **The Kentucky Floral Clock**

The Kentucky Floral Clock was dedicated on May 4, 1961 by The Garden Club of Kentucky in cosponsorship with the Commonwealth and is one of the largest of this type in the world.

INTRODUCTORY SECTION



PAUL E. PATTON
GOVERNOR



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

T. Kevin Flanery
Secretary



December 31, 2002

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

Dear Governor Patton:

INTRODUCTION

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

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes the transmittal letters, the 2001 Certificate of Achievement, condensed summary data charts, and the government's organizational chart and list of principal officials. The financial section includes the auditor's report on the financial statements and schedules, the general purpose financial statements and Notes to Combined Financial Statements, the combining and individual fund and account group financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

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 Codification of Governmental Accounting and Financial Reporting Standards, Section 2100.

The component units which are blended into the Commonwealth's primary government are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky River Authority, 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 State Fair Board, Kentucky Center for the Arts Corporation, Kentucky Educational Television

Authority, Kentucky Economic Development Finance Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Educational Savings Plan Trust, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Community Technical College System, and the eight state supported universities.

Additional detailed information pertaining to Commonwealth's component units are located on page **XXX**.

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

ECONOMIC CONDITION AND OUTLOOK

After a decade of remarkable economic growth the economy slowed considerably in 2002. Even though the average real output continued to be higher than the long-term average, the change was in sharp contrast to the 5.2 percent growth of the previous year. Consumer sentiment also fell below the 100 mark after reaching a record high in 2000.

Real Gross Domestic Product (GDP) grew by 3.1 percent in 2002. Historically this would have been classified as stellar performance, however, we have become accustomed to average growth rates of over four percent. During the boom period last year this was up 5.6 percent.

National job growth was tepid with non-agricultural employment growing by 1.4 percent to a total of 132.3 million. About 1.9 million new jobs were created in 2002 compared to 2.9 million in 2000. The overall unemployment rate remained low at 4.2 percent. Manufacturing employment dropped by 1.5 percent. The big turnaround was in mining, especially oil and gas extraction, and employment increased by 3.7 percent.

In the early 1990s Kentucky was barely impacted by the national recession. As our industry mix diversified we were able to keep pace with the national economy, but we still rely on the manufacturing sector as a source of relatively well-paying jobs. In Kentucky 18.7 percent of nonagricultural employment is in the manufacturing sector compared to 15.2 percent nationally. Although Kentucky has shown positive growth in this area, recently, we experienced a 1.6 percent decline in manufacturing jobs. This has been more severe than the 0.7 percent decline in 1991.

Our overall nonagricultural employment growth was 1.1 percent, compared to the national average of 1.4 percent. Both services and finance, insurance and real estate grew strongly by 2.6 and 2.1 percent, respectively. Mining, which is dominated by coal mining, typically declines every year, but managed to grow by 0.9 percent in 2002. Even though transportation, communication and public utilities did poorly in the fourth quarter, mining registered an overall growth of 1.7 percent in 2002.

Kentucky's personal income growth in 2002 averaged 5.0 percent, compared to 5.6 percent nationally. The wage and salary component grew strongly by 5.7 percent, again due primarily to growth experienced in the first half of the year. The slowdown in income and employment did not impact the Kentucky economy substantially until the third quarter of 2002.

MAJOR INITIATIVES

The first months of fiscal year 2002 were devoted to implementing the broad array of major policy initiatives authorized by the 2000 Regular Session of the General Assembly. These initiatives were in the biennial budget and funded effective July 1. The most important of these were post-secondary education improvement, infrastructure and community development investment, criminal justice, economic development, information technology, and elementary and secondary education. Also the Commonwealth was, for the first time, able to support program initiatives funded from the National Tobacco Settlement. The monies were focused in the areas of agricultural development diversification, early childhood development and health related initiatives including smoking cessation activities and health insurance for the most at risk element(s) of the population. The tobacco settlement funds were allocated on a percentage basis with 50 percent to agricultural development and 25 percent to both early childhood development and to health related initiatives. The Commonwealth also elected to bolster farm economy income supplement programs, authorized from the Settlement Funds.

By the fall of the year, the state economy and anticipated revenue collections were both beginning to slow. This gave rise to contingency planning efforts in the event that the Commonwealth were to face its first official revenue shortfall since the formalization of the Consensus Forecasting process in 1996 and the first broad budget cutback of an enacted budget since fiscal year 1994.

In January, the first “annual session” of the Kentucky General Assembly in over 200 years commenced. This new “annual session” was authorized by a Constitutional amendment and was empowered to take up any issue it deemed to be of public import. The Consensus Forecasting Group revised both the fiscal year 2002 General Fund and Road Fund estimates downward by \$91 million and \$55 million, respectively, triggering a formal Budget Reduction Plan into action. The Budget Reduction Plans for both the General and Road Funds were executed in April bringing the budget back into balance. The state law dictated the order priority for achieving budget reductions and were based on the following principles: (1) exempting education at all levels from any reductions; (2) exempting Medicaid benefits from cutbacks; (3) exempting capital projects/infrastructure investment; and (4) avoiding public employee layoffs. That effort resulted in a revised balanced budget without notable affect on public services. This was achieved by identifying appropriate funds that would remain unspent due to personnel vacancies, capturing unneeded debt service, by utilizing fund transfers, and by drawing down from the Budget Reserve Trust Fund. The Road Fund was rebalanced primarily by reducing the state construction program and by tapping a variety of small accounts.

Again in June the Consensus Forecasting Group reduced the “current year” revenue estimate by another \$68 million in the General Fund, making a cumulative General Fund revenue shortfall of \$159 million. Other reductions necessary to support emergency expenditures were also affected resulting in total fiscal year 2002 budget reductions of \$185 million. A second Budget Reduction Plan was executed that same month balancing the budget and preserving the principles and exemptions incorporated in the first actions. Budget reductions were again achieved by not filling vacant positions, capturing unneeded debt service, and additional fund transfers and operating expense reductions.

On June 14 the Consensus Forecasting Group again revised both the General Fund and Road Fund revenue estimates for fiscal year 2002, downward from the 2000 amounts by \$296 million and \$85 million, respectively. As the fiscal year closed, the Commonwealth was formulating Budget Reduction Plans for fiscal year 2002 in anticipation of a further national economic slowdown. Those plans were predicated on preserving the same policy priorities previously adopted in dealing with fiscal year 2002 problems, i.e., education, infrastructure, and essential public service.

FINANCIAL INFORMATION

The Accounting System and Budgetary Controls

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

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

Budgetary control is maintained at the budget unit level described in the Notes to the Required Supplementary Information by the encumbrance of estimated purchase amounts prior to the release of contracts to vendors. Contracts which result in overruns of available balances are not released until budget revisions are approved or additional appropriations are made. Open encumbrances are reported as reservations of fund balances in the Commonwealth’s Transportation and Capital Projects Funds at June 30, 2002.

Debt Administration

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

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$410,058	3.3%	\$733

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

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

Cash Management, Investment and Collateral Policy

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

At June 30, 2002, the Commonwealth's operating portfolio was approximately \$3.6 billion in cash and securities. The composition of investments was as follows: U.S. Treasury Securities (17%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (42 %); repurchase agreements collateralized by the aforementioned (12%); municipal securities (4%); and corporate and asset backed securities, including money market securities (25%). The portfolio has a current yield of 4.69% and modified duration of 1.5 years. Investment income through June 30, 2002 was \$316 million versus \$160 million the previous fiscal year.

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

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

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

The Commonwealth has had a securities lending program since the mid-1980's. The state is able to enter into either a principal relationship or an agency relationship. In a principal relationship the state reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agency program the agent lends the states treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the state. At the present time the state has entered into an agent agreement that has a guarantee of 14 basis points of the average market value of securities in the program.

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

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated maturity of five (5) years or less. Money market securities ranked A1-P1 or higher are limited to 20% of any investment pool when combined with corporate and Asset Backed Securities and must not exceed 25% of any investment pool. Asset Backed Securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are

also limited to a maximum of twenty-five (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less with a weighted-average-life of not more than four (4) years at the time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

Risk Management

The Division of Risk Management (DRM) oversees and coordinates risk management and insurance responsibilities among various state agencies in accordance with KRS 42.0245. For the year ended June 30, 2002, the Division achieved a cash savings of \$734,310 by obtaining lower bids from improved insurance bid specifications and by seeking broader markets. Risk exposures in the amount of \$140,085 were eliminated for state agencies' properties that were either uninsured or underinsured and a \$2,493,858 risk exposure was identified and insured for the Finance and Administration Cabinet's Office of Technology Operations. The Finance and Administration Cabinet insures property, computers, vehicles, telephones, fidelity bonds, and workers' compensation with a total insurance value of \$375 million annually for a premium of \$200,000.

New risk management initiatives fully implemented for the year included developing computer applications for the processing and payment of insurance premiums and obtaining hard to place coverage for the State Employee Blanket Crime Dishonesty Coverage and the Foster Parent Liability program. In addition, a Performance Measurement Method was developed for evaluating risk management activities.

Currently, the Commonwealth's two major self-insurance programs include the State Fire and Tornado Insurance Fund for property and casualty coverage; and the State Self Insurance Fund for Workers' Compensation benefits. The Finance and Administration Cabinet, in accordance with KRS 45A.022, purchases insurance policies to transfer to insurance companies other financial and catastrophic risks for various state agencies not assumed by these programs. As of June 30, 1999, the Commonwealth terminated the self-insured Kentucky Kare program and offered coverage for health benefits through competitive bidding with the private health insurance markets.

The Fire and Tornado Insurance Fund consists of "premiums" charged to state agencies and universities. Current annual "premiums" of \$6.4 million insure \$7.6 billion in property assets for 6,800 facilities throughout the state. Computers, telephones, fine arts and other insured assets total \$1.4 billion. By statute, the Fund must have a reserve of \$5.0 million at the close of each fiscal year. All losses are reinsured to limit fund liability to \$300,000 for any one loss to each subject of risk. The premium for reinsurance is \$1,355,000 annually. For the year ended June 30, 2002, the Fund paid 278 claims in the amount of \$1,622,988. Earthquake and Flood Coverage for state facilities are available as additional insured perils in the Fund.

The State Self-Insured Workers' Compensation Trust Fund provides workers' compensation coverage for state employees. At June 30, 2002, the State program had assets of \$17.3 million and an unreserved accumulated deficit of \$63.9 million. Premium income for the fiscal year decreased from \$17.0 million to \$13.5 million and the unreserved accumulated deficit increased \$21.7 million from the previous fiscal year. The Fund carries reinsurance coverage for large individual or incident claims of \$5 million with limits of \$25 million. The amount of claims paid for the fiscal year was \$32.8 million, which is \$14.0 million or a 17.5% increase over fiscal year 2000. The Transportation Cabinet has a separate self-insured workers' compensation fund for its employees. As of June 30, 2002, the Fund has unpaid claims of \$13.3 million. Total expenditures for the year were \$3.6 million in administration and claims. The fund carries reinsurance coverage for claims exceeding \$1 million with limits of \$10 million.

OTHER INFORMATION

Independent Audit

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with generally accepted government auditing standards, and the report of the independent auditor appears elsewhere in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2000. This is the fourteenth 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,

A handwritten signature in black ink that reads "T. Kevin Flanery". The signature is written in a cursive style with a large initial "T" and a stylized "F" at the end.

T. Kevin Flanery, Secretary
Finance and Administration Cabinet



Finance and Administration Cabinet

Office of the Controller

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

Edgar C. Ross
Controller



Paul E. Patton
Governor
T. Kevin Flanery
Secretary

January 4, 2003

The Honorable T. Kevin Flanery
Secretary, Finance and Administration Cabinet
383 New Capitol Annex
Frankfort, Kentucky

Dear Secretary Flanery:

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, 2001, is submitted herewith. It contains all funds, account groups, and entities that are controlled by or dependent on the Commonwealth based on the criteria developed by the Governmental Accounting Standards Board (GASB) in its Codification of Governmental Accounting and Financial Reporting Standards, Section 2100.

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

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

Respectfully submitted,

Edgar Ross

Edgar C. Ross, Controller



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

Certificate of Achievement For Excellence in Financial Reporting

Presented to:

Commonwealth of Kentucky

For it's Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2001

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



Imelda Grewe
President

Jeffrey L. Esser
Executive Director

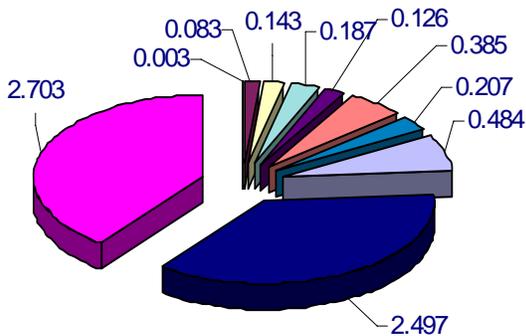
Chart 1

General Funds – Budgetary Basis

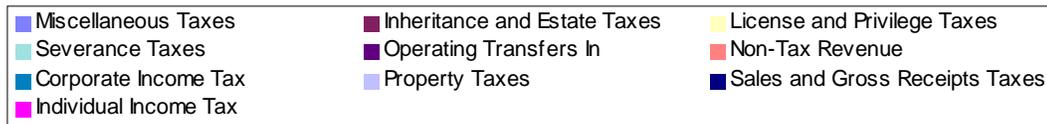
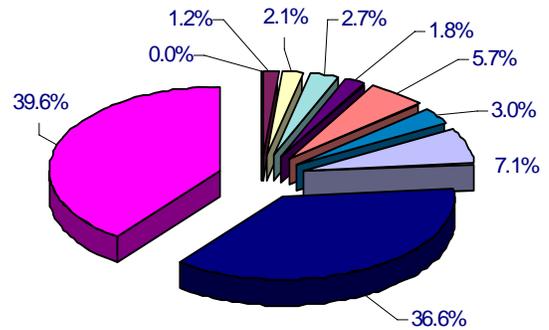
Fiscal Year 2002

(amounts in billions)

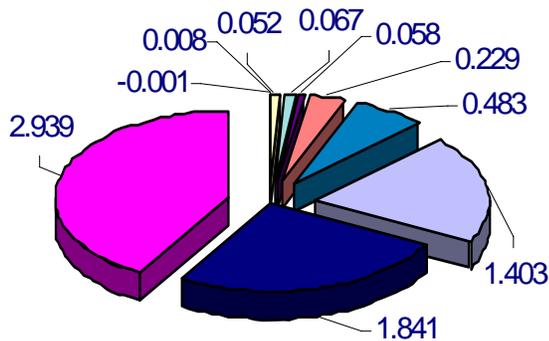
Revenue Source



Revenue Percentage



Expenditure Function



Expenditure Percentage

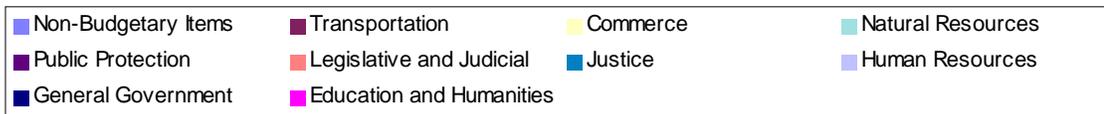
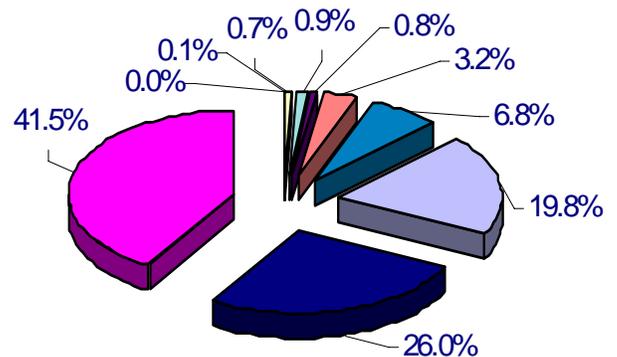


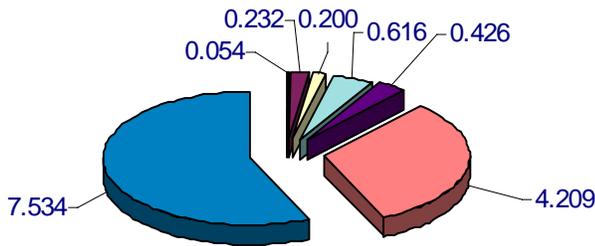
Chart 2

Governmental Funds – GAAP Basis

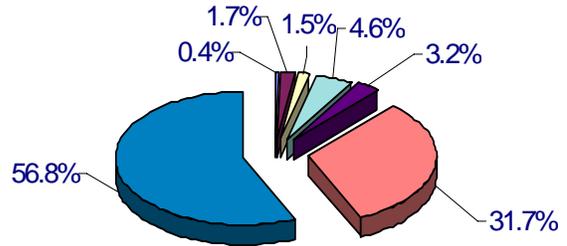
Fiscal Year 2002

(amounts in billions)

Revenue Source

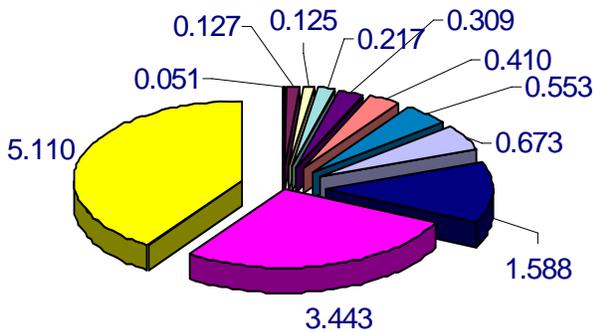


Revenue Percentage

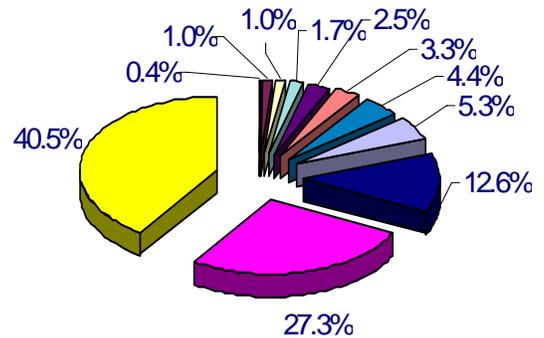


Fines and Forfeits	Interest and Investments	Licenses, Fees and Permits
Other Revenue	Charges for Services	Intergovernmental
Taxes		

Expenditure Function

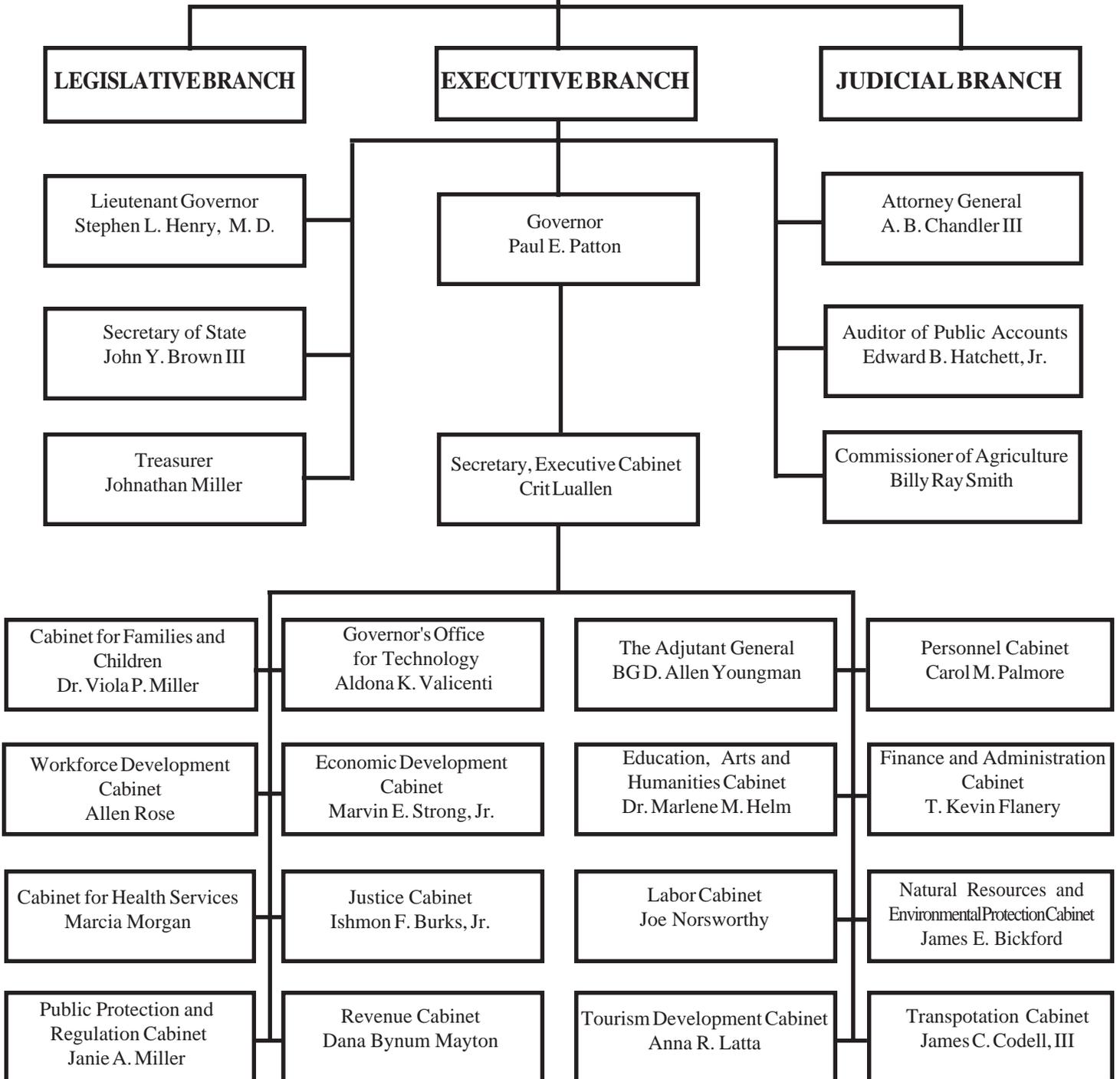


Expenditure Percentage



Commerce	Natural Resources and Environmental Protection
Public Protection and Regulation	Legislative and Judicial
Capital Outlay	Debt Service
Justice	General Government
Transportation	Education and Humanities

Electorate of Kentucky



*Principal Officials at June 30, 2002

□□□□□□□□ □□□□□□



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Paul E. Patton, Governor
Mr. T. Kevin Flanery, Secretary
Finance and Administration Cabinet

We have audited the accompanying general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit .

We did not audit the financial statements of the Kentucky Turnpike Authority, Bluegrass State Skills Corporation, and the Transportation Cabinet's portion of the governmental funds within the governmental fund types; the Kentucky Lottery Corporation, Workers' Compensation Special Fund, Petroleum Storage Tank Assurance Program, Transportation Cabinet's Fleet Management Fund Self-Insured Workers' Compensation Trust Funds within the proprietary fund types; the Pension Trust Funds and Transportation Cabinet's portion of the Agency Funds within the fiduciary fund types; and universities and colleges and certain other discretely presented component units. These organizational units represent 32.6, 61.6, 93.9, and 99.9 percent of total assets of their respective fund types or component unit; 15.2, 85.3, 46.3, and 99.9 percent of total revenues/additions; and 15.3, 76.9, 66.8, and 99.9 percent of total expenditures/expenses/deductions of the related combined totals of the fund types— governmental, proprietary, fiduciary, and discretely presented component units, respectively. We also did not audit certain fixed assets, which represent 21.7 percent of the General Fixed Assets Account Group. In addition, we did not audit certain long-term obligation accounts, which comprise 40.0 percent of the total liabilities in the General Long-Term Obligations Account Group. These organizational unit financial statements were audited by other auditors whose reports thereon were furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the organizational units, the fixed assets, and the long-term obligations referenced above, is based on the reports of the other auditors.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
Mr. T. Kevin Flanery, Secretary
Finance and Administration Cabinet
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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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion based on our Audit and the reports of other auditors, the general- purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Kentucky as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in Conformity with accounting principles generally accepted in the United States of America.

The combining and individual fund and account group financial statements and schedules included in this report on pages 80 through 169 are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the Commonwealth of Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole

The Introductory and Statistical Sections presented in this report on pages 1 through 18 and 170 through 182 are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the Commonwealth of Kentucky. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

To the People of Kentucky
The Honorable Paul E. Patton, Governor
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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. This 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,

A handwritten signature in black ink, appearing to read "Ed Hatchett". The signature is written in a cursive style with a horizontal line extending from the end.

Edward B. Hatchett, J r.

December 21, 2002

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the Commonwealth of Kentucky is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

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

Changes in Net Assets - The Commonwealth's total net assets increased by \$XXXXXmillion (a 1.6% increase) in fiscal year 2001. Net assets of governmental activities increased by \$175.7 million (a 1.9 % increase), while net assets of the business-type activities showed a decrease of \$11.3 million (a 1.4 % decrease).

Fund Highlights:

Governmental Funds - Fund Balances - As of the close of fiscal year 2002, the Commonwealth's governmental funds reported a combined ending fund balance of \$3.5 billion, an increase of \$115.8 million in comparison with the prior year. Of this total amount, \$1.875 billion represents the "unreserved fund balances" with substantially all being in the general fund. Of this \$1.875 billion, \$459 million is in the Cash Flow Reserve Fund and \$341 million is in the Rainy Day Fund leaving \$1.1 billion as undesignated. This \$1.1 billion is roughly 11% of the total governmental fund expenditures for the year.

Long-term Debt:

The Commonwealth's total long-term debt obligations increased by \$92.6 million (8.3%) during the current fiscal year. The key factor in this increase was the issuance of \$153.84 million of OCIA Series 2000 Highway revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Commonwealth.

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

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

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 Proprietary Funds as listed later in the text.

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

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

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

The Commonwealth's seventeen other (or nonmajor) component units are combined into a single column for reporting in the fund financial statements. These nonmajor component units are:

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

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

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

Fund Financial Statements and Major Component Unit Financial Statements

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

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

The three categories of funds are:

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

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

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

The basic governmental funds financial statements can be found in the Fund Financial Statements section immediately following the government-wide statements.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. Reconciliation between the government-wide financial statements for business-type activities and the proprietary fund financial statements is not necessary.

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

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

Fiduciary Funds Financial Statements– These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of

these funds are not available to support the programs of the Commonwealth. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The Commonwealth's fiduciary funds are- the Pension Trust Funds (seven separate retirement plans for employees), the Private Purpose Trust Funds (which accounts for the transactions, assets, liabilities and fund equity of the external investment pool), and the Agency Funds (which account for the assets held for distribution by the Commonwealth as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

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

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

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

The basic combining financial statements for major component units can be found immediately following the fiduciary fund and similar component unit's financial statements.

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

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

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

Other Supplementary Information

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (government and business-type activities) totaled \$10.259 billion at the end of 2002, compared to \$10.095 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets (59%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Commonwealth of Kentucky's Net Assets-Primary Government
(expressed in thousands)**

**Business-Type
Activities
(as restated)**

Governmental Activities	2000 (as restated)	2001 (as restated)	2001	2000
Current Assets	\$ 4,782,989	\$ 4,740,551	\$ 624,145	\$ 765,143
Capital Assets	6,906,118	6,740,777	116	194
Other Assets	217,057	202,307	427,726	301,177
Total Assets	\$ 11,906,164	\$ 11,683,635	\$ 1,051,987	\$ 1,066,514
Non-current Liabilities	974,350	868,516	240,161	253,418
Other Liabilities	1,452,795	1,511,766	31,818	21,819
Total Liabilities	\$ 2,427,145	\$ 2,380,282	\$ 271,979	\$ 275,237
Invested in Capital Assets, Net of Related Debt	6,005,182	5,946,703	116	194
Restricted	1,282,421	1,398,310	586,717	599,409
Unrestricted	2,191,416	1,958,340	193,175	191,674
Total Net Assets	\$ 9,479,019	\$ 9,303,353	\$ 780,008	\$ 791,277

An additional portion of the Commonwealth's net assets (18.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the Commonwealth's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the Commonwealth is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Changes in Net Assets

The Commonwealth's net assets increased by \$164.4 million or 1.6%. Approximately 56 percent of the Commonwealth's total revenue came from taxes, while 32 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12 percent of the total revenues. The Commonwealth's expenses cover a range of services. The largest expenses were for general (common public schools) and higher education, social services, and public safety. In 2002, governmental activity expenses exceeded program revenues, resulting in the use of \$5.397 billion in general revenues (mostly taxes). On the other hand, net expenses from business-type activities in 2002 exceeded revenues by only \$12.3 million.

**Commonwealth of Kentucky's Changes in Net Assets-Primary Government
(expressed in thousands)**

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program Revenues:			
Charges for Services	\$ 805,500	\$ 121,167	\$ 926,667
Operating Grants and Contributions	3,219,285	29,802	3,249,087
Capital Grants and Contributions	3,076	3,076	
General Revenues:			
Income Taxes			
Sales Taxes	2,383,253		2,383,253
Gross Production Tax	1,475,338		1,475,338
Other Taxes	561,713		561,713
Investment Earnings	1,006,555		1,006,555
Other	137,744		137,744
	9,518		9,518
Total Revenues	<u>\$ 9,601,982</u>	<u>\$ 150,969</u>	<u>\$ 9,752,951</u>
Expenses:			
Education-General	\$ 2,514,961		\$ 2,514,961
Education-Payments to Higher Education	835,371		835,371
General Government	521,153		521,153
Health Services	367,569		367,569
Legal and Judiciary	163,037		163,037
Museums	11,755		11,755
Natural Resources	192,980		192,980
Public Safety and Defense	702,059		702,059
Regulatory Services	170,691		170,691
Social Services	3,303,724		3,303,724
Transportation	599,698		599,698
Interest on Long-Term Debt	42,275		42,275
Unemployment Insurance Trust Fund	147,051		147,051
State Loan Program to Local Governments	16,230		16,230
Total Expenses	<u>\$ 9,425,273</u>	<u>\$ 163,281</u>	<u>\$ 9,588,554</u>
Increase (Decrease) in Net Assets Before Transfers	176,709	(12,312)	164,397
Transfers	(1,043)	1,043	
Change in Net Assets	175,666	(11,269)	164,397
Net Assets, Beginning of Year (as restated)	9,303,353	791,277	10,094,630
Net Assets, End of Year	<u>\$ 9,479,019</u>	<u>\$ 780,008</u>	<u>\$ 10,259,027</u>

Business-Type Activities The business-type activities decreased the Commonwealth's net assets by \$11.3 million. This resulted from a \$40.1 million decrease in net assets by the Kentucky Unemployment Insurance Trust Fund and an increase in net assets of \$28.8 million by the Commonwealth's program for making loans to local government units

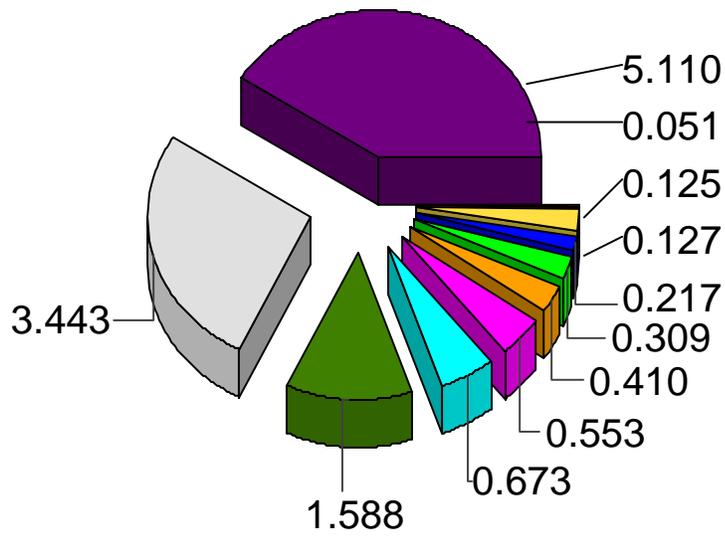
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

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

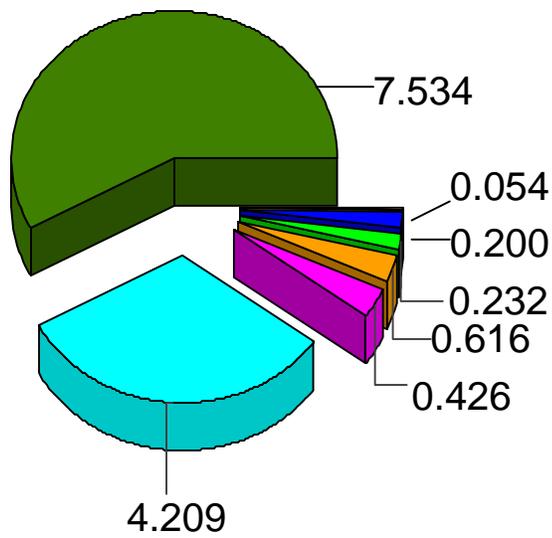
Governmental Funds-The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$3.5 billion, an increase of \$115.8 million in comparison with the prior year. Just over one half (\$1.875 billion or 54%) 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 because it has already been committed 1) to liquidate contracts and purchase orders of the prior fiscal

Expenditures



Revenue



year (\$278 million), 2) to pay debt service (\$93 million), 3) to be held in permanent trust funds for education, wildlife and prevention of tobacco related health issues (\$1.184 billion) or 4) for a variety of other restricted purposes (\$59 million).

The general fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1.875 billion, while the total fund balance reached \$2.304 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20% of total general fund expenditures, while total fund balance represents 24% of that same amount.

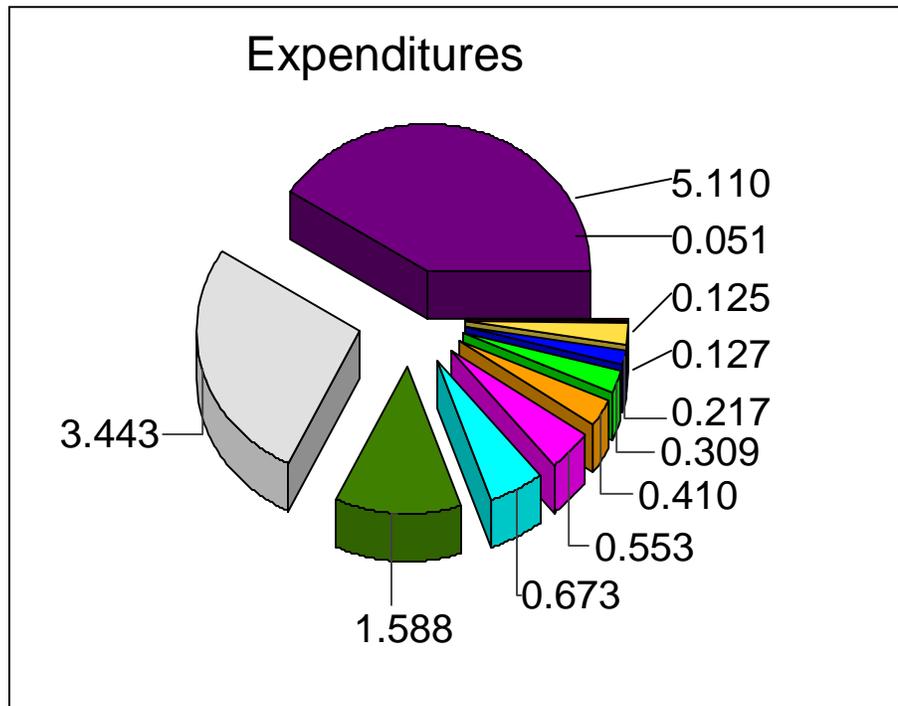
The fund balance of the Commonwealth's general fund increased by \$162 million during the current fiscal year. This is a 7.6% increase from the prior year.

The Commissioners of the Land Office Permanent Fund, which accounts for the land and cash granted to the Commonwealth by the United States Congress for the use and benefit of educational systems in Kentucky, suffered a noticeable decrease in fund balance. Because of market conditions, this fund reported a \$45.8 million loss in net investment revenues, as opposed to normally reporting positive net investment revenues. This resulted in a decrease in the fund balance of just over \$100 million for the year. This is a decrease of about 8.5% from the previous year.

Proprietary Funds-The Commonwealth's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed in the business-type activities above, the Commonwealth's net assets decreased by \$11.3 million as a result of operations in the proprietary funds. This resulted from a \$40.1 million decrease (6.9% from prior year) in net assets by the Kentucky Unemployment Insurance Trust Fund and increase of net assets of \$28.8 million (13.8%) by the Commonwealth's program for making loans to local government units for drinking and waste water facilities.

GENERAL FUND BUDGETARY HIGHLIGHTS



Differences between the original budget and the final budget were relatively minor (\$78.083 million increase in appropriations) and can be briefly summarized as follows:

1. Department of Corrections received \$25.516 million in supplemental appropriations for increased expenses.
2. Kentucky Health Care Authority received \$20.928 million in supplemental appropriations for increased expenses.
3. Department of Education received \$10.42 million in supplemental appropriations for the school district utility assistance program.
4. Department of Human Services received \$4.809 million in supplemental appropriations for the LIHEAP program.
5. Fifteen additional agencies received supplemental appropriations totaling \$16.41 million for increased expenses.

The supplemental appropriations were funded from available fund balance. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets-The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$11.3 billion, net of accumulated depreciation of \$4.4 billion, leaving a net book value of \$6.9 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 2.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$872 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$291 million. Additional information on the Commonwealth's capital assets can be found in Note 5 of the notes to the financial statements 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 issuances. Both commissions must approve each financing plan before obligations are issued. The legislation that created the bond oversight commissions also created the position of Commonwealth Bond Advisor, who advises the commissions, and must approve the pricing and fees associated with any debt issuance.

General obligation bonds are backed by the full faith and credit of the Commonwealth, including the Commonwealth's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding was approved by a vote of the citizens.

The Commonwealth of Kentucky's total debt increased by \$43.6 million during the current fiscal year; however, long-term debt increased by \$92.6 million, an 8.3% increase. No general obligation bonds were issued during the fiscal year. The key factor in this increase was the issuance of \$153.84 million of OCIA Series 2000 Highway Revenue Bonds.

Additional information on the Commonwealth's long-term debt obligations can be found in Notes 9, 10, and 11 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 3.8%, which is a decrease from a rate of 4.2% a year ago. This compares favorably to the nation's average unemployment rate of 5.3%.

Inflationary trends in the region compare favorably to national indices as well.

These factors are considered by legislative leaders and management in preparing the Commonwealth's budget for future years.

During the current fiscal year, unreserved fund balance in the general fund increased to \$1.875 billion, with \$459 million of this in the Cash Flow Reserve Fund and \$341 million in the Commonwealth's Rainy Day Fund leaving \$1.1 billion as undesignated. This \$1.1 billion is roughly 11% of the total governmental fund expenditures for the year.

On December 19, 2001 a revenue shortfall was declared for fiscal year 2002. The Board of Equalization approves a revenue estimate each year, and the Legislature is allowed to appropriate up to 95% of that amount. A revenue shortfall occurs with the Director of Finance determines that revenues for the year are projected to fall below 95% of the Equalization Board's annual estimate. That is, when collections are projected to be insufficient to cover legislative appropriations. At the end of November, the most recent month from which complete collection data is available, fiscal year-to-date collections were \$88.4 million or 4.7% and projected to fall 6.2% below the estimate. The

greatest weakness in General Revenue Fund collections has been in the gross production tax on natural gas, which has lagged behind the estimate throughout fiscal year 2002.

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, and 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, Office of Finance , Capitol Annex, Frankfort, KY 40601.

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COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2001
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	\$ 609,395	\$ 77,878	\$ 687,273	\$ 1,279,421
Investments, net of amortization (Note 5)	2,193,162	700,548	2,893,710	1,215,977
Receivables, net (Note 4)	1,503,165	113,438	1,616,603	2,463,447
Due from component units (Note 7)	22		22	109,314
Due from fiduciary funds (Note 7)	3,780		3,780	
Due from primary government (Note 7)				
Internal balances	13,360	(12,639)	721	
Inventories	55,248	3,482	58,730	23,128
Prepaid expenses	2,459	697	3,156	1,635
Deferred charges				28,928
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)	50,644	643,637	694,281	94,827
Investments (Note 5)				
Intergovernmental receivable				
Permanently restricted:				
Investments (Note 5)				
Capital assets (Note 6):				
Land	87,822	15,344	103,166	115,291
Improvements other than buildings	7,172	77,211	84,383	84,909
Buildings	713,192	145,773	858,965	2,583,060
Machinery and equipment	452,683	46,729	499,412	972,941
Historical treasures				
Other fixed assets				170,483
Easements and other intangibles				
Less: Accumulated depreciation and amortization	(449,872)	(133,017)	(582,889)	(251,860)
Construction in progress	193,524	68,506	262,030	276,246
Infrastructure				
Total capital assets	<u>1,004,521</u>	<u>220,546</u>	<u>1,225,067</u>	<u>3,951,070</u>
Other assets				685,574
Total Assets	<u><u>5,435,756</u></u>	<u><u>1,747,587</u></u>	<u><u>7,183,343</u></u>	<u><u>9,853,321</u></u>
Liabilities				
Accounts payable (Note 4)	1,042,744	119,747	1,162,491	275,542
Tax refunds payable (Note 4)	207,318		207,318	
Accrued liabilities	25,220		25,220	-
Due to primary government (Note 7)				22
Due to component units (Note 7)				109,314
Deposits and advance payments				
Deferred revenue	183,236	70	183,306	62,985
Other liabilities		174,749	174,749	57,163
Liabilities from restricted assets				
Non-current liabilities:				
Due within one year (Note 15)	362,434	6,424	368,858	750,703
Due in more than one year (Note 15)	3,425,150	1,452,441	4,877,591	2,784,840
Total Liabilities	<u>5,246,102</u>	<u>1,753,431</u>	<u>6,999,533</u>	<u>4,040,569</u>
Net Assets				
Invested in capital assets, net of related debt		220,546		3,226,583
Restricted for:				
Debt service				368,974
Other purposes (Note 1)		297	297	849,556
Unrestricted	189,655	(226,687)	(37,032)	1,486,400
Total Net Assets	<u><u>\$ 189,655</u></u>	<u><u>\$ (5,844)</u></u>	<u><u>\$ (36,735)</u></u>	<u><u>\$ 5,931,513</u></u>

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, 2001
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General government	\$ 597,782	\$ 157,281	\$ (221,587)	\$ 27,252
Legislative and judicial	292,390	7,836	3,217	
Commerce	145,440	67,591	10,669	1,394
Education and humanities	4,861,022	8,542	577,544	
Human resources	5,126,835	442,854	3,241,595	
Justice	612,904	28,100	38,788	(217)
Natural resources and environmental protection	156,776	19,396	48,290	
Public protection and regulation	165,575	57,665	7,859	
Transportation	1,641,521	221,906	55,635	585,548
Unallocated depreciation				
Interest expense	230,960			
Total Governmental Activities	<u>13,831,205</u>	<u>1,011,171</u>	<u>3,762,010</u>	<u>613,977</u>
Business-type Activities:				
State Parks	91,233	48,059	232	11,697
Lottery Corporation	436,662	590,851	3,622	
Horse Park	8,631	5,624	18	1,775
Insurance Administration	107,995	119,473	22,366	
Unemployment Insurance	388,426	262,701	62,935	
Kentucky River Authority				
Total Business-type Activities	<u>1,032,947</u>	<u>1,026,708</u>	<u>89,173</u>	<u>13,472</u>
Total Primary Government	<u>\$ 14,864,152</u>	<u>\$ 2,037,879</u>	<u>\$ 3,851,183</u>	<u>\$ 627,449</u>
Component Units				
Authorities:				
Kentucky Housing Corporation	\$ 87,632	\$ 12,942	\$ 88,260	\$
Kentucky Higher Education Student Loan Corporation	58,708	1,227	62,098	
Other authorities	340,264	54,487	47,159	141,161
Universities and Colleges:				
University of Kentucky	1,361,092	619,495	286,079	
University of Louisville	518,305	214,023	81,150	
Kentucky Community and Technical College System	362,859	85,385	96,248	
Other universities and colleges	842,875	273,432	199,928	
Total Component Units	<u>\$ 3,571,735</u>	<u>\$ 1,260,991</u>	<u>\$ 860,922</u>	<u>\$ 141,161</u>
General Revenues (Note 1):				
Taxes:				
Sales and gross receipt				
Individual income				
Corporate income				
Property				
License and privilege				
Severance				
Inheritance and estate				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Special items				
Extraordinary items				
Transfers in				
Total General Revenue and Transfers				
Change in Net Assets				
Net Assets at July 1				
Net Assets at June 30				

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (634,836)	\$	\$ (634,836)	\$
(281,337)		(281,337)	
(65,786)		(65,786)	
(4,274,936)		(4,274,936)	
(1,442,386)		(1,442,386)	
(546,233)		(546,233)	
(89,090)		(89,090)	
(100,051)		(100,051)	
(778,432)		(778,432)	
(230,960)		(230,960)	
(8,444,047)		(8,444,047)	
	(31,245)	(36,130)	
	157,811	(587,229)	
	(1,214)	(3,831)	
	33,844	(97,107)	
	(62,790)		
	96,406	(724,297)	
(8,444,047)	96,406	(9,168,344)	
			13,570
			4,617
			(97,457)
			(455,518)
			(223,132)
			(181,226)
			(369,515)
			(1,308,661)
3,675,339		3,675,339	
2,921,323		2,921,323	
(101,359)		(101,359)	
408,597		408,597	
219,723		219,723	
220,815		220,815	
83,282		83,282	
130,827		130,827	
177		177	
63,614		63,614	(308)
(8,148)	674	(7,474)	635,568
(246,893)	130,176	(116,717)	
84,825	(84,825)		1,428,015
7,452,122	46,025	7,498,147	2,063,275
(991,925)	142,431	(849,494)	754,614
1,181,580	(167,408)	1,014,172	5,136,166
\$ 189,655	\$ (24,977)	\$ 164,678	\$ 5,890,780

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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.

FEDERAL FUND

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

TRANSPORTATION FUND

The Transportation Fund accounts for activities related to the preservation and maintenance of roads.

AGENCY FUND

The Agency Fund accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity. This fund is usually appropriated by the General Assembly.

Non-Major Funds

Non-major governmental funds are presented by Fund type beginning on pageXXXX

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COMMONWEALTH OF KENTUCKY
BALANCE SHEET
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2001
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>Federal</u>	<u>Agency Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents (Note 5)	\$ 147,395	\$ 73,022	\$ 6,975	\$ 63,533	\$ 312,616	\$ 603,541
Cash with fiscal agents (Note 5)					39,555	39,555
Restricted cash (Note 5)		997		10,092		11,089
Investments, net of amortization (Note 5)	260,357	569,881		266,266	1,069,278	2,165,782
Receivables, net (Note 4)	560,469	105,551	684,404	48,302	103,311	1,502,037
Interfund receivables (Note 7)	7,163	82,217	101,968	74,197	84,265	349,810
Due from component units (Note 7)						
Inventories	11,022	38,715	63	1,355	55	51,210
Total Assets	<u>\$ 986,406</u>	<u>\$ 870,383</u>	<u>\$ 793,410</u>	<u>\$ 463,745</u>	<u>\$ 1,609,080</u>	<u>\$ 4,723,024</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable (Note 4)	\$ 260,570	\$ 61,633	\$ 627,632	\$ 45,605	\$ 35,900	\$ 1,031,340
Tax refunds payable (Note 4)	207,318					207,318
Interfund payables (Note 7)	16,345	83,743	81,989	22,391	134,454	338,922
Deferred revenue	106,986	28,093	117,806	15,274	80,519	348,678
Total Liabilities	<u>591,219</u>	<u>173,469</u>	<u>827,427</u>	<u>83,270</u>	<u>250,873</u>	<u>1,926,258</u>
Fund Balances:						
Reserved For:						
Ecumbrances		214,318			81,770	296,088
Statutory obligations	153,203	42,679				195,882
Budget stabilization	239,832					239,832
Inventories	11,022	38,715	63	1,355	55	51,210
Deposit with fiscal agents				10,092	28,273	38,365
Compensating balance with depositories		997				997
Capital outlay					529,164	529,164
Unreserved, reported in:						
General fund	(8,870)					(8,870)
Special revenue funds		400,205	(34,080)	369,028	736,497	1,471,650
Debt service fund					282,653	282,653
Capital projects fund					(300,205)	(300,205)
Total Fund Balances	<u>395,187</u>	<u>696,914</u>	<u>(34,017)</u>	<u>380,475</u>	<u>1,358,207</u>	<u>2,796,766</u>
Total Liabilities and Fund Balances	<u>\$ 986,406</u>	<u>\$ 870,383</u>	<u>\$ 793,410</u>	<u>\$ 463,745</u>	<u>\$ 1,609,080</u>	<u>\$ 4,723,024</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, 2001
(Expressed In Thousands)**

Ending Fund Balance Balance Sheet all Governmental Funds \$ 2,796,766

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. (Note 6)

Land and other non-depreciable assets	848,822	
Buildings, equipment, and other depreciable assets		
Infrastructure		
Accumulated depreciation		
Construction in progress		848,822

Certain tax revenues are earned but not available and therefore are deferred in the funds.

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	170,173
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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.	76,279
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 15)	(3,702,385)
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Capital lease obligations		
Compensated absences		
Judgements and contingencies		
Net pension obligations		-

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 on the Statement of Net Assets. This is the net effect of these balances on the statement. (Note 15)

Bonds payable		
Notes payable		
Unamortized premiums and discounts		
Less deferred amounts on refundings		
Accrued interest payable		0

Net Assets of Governmental activities	\$ <u>189,655</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
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	<u>General</u>	<u>Transportation</u>	<u>Federal</u>	<u>Agency Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 6,369,964	\$ 908,783	\$	\$ 194,078	\$ 61,343	\$ 7,534,168
Licenses, fees, and permits	26,156	100,566	2	72,748	767	200,239
Intergovernmental	6,577	215	4,146,641	39,276	12,919	4,205,628
Charges for services	4,916	23,108	(80)	384,430	60,938	473,312
Fines and forfeits	45,339	62		3,393	5,503	54,297
Interest and other investment income	63,524	40,196	571	9,818	113,453	227,562
Increase (decrease) in fair value of investments	(676)	5,256	(126)	241	19,632	24,327
Other revenues	116,738	1,355	111,879	124,333	279,934	634,239
Total Revenues	<u>6,632,538</u>	<u>1,079,541</u>	<u>4,258,887</u>	<u>828,317</u>	<u>554,489</u>	<u>13,353,772</u>
Expenditures						
Current:						
General government	366,370		69,078	92,125	467,622	995,195
Legislative and judicial	207,024		3,290	6,170	124	216,608
Commerce	17,312		5,884	27,956	91,275	142,427
Education and humanities	2,846,416		551,926	43,966	58,387	3,500,695
Human resources	1,375,749		3,145,658	587,287	19,702	5,128,396
Justice	453,675		38,847	60,952	44,416	597,890
Natural resources and environmental protection	61,932		40,200	22,634	10,748	135,514
Public protection and regulation	49,825		4,903	69,997	167	124,892
Transportation	5,249	143,816	521,686	92,954	54,647	818,352
Debt Service:						
Principal retirement					265,689	265,689
Interest and fiscal charges					181,006	181,006
Other expenditures					(36,637)	(36,637)
Capital Outlay:						
Buildings					0	
Highways		824,347			0	824,347
Total Expenditures	<u>5,383,552</u>	<u>968,163</u>	<u>4,381,472</u>	<u>1,004,041</u>	<u>1,157,146</u>	<u>12,894,374</u>
Other Financing Sources (Uses)						
Operating transfers in	238,021	3,457	8,196	387,706	920,017	1,557,397
Transfers from component units	942				89,578	90,520
Operating transfers out	(303,027)	(164,880)	(16,797)	(226,667)	(860,186)	(1,571,557)
Transfers to component units	(1,428,957)				0	(1,428,957)
Capitalized leases	856			85	0	941
Notes payable				100,400	0	100,400
Proceeds from the sale of bonds:						
New issues					516,697	516,697
Refunding issues					410,706	410,706
Payments to refunded bond escrow agent					(463,429)	(463,429)
Total Other Financing Sources (Uses)	<u>(1,492,165)</u>	<u>(161,423)</u>	<u>(8,601)</u>	<u>261,524</u>	<u>613,383</u>	<u>(787,282)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)						
	(243,179)	(50,045)	(131,186)	85,800	10,726	(327,884)
Fund Balance at July 1 (Note 2), as Restated	638,366	746,959	97,169	294,675	1,347,481	3,124,650
Increase/Decrease in inventories						
Fund Balance at June 30	<u>\$ 395,187</u>	<u>\$ 696,914</u>	<u>\$ (34,017)</u>	<u>\$ 380,475</u>	<u>\$ 1,358,207</u>	<u>\$ 2,796,766</u>

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

**Reconciliation of the Statement of Revenues, Expenditures, Changes in Fund Balance- Governmental Funds
To The Statement of Activities
June 30, 2001
(Expressed In Thousands)**

Net change in fund balances-total governmental funds	\$ (327,884)
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. (Note 6)	
Land and other non-depreciable assets	54,581
Buildings, equipment, and other depreciable assets	
Infrastructure	
Accumulated depreciation	
Construction in progress	54,581
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	159,050
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.	(26,933)
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. (Note 15)	(341,021)
Excess contributions to pension funds	
Capital lease payments	
Compensated absence payments	
Litigation payments	0
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.	(509,718)
Bond proceeds and premiums received	
Repayment of bond principal	
Payment to refunded bond escrow agent	
Accrued interest	
Deferred issue costs	
Loss on refundings	0
Change in net assets of governmental activities (page)	<u>\$ (991,925)</u>

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



Major Funds

STATE PARKS FUND

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

KENTUCKY LOTTERY CORPORATION

The Kentucky Lottery Corporation, empowered by KRS154A, administers the Kentucky State Lottery and is pursuant to amended section 226 of the Constitution of Kentucky as ratified by voters of the Commonwealth.

STATE HORSE PARK FUND

The State 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:

Kentucky Kare was a self-insured health care plan offered to employees of the State, local boards of education, local health departments, and retirees under the age of 65.

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 clean-up 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.

KENTUCKY RIVER AUTHORITY

The Kentucky River Authority is responsible for the maintenance of the Commonwealth's locks and dams on the Kentucky River.

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

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COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	Business-Type Activities -		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current Assets			
Cash and cash equivalents (Note 5)	\$ 4,759	\$ 27,221	\$ 320
Cash with fiscal agents (Note 5)			
Cash on deposit with the Federal government (Note 5)			
Receivables, net (Note 4)	1,062	21,149	425
Due from component units (Note 7)			
Due from primary government (Note 7)			
Internal balances (Note 7)	200		3
Inventories	2,606	340	536
Prepaid expenses	9	688	
Total current assets	8,636	49,398	1,284
Noncurrent Assets			
Investments, net of amortization (Note 5)	1,285	258,615	46
Receivables, net (Note 4)		3,630	
Capital assets (Note 6):			
Land	11,967	423	2,954
Improvements other than buildings	48,772	327	14,765
Buildings	122,951	7,142	15,680
Machinery and equipment	13,557	27,940	2,668
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(85,806)	(24,619)	(21,573)
Construction in progress	67,157		1,349
Total Capital Assets	178,598	11,213	15,843
Total Noncurrent Assets	179,883	273,458	15,889
Total Assets	188,519	322,856	17,173
Liabilities			
Current Liabilities			
Accounts payable	5,125	10,587	821
Accrued liabilities			
Interfund payables (Note 7)	316		
Claims liability			
Claims adjustment liability			
Capital lease obligations (Note 10)	18		17
Notes payable (Note 15)		1,356	
Prize liability		45,261	
Compensated absences (Note 15)	2,420	698	262
Deferred revenue	(12)		82
Total Current Liabilities	7,867	57,902	1,182
Noncurrent Liabilities			
Claims liability			
Claims adjustment liability			
Capital lease obligations (Note 10)	14		27
Notes payable (Note 15)		341	
Prize liability			
Compensated absences (Note 15)	2,796		321
Other liabilities	511	217,979	
Total Noncurrent Liabilities	3,321	218,320	348
Total Liabilities	11,188	276,222	1,530
Net Assets			
Invested in capital assets, net of related debt	178,598	11,213	15,843
Restricted for:			
Debt service			
Other purposes (Note 1)			
Unrestricted	(1,267)	35,421	(200)
Total Net Assets	\$ 177,331	\$ 46,634	\$ 15,643

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	Kentucky River Authority	Totals	
\$ 39,828	\$ 859	\$ 4,891	\$ 77,878	\$ 5,854
26,660	643,637 59,998	514	643,637 109,808	1,158
	1		204 3,482 697	5,805 4,039 2,427
<u>66,488</u>	<u>704,495</u>	<u>5,405</u>	<u>835,706</u>	<u>19,283</u>
436,056	4,546		700,548 3,630	27,380
2,564		13,347	15,344 77,211 145,773 46,729	6,295 3,163 196,336 124,612
(1,019)			(133,017) 68,506	(176,687) 1,979
<u>1,545</u>		<u>13,347</u>	<u>220,546</u>	<u>155,698</u>
<u>437,601</u>	<u>4,546</u>	<u>13,347</u>	<u>924,724</u>	<u>183,078</u>
<u>504,089</u>	<u>709,041</u>	<u>18,752</u>	<u>1,760,430</u>	<u>202,361</u>
3,427	99,500	287	119,747	11,405
12,527			12,843	251
123,928			123,928	12,727
5,560			5,560 35 1,356 45,261 5,033 70	1,588 3,674 4,731
1,653				
<u>147,095</u>	<u>99,500</u>	<u>287</u>	<u>313,833</u>	<u>34,376</u>
1,159,189			1,159,189	86,047
71,081			71,081 41 341	2,966
129		53	3,299	3,414
<u>1,230,399</u>		<u>53</u>	<u>218,490</u>	<u>92,427</u>
<u>1,377,494</u>	<u>99,500</u>	<u>340</u>	<u>1,452,441</u>	<u>126,803</u>
1,545		13,347	220,546	155,698
(874,950)	609,541	297 4,768	297 (226,687)	(80,140)
<u>\$ (873,405)</u>	<u>\$ 609,541</u>	<u>\$ 18,412</u>	<u>\$ (5,844)</u>	<u>\$ 75,558</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Business-Type Activities		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Operating revenues			
Charges for sales and services:			
State parks sales and services	\$ 48,031	\$	\$
Lottery sales		590,851	
Horse park admissions and sales			5,624
Insurance receipts			
Unemployment insurance receipts			
Other services	313		2
Total Operating Revenues	<u>48,344</u>	<u>590,851</u>	<u>5,626</u>
Operating expenses			
Personnel expenses	47,198	10,990	4,233
Utilities, rental, and other services	12,908	134	1,647
Commodities and supplies	25,577	228	2,192
Grants and subsidies		2,115	
Depreciation and amortization	4,765	3,207	512
Travel	168	625	18
Claims expense	64		
Claims adjustment expense			
Reinsurance expense			
Prize expense		419,198	
Other expenses		165	
Total Operating Expenses	<u>90,680</u>	<u>436,662</u>	<u>8,602</u>
Operating Income	<u>(42,336)</u>	<u>154,189</u>	<u>(2,976)</u>
Nonoperating Revenues (Expenses)			
Gain (loss) on sale of fixed assets	586		95
Interest and other investment income	233	3,622	18
Increase (decrease) in fair value of investments	(1)		
Interest expense	(3)		(4)
Other revenues (expenses)	(1)		(1)
Total Nonoperating Revenues (Expenses)	<u>814</u>	<u>3,622</u>	<u>108</u>
Income (Loss) Before Operating Transfers	<u>(41,522)</u>	<u>157,811</u>	<u>(2,868)</u>
Capital contributions	11,697		1,775
Transfers in	37,325		1,751
Transfers out	(2,545)	(157,030)	(12)
Change in Net Assets	<u>4,955</u>	<u>781</u>	<u>646</u>
Total Net Assets - Beginning, as Restated	<u>172,376</u>	<u>45,853</u>	<u>14,997</u>
Total Net Assets - Ending	<u><u>177,331</u></u>	<u><u>\$ 46,634</u></u>	<u><u>\$ 15,643</u></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	Kentucky River Authority	Totals	
\$	\$	\$	\$	\$
			48,031	142,547
			590,851	
			5,624	
119,473			119,473	
	283,715		283,715	
3,005	10,472	1,352	15,144	926
<u>122,478</u>	<u>294,187</u>	<u>1,352</u>	<u>1,062,838</u>	<u>143,473</u>
17,773		193	80,387	52,820
1,958		245	16,892	33,265
469			28,466	35,223
	388,426		390,541	803
187		266	8,937	19,055
453			1,264	589
85,847			85,911	39,072
765			765	
			419,198	1,126
395		323	883	
<u>107,847</u>	<u>388,426</u>	<u>1,027</u>	<u>1,033,244</u>	<u>181,953</u>
<u>14,631</u>	<u>(94,239)</u>	<u>325</u>	<u>29,594</u>	<u>(38,480)</u>
(6)			675	(133)
23,420	44,607	346	72,246	431
(1,054)	7		(1,048)	334
			(7)	(633)
<u>113,717</u>	<u>44,614</u>	<u>346</u>	<u>113,715</u>	<u>(2,456)</u>
<u>136,077</u>	<u>44,614</u>	<u>346</u>	<u>185,581</u>	<u>(2,457)</u>
<u>150,708</u>	<u>(49,625)</u>	<u>671</u>	<u>215,175</u>	<u>(40,937)</u>
			13,472	3,877
60,370	47		99,493	19,268
(13,353)	(11,377)		(184,317)	(9,862)
<u>197,725</u>	<u>(60,955)</u>	<u>671</u>	<u>143,823</u>	<u>(27,654)</u>
(1,071,130)	670,496	16,780	(150,628)	103,212
<u>\$ (873,405)</u>	<u>\$ 609,541</u>	<u>\$ 17,451</u>	<u>\$ (6,805)</u>	<u>\$ 75,558</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Business-Type Activities -	
	State Parks	Kentucky Lottery Corporation
Cash flows from operating activities		
Cash received from customers - public	\$ 47,174	\$ 589,356
Cash received from customers - state	1,035	
Cash payments to suppliers for goods and services	(38,199)	(153,287)
Cash payments for employee salaries and benefits	(47,232)	(10,990)
Cash payments for claims expense	(64)	(349,820)
Cash payments from other sources	313	
Cash payments to other sources		
Net Cash Provided by Operating Activities	<u>(36,973)</u>	<u>75,259</u>
Cash flows from noncapital financing activities		
Operating transfers-in from other funds	37,325	
Operating transfers-out to other funds	(2,545)	(159,905)
Net Cash Provided by Noncapital Financing Activities	<u>34,780</u>	<u>(159,905)</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,099)	(1,560)
Principal paid on revenue bond maturities and equipment contracts		(1,356)
Interest paid on revenue bonds and equipment contracts		(165)
Proceeds from the sale of capital assets	586	
Net Cash Used for Capital and Related Financing Activities	<u>(513)</u>	<u>(3,081)</u>
Cash flows from investing activities		
Purchase of investment securities		(4,270)
Proceeds from the sale of investment securities	3,210	87,132
Interest and dividends on investments	227	2,293
Net Cash Used in Investing Activities	<u>3,437</u>	<u>85,155</u>
Net Increase (Decrease) in Cash and Cash Equivalents	731	(2,572)
Cash and Cash Equivalents at Beginning of Year	4,028	29,793
Cash and Cash Equivalents at End of Year	<u>\$ 4,759</u>	<u>\$ 27,221</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (42,336)	\$ 154,189
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,765	3,207
Interest and other investment income		
Miscellaneous nonoperating income (expense)		
Change in assets and liabilities:		
(Increase) Decrease in Assets:		
Receivables, net	734	(1,672)
Interfund receivables	1,946	2,767
Inventories	18	45
Prepaid expenses	(4)	(339)
Increase (Decrease) in Liabilities:		
Accounts payable	2,218	(82,909)
Interfund payables	(1,946)	
Claims liability		
Claims adjustment liability		
Compensated absences	133	(29)
Deferred revenue	(2,501)	
Net Cash Provided by Operating Activities	<u>\$ (36,973)</u>	<u>\$ 75,259</u>
Noncash investing, capital, and financing activities:		
Change in fair value of investments		
Contributions of capital assets	11,696	
Capital assets acquired through leases		
Accretion of investments held to fund grand prizes, w hich increased prize liability		21,481

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

Enterprise Funds					Governmental Activities - Internal Service Funds
Kentucky Horse Park	Insurance Administration	Unemployment Compensation	Kentucky River Authority	Totals	
\$ 5,551	\$ 118,838	\$ 269,856	\$	\$ 1,030,775	\$ 3,773
67	(239)			863	148,217
(3,347)	(3,625)			(198,458)	(81,984)
(4,240)	(17,820)			(80,282)	(51,937)
	(130,118)	10,472		(480,002)	(19,363)
	(41,727)	(356,526)		(30,942)	343
				(356,526)	(1,497)
<u>(1,969)</u>	<u>(74,691)</u>	<u>(76,198)</u>		<u>(114,572)</u>	<u>(2,448)</u>
1,751	60,370	47		99,493	19,268
(13)	(5,353)	(11,377)		(179,193)	(9,862)
<u>1,738</u>	<u>55,017</u>	<u>(11,330)</u>		<u>(79,700)</u>	<u>9,406</u>
(88)	(1,159)			(3,906)	(10,412)
(3)				(1,356)	
94				(168)	(615)
<u>3</u>	<u>(1,159)</u>			<u>680</u>	<u>(133)</u>
				<u>(4,750)</u>	<u>(11,160)</u>
	(4,290)	43,488		34,928	(3,395)
151	14,646			105,139	4,117
18	17,949	44,614		65,101	1,245
<u>169</u>	<u>28,305</u>	<u>88,102</u>		<u>205,168</u>	<u>1,967</u>
(59)	7,472	574		6,146	(2,235)
379	32,356	285		66,841	8,089
<u>\$ 320</u>	<u>\$ 39,828</u>	<u>\$ 859</u>	<u>\$</u>	<u>\$ 72,987</u>	<u>\$ 5,854</u>
\$ (2,976)	\$ 16,127	\$ (60,955)	\$	\$ 64,049	\$ (38,480)
512	187			8,671	19,055
	(732)			(732)	(498)
	(45,436)			(45,436)	(45)
17	(6,660)	(15,286)		(22,867)	(339)
(2)	3,910	(1,427)		7,194	8,696
(13)				50	(81)
				(343)	(1,220)
505	133	1,470		(78,583)	1,050
(1)	3			(1,944)	(11,298)
	2,331			2,331	19,495
	(45,837)			(45,837)	
12	(18)			98	149
(23)	1,301			(1,223)	1,068
<u>\$ (1,969)</u>	<u>\$ (74,691)</u>	<u>\$ (76,198)</u>	<u>\$</u>	<u>\$ (114,572)</u>	<u>\$ (2,448)</u>

1,776

COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	Pension Trust	Agency Funds	Private Purpose Trust	Totals June 30, 2001
Assets				
Cash and cash equivalents (Note 5)	\$ 3,080,284	\$ 97,651	\$ 87	\$ 3,178,022
Cash with fiscal agents (Note 5)		18,096		18,096
Investments, net of amortization (Note 5)	25,107,410	130,625	14,787	25,252,822
Receivables, net	256,741	7,278	45	264,064
Interfund receivables (Note 7)				
Prepaid expenses	197			197
Buildings	4,041			4,041
Total Assets	<u>28,448,673</u>	<u>253,650</u>	<u>14,919</u>	<u>28,717,242</u>
Liabilities				
Accounts payable	40,586	8,937	171	49,694
Interfund payables (Note 7)		3,781		3,781
Amounts held in custody for others		240,932		240,932
Deferred revenue				
Other liabilities	2,630,039			2,630,039
Total Liabilities	<u>2,670,625</u>	<u>253,650</u>	<u>171</u>	<u>2,924,446</u>
Net Assets				
Restricted for:				
Employee retirement systems	24,596,131			24,596,131
Retiree's health insurance	1,181,917			1,181,917
Unrestricted			14,748	14,748
Total Net Assets	<u>\$ 25,778,048</u>	<u>\$</u>	<u>\$ 14,748</u>	<u>\$ 25,792,796</u>

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

COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN NET ASSETS
ALL FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	Pension Trust Funds	Private Purpose Trust Funds	Totals
Additions			
Contributions			
Employer	\$ 665,736	\$ 0	\$ 665,736
Member	500,397	0	500,397
Total Contributions	<u>1,166,133</u>	<u>0</u>	<u>1,166,133</u>
Investment income			
Net appreciation in fair value of investments	(1,736,685)	0	(1,736,685)
Interest	666,509	0	666,509
Dividends	203,215	0	203,215
Real estate operating income, net	28,352	0	28,352
Securities income	146,856	0	146,856
Total Investment Income	<u>(691,753)</u>	<u>0</u>	<u>(691,753)</u>
Less: investment expense	9,199	0	9,199
Less: securities lending expense	137,126	0	137,126
Net investment income	<u>(838,078)</u>	<u>0</u>	<u>(838,078)</u>
Total Additions	<u>328,055</u>	<u>0</u>	<u>328,055</u>
Deductions			
Benefit payments	1,400,222	0	1,400,222
Refunds	29,344	0	29,344
Administrative expense	21,062	0	21,062
Other deductions, net	(613)	0	(613)
Total Deductions	<u>1,450,015</u>	<u>0</u>	<u>1,450,015</u>
Net Increase	<u>(1,121,960)</u>	<u>-</u>	<u>(1,121,960)</u>
Net Assets Held In Trust			
Beginning of year, as Restated	26,900,008	0	26,900,008
End of year	<u>\$ 25,778,048</u>	<u>\$ 0</u>	<u>\$ 25,778,048</u>

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



Major Funds

The major component unit authorities are:

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. Also, by making or participating in insured mortgage loans when financing is not available from private lenders under reasonable equivalent terms and conditions.

KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION

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

UNIVERSITY AND COLLEGE FUNDS

The University and College Funds account for all transactions relating to the three major 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 Technical College System

Non-Major Funds

The non-major component units are presented on pageXXXX

Included with the non-major component units are the non-major universities and colleges, which are:

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

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COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2001
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Nonmajor Component Units Authorities
Assets			
Current Assets			
Cash and cash equivalents (Note 5)	\$ 203,770	\$ 88,490	\$ 272,957
Restricted cash (Note 5)	81,198		2,305
Investments, net of amortization (Note 5)			
Accounts receivable, net	29,787	638	40,541
Interest receivable		18,636	7,729
Due from component units			
Inventories			515
Prepaid expenses	63	194	1,378
Other current assets			4,613
Total Current Assets	314,818	107,958	330,038
Noncurrent Assets			
Restricted cash (Note 5)			11,324
Long term investments (Note 5)	130,579	51,439	118,167
Long term receivables (Note 5)	1,014,731	634,544	386,269
Deferred charges	16,592	9,738	2,598
Capital Assets (Note 6):			
Land	942		14,277
Improvements other than buildings			
Buildings	4,409		276,249
Machinery and equipment	5,743	3,716	156,156
Historical treasures			
Other fixed assets			
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(4,750)	(2,501)	(244,609)
Construction in progress			12,345
Total Capital Assets	6,344	1,215	214,418
Other assets			629,365
Total Noncurrent Assets, Net	1,168,246	696,936	1,362,141
Total Assets	1,483,064	804,894	1,692,179
Liabilities			
Current Liabilities			
Accounts payable	31,821	27,395	14,334
Accrued liabilities			
Due to component units			
Due to primary government			22
Current portion of long term debt:			
Notes payable (Note 15)	1,367	32,600	
Bonds payable (Note 15)	27,080	36,965	642,626
Capital lease obligations (Note 10)			285
Compensated absences (Note 15)		213	2,605
Claims liability			6,962
Deferred revenues	1,219		5,166
Payable from restricted assets			
Other current liabilities	39,084		5,483
Total Current Liabilities	100,571	97,173	677,483
Noncurrent Liabilities			
Notes payable (Note 15)			
Bonds payable (Note 15)	1,144,054	638,770	186,843
Capital lease obligations (Note 10)			8,540
Compensated absences (Note 15)			1,306
Other long term liabilities			1,026
Total Noncurrent Liabilities	1,144,054	638,770	197,715
Total Liabilities	1,244,625	735,943	875,198
Net Assets			
Invested in capital assets, net of related debt	6,344	1,215	141,185
Restricted for:			
Debt service	205,237	54,896	108,841
Other purposes (Note 1)			
Unrestricted	26,858	12,840	566,956
Total Net Assets	\$ 238,439	\$ 68,951	\$ 816,982

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 Technical College System	Nonmajor Component Units Universities	All Component Units Total
\$ 338,878	\$ 67,849	\$ 149,291	\$ 158,186	\$ 1,279,421
619,762	109,037	27,568	159,425	83,503
183,744	67,492	22,788	56,548	915,792
				401,538
				26,365
99,891	1,600	615	7,208	109,314
12,216	1,590	2,347	6,460	23,128
				1,635
				4,613
<u>1,254,491</u>	<u>247,568</u>	<u>202,609</u>	<u>387,827</u>	<u>2,845,309</u>
				11,324
				300,185
				2,035,544
				28,928
26,410	37,052	11,075	25,535	115,291
41,236	2,731	6,064	34,878	84,909
800,295	493,695	282,161	726,251	2,583,060
413,516	118,523	75,760	199,527	972,941
92,519	77,964			170,483
				(251,860)
82,184		61,840	119,877	276,246
<u>1,456,160</u>	<u>729,965</u>	<u>436,900</u>	<u>1,106,068</u>	<u>3,951,070</u>
4,518	10,481	2	36,595	680,961
<u>1,460,678</u>	<u>740,446</u>	<u>436,902</u>	<u>1,142,663</u>	<u>7,008,012</u>
<u>2,715,169</u>	<u>988,014</u>	<u>639,511</u>	<u>1,530,490</u>	<u>9,853,321</u>
92,448	42,128	22,485	44,931	275,542
99,891	1,600	615	7,208	109,314
				22
				33,967
				706,671
				285
				2,818
				6,962
17,452	22,988	2,372	13,788	62,985
3841	2,024		6,731	57,163
<u>213,632</u>	<u>68,740</u>	<u>25,472</u>	<u>72,658</u>	<u>1,255,729</u>
1,500	7,650		5,498	14,648
229,827	141,699	75,305	180,428	2,596,926
45,773	2,092		38,886	95,291
70,539	2,001	3,103		1,306
<u>347,639</u>	<u>153,442</u>	<u>78,408</u>	<u>224,812</u>	<u>2,784,840</u>
<u>561,271</u>	<u>222,182</u>	<u>103,880</u>	<u>297,470</u>	<u>4,040,569</u>
1,238,011	586,730	308,749	944,349	3,226,583
706,299	84,489	58,768		368,974
209,588	94,613	168,114	407,431	849,556
<u>\$ 2,153,898</u>	<u>\$ 765,832</u>	<u>\$ 535,631</u>	<u>\$ 1,351,780</u>	<u>\$ 5,931,513</u>

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Authorities					
Kentucky Housing Corporation	\$ 87,632	\$ 12,942	\$ 88,260	\$	\$ 13,570
Kentucky Higher Education Student Loan Corporation	58,708	1,227	62,098		4,617
Other Authorities	342,473	66,359	77,225	141,161	(57,728)
Universities and Colleges					
University of Kentucky	1,361,092	619,495	286,079		(455,518)
University of Louisville	518,305	214,023	81,150		(223,132)
Kentucky Community and Technical College System	362,859	85,385	96,248		(181,226)
Other Universities	842,875	273,432	199,928	-	(369,515)
Total Component Units	<u>\$ 3,573,944</u>	<u>\$ 1,272,863</u>	<u>\$ 890,988</u>	<u>\$ 141,161</u>	<u>(1,268,932)</u>

General Revenues:

Unrestricted grants and contributions	-
Unrestricted investment earnings	1,004
Gain on sale of capital assets	(308)
Miscellaneous general	635,568
Special items	-
Extraordinary items	-
Transfers in	1,428,015
Total General Revenue and Transfers	<u>2,064,279</u>
Change in Net Assets	795,347
Net Assets at July 1, as Restated	5,136,166
Net Assets at June 30	<u>\$ 5,931,513</u>

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





NOTES TO FINANCIAL STATEMENTS

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TO THE 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 generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements for the University and College Funds have been prepared according to standards established by GASB Statement 35.

B. Financial Reporting Entity

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

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation and the Kentucky Turnpike Authority. 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 page XX for 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 using the blending method.

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

State Property and Buildings Commission (KRS 56.450)

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

Kentucky Asset/Liability Commission (KRS 56.861)

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

Kentucky River Authority (KRS 151.710)

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

Kentucky Lottery Corporation (KRS 154A.020)

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

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

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

Turnpike Authority of Kentucky (KRS 175.430)

The Turnpike Authority is a body corporate and politic created solely to perform essential governmental functions and to serve the

public purposes of constructing, acquiring, financing, and operating turnpike and other road projects for the use, safety, convenience and general welfare of the traveling public, by leasing such projects to the Transportation Cabinet. The seven members of the authority are all ex officio members, including the Governor.

Kentucky Teachers' Retirement System (KRS 161.220)

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

Kentucky Retirement System (KRS 61.645)

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

Judicial Form Retirement System (KRS 21.530)

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

Board of Agriculture (KRS 246.120)

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

Kentucky Savings Bond Authority (KRS 293.030)

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

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported in a separate discrete column that is labeled as "Component Units" to emphasize these organizations' separateness from the Commonwealth's primary government.

Kentucky Housing Corporation (KRS 198A.030)

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

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

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

Bluegrass State Skills Corporation (KRS 154.12-205)

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

Kentucky School Facilities Construction Commission (KRS 157.617)

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

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate created to account for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Twelve members compose the board, three ex officio members, the other nine appointed by the Governor.

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 (KRS 168.030)

KET is a public body corporate and politic created to prescribe and enforce regulations governing the use of educational television and television facilities and related functions. KET also produces and transmits educational television programs. The authority consists of nine members, five being appointed by the Governor. A component unit of KET is the Kentucky Educational Television Foundation. The foundation is a non-profit Kentucky corporation, which receives, holds and administers gifts and grants in the name of and with the approval of the authority.

Kentucky Economic Development Finance Authority (KRS 154.20-010)

KEDFA possesses the corporate powers necessary to distinguish it as being 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, Kentucky JOBS Development Authority, and the Kentucky Mortgage Insurance and Guarantee Corporation. The financial statements of the component units are combined with those of the authority.

Kentucky Higher Education Assistance Authority (KRS 164.742)

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

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

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

Kentucky Infrastructure Authority (KRS 224A.030)

The authority is a body corporate and politic created solely to perform essential governmental functions and to serve the local public agencies in the Commonwealth with respect to the construction

and acquisition of infrastructure projects. The board consists of five ex officio members and three members appointed by the Governor.

Kentucky Agricultural Finance Corporation (KRS 247.944)

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

Kentucky Grain Insurance Corporation (KRS 251.620)

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

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

The Kentucky Health Care Improvement Authority was created as a corporate and body corporate and politic 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 Fund.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

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

C. Government-Wide Financial Statements

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

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

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

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

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

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

Program revenues are resources originating outside the government that are solely available for use by a particular program. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

D. Fund Structure and Basis of Accounting

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

Governmental Funds

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial

Governmental Activities:	Historical Cost	Donated		Totals
		Fair Market Value	Estimated Cost	
Land	\$ 497,538	\$ 180,025	\$ 41,578.00	\$ 719,141
Improvements other than buildings	117,800	41,578	117,800	277,178
Buildings	41,578	117,800		159,378
Infrastructure	180,109	497,538		677,647
Totals	\$ 837,025	\$ 836,941	\$ 159,378.00	\$ 1,833,344

Business-Type Activities	Historical Cost	Donated		Totals
		Fair Market Value	Estimated Cost	
Land	\$ 13,207	\$ 28,904	\$ 42,111.00	\$ 84,221.50
Improvements other than buildings	41,578	41,578	83,156	166,312
Buildings	1,461	1,461	2,922	5,844
Infrastructure	28,904	13,207	42,111	84,222

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

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

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

A description of significant governmental funds follows:

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

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

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.

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.

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.

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

Proprietary Funds

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

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

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

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

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

Kentucky Lottery Corporation—reported 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.

State 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.

Kentucky River Authority-a blended component unit presented as a major enterprise fund which possesses the corporate powers that would distinguish it as being legally separate from the Commonwealth. This authority's purpose is the maintenance of the Commonwealth's locks and dams on the Kentucky River. The Governor appoints the ten members of this authority.

Internal Service Funds - a category of proprietary funds that accounts for financing goods and services provided by one agency of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis. All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and become measurable. Expenses are recognized at the time liabilities are incurred.

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

Specific activities reported under Internal Service Funds are:

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

8. Transportation cabinet self insured worker's compensation trust program

Fiduciary Funds

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

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

1. Prepaid tuition
2. Investment for education and endowments

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

Agency Funds - account for monies held by the Commonwealth for custodial purposes only.

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

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

As discussed in Part C, because the fiduciary fund resources are not available to support government programs, fiduciary funds (and component units that are fiduciary in nature) are excluded from the government-wide financial statements. Inclusion of these funds would lead to 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 Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- University of Kentucky
- University of Louisville
- Kentucky Community Technical College System

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

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

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

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities. During fiscal year 2002, the primary government provided \$ XXXXXXXX to the University of Kentucky, \$ XXXXXXXX to the University of Louisville, and \$ XXXXXXXX to the Kentucky Community and Technical College System. In addition, the State received \$ XXXXXXXX in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

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

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 accounts receivable and taxes receivable are shown in Note 4.

I. Interfund Transactions

The Commonwealth has the following types of interfund transactions:

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

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

Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from the fund equity balance.

Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers in the financial statements.

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 government or business-type 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 \$5,000.00 or greater. Intangible fixed assets are capitalized when the cost is \$100,000.00 or more. Component units establish their own capitalization policy and that policy may vary from the primary government's.

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, 2002, the following table shows the break down of cost by asset type. The estimated 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 life. The table below shows the useful life by asset type for the primary government.

Asset	Useful Life
Land Improvements	10-60
Buildings	10-75
Machinery and Equipment	3-25
Infrastructure	20-40
Intangibles	3-40

THIRD

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

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

L Fund Equity Reserves and Designations

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

Reserved Fund Balance for C	
(expressed in th	
	Pri
	General
Inventories	.
Restricted gifts, grants and contracts	.
Deposits with fiscal agents	.
Compensating balance with depositories	.
Budget stabilization	.
TOTAL	0

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. These long-term liabilities include the following:

1. Payments of principal and interest for general obligation debt and revenue bonds which are recorded as expenditures in the Debt Service Fund.

2. Compensated absences include 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 15.00 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 17.

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

There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 17 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

3. Outstanding capital lease obligations for governmental funds are reported in the government-wide Statement of Net Assets in the Governmental Activities column.

4. Judgements and contingent liabilities of governmental funds that will be paid with noncurrent resources are reported in the government-wide Statement of Net Assets in the Governmental Activities column.

5. Long-term liabilities of all proprietary and pension trust funds are accounted for in the respective funds on the Government wide Statement of Net Assets. Long-term obligations exclude those amounts reported as expenditures for compensated absences, judgements, contingencies, and employer pension contributions in the governmental funds, which are the amounts that would normally be liquidated with expendable available financial resources.

Q. 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. GAAP allow the State to refrain from reporting the

conduit debt and the related asset. Since the State is not responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$XXXX of conduit debt (and for what reason)

P. Totals-Memorandum Only

Total columns (memorandum only) have been added to certain statements to reflect totals for both the primary government and the reporting entity. These columns are presented for overview informational purposes and do not represent consolidated financial information.

Note 2

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

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

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

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

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

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

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

No. 38, Certain Financial Statement Note Disclosures.

Statement No. 33, as amended by Statement No. 36, establishes standards for recording non-exchange transactions on the modified accrual and accrual bases of accounting. A significant portion of revenues for the Commonwealth of Kentucky, such as taxes and federal aid, are acquired from such non-exchange transactions. For these non-exchange transactions, their effect when recorded as revenue in the governmental funds was insignificant. The State recorded taxes receivable of **XXXXXX** in the governmental fund financial statements, however, a section of those transactions were classified as deferred revenue. As deferred revenue of non-exchange transactions during the fiscal year, such amounts are not available to finance expenditures for the current period. On the government wide financial statements, using the accrual basis of accounting, taxes receivable are recorded as stated above; however, related amounts are reported as revenue as opposed to deferred revenue.

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. Requirements for this statement depict crucial changes in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to release government-wide financial statements using the accrual basis of accounting and the economic resources measurement

focus. As a result, fund reclassifications and adjustments to fund equities stated in prior financial statement balances were necessary.

Statement No. 35 establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The State universities, reported as discretely presented component units, adopted the requirements of Statement No. 35.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

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

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

Special Revenue Funds – Kentucky’s Prepaid Tuition Plan (KAPT) was formed in Fiscal Year 2001, followed by the transfer of start-up funds from the General Fund to KAPT’s off-budget account in the special revenue funds in the total amount of \$600,000. Another transfer was made in Fiscal Year 2002 for \$400,000. During Fiscal Year 2002, KAPT began operations and was recognized as a private-purpose trust fund. The transfers totaling \$1 million have been reclassified as an interfund loan, the General Fund showing an Interfund Loans Receivable in that amount, and the Private-Purpose Trust Fund showing an Interfund Loans Payable.

Internal Service Funds – The Computer Services Fund within the Internal Service Fund was restated to omit amounts previously included in error. The effect on Fund Balance was **XXXXXX**.

Expendable Trust Funds – This type of fund was removed from our financial statements. Therefore, to properly account for items previously included in this category, the Unemployment Benefits Fund has been reclassified as an enterprise fund and the Special Benefits Fund has been reclassified as a special revenue fund, with the related deferred compensation portion reclassified as a pension trust fund.

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

General Long-Term Obligations Account Group, which accounted for unmatured general long-term liabilities of the Commonwealth other than those of the proprietary and fiduciary fund types, has been removed from the financial statements. These liabilities are now included in the Governmental Activities column of the Government-Wide Statement of Net Assets.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. The Federal Funds -

B. The Enterprise Funds -

C. The Internal Service Funds -

Note 4

DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE

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

Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Any amounts to be received within one year are classified as current. All other receivables are noncurrent. **For Governmental Activities and Business Type Activities, the line indicating “Accounts Payable” and “Net Receivables” consist of the following: (Expressed in Thousands)**

DISAGGREGATION OF PAYABLES

	Personal Services	Utilities, Rentals and Other Services	Commodities and Supplies	Grants and Subsidies	Capital Outlay	Travel	Other	Total Payable
	\$	\$	\$	\$	\$	\$	\$	\$
Government Type Activities:								
Major Funds								0
Non-Major Funds	123,456,789							123,456,789
Internal Service Funds								0
Total Governmental	123,456,789	0	0	0	0	0	0	123,456,789
Business Type Activities:								
Major Funds								0
Non-major Funds								0
Total Business type	0	0	0	0	0	0	0	0
Total Primary Government	\$ 123,456,789	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 123,456,789

DISAGGREGATION OF RECEIVABLES

	Charges for Services	Taxes Receivable	Investment Receivable	Intergovernmental Revenue	Allowances For Uncollectables	Total
	\$	\$	\$	\$	\$	\$
Government Type Activities:	123,456,789,222					
Major Funds						0
Non-Major Funds						0
Internal Service Funds						0
Total Governmental	0	0	0	0	0	0
Business Type Activities:						
Major Funds						0
Non-Major Funds						0
Total Business Type	0	0	0	0	0	0
Total Primary Government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Taxes receivables report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2002. All receivables are reported net of an Allowance for Uncollectibles. Of the variety of tax revenues, fines, forfeitures

and license fees are recognized when received. **The “Current Taxes Receivable” for Governmental Type Activities and Business Type Activities are: (Expressed in Thousands)**

TAXES RECEIVABLE

	Sales and Gross Receipts	Individual Income Tax	Corporate Income Tax	Property Tax	Coal Severance Tax	License and Privileges Tax	Inheritance and Estate Tax	Miscellaneous Tax	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Government Type Activities:									
Major Funds									0
Non-major Funds									0
Internal Service Funds									0
Total Governmental	0	0	0	0	0	0	0	0	0
Business Type Activities:									
Major Funds									0
Non-major Funds									0
Total Business Type	0	0	0	0	0	0	0	0	0
Total Primary Government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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 \$XXXXXXX and \$XXXXXXX for the Component Units. At year end, the bank balance was \$XXXXXXX and \$XXXXXXX 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	Carrying
	1	2	3	Bank Balance	Amount
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Cash with Fiscal Agents	0	666,222,555	0	0	0
Imprest & Change	0	0	333,999,666	0	0
Money Market	507,930,022	0	0	1,257,444,888	1,555,444,777
Total	<u>\$ 507,930,022</u>	<u>\$ 666,222,555</u>	<u>\$ 333,999,666</u>	\$ 1,257,444,888	\$ 1,555,444,777
Cash on Deposit with Federal Government				0	0
Total Cash				<u>\$ 1,257,444,888</u>	<u>\$ 1,555,444,777</u>

CASH - COMPONENT UNITS

	Categories			Total	Carrying
	1	2	3	Bank Balance	Amount
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Cash with Fiscal Agents	0	0	0	0	0
Money Market	247,789,555	0	0	0	0
Nonnegotiable Certificates of Deposit	0	222,333,414	0	0	0
Total Cash	<u>\$ 247,789,555</u>	<u>\$ 222,333,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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.

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INVESTMENTS - PRIMARY GOVERNMENT

	Categories			Net Investment	Fair Value
	1	2	3		
Collateralized Mortgage Obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper	23,911,555,888	288,145,306	988,667,102		
Common Stocks				24,927,506,227	25,188,388,386
Corporate Bonds					
Government Securities					
Negotiable Certificates of Deposit					
Open-End Mutual Funds					
Repurchase Agreements					
Securities Lending Collateral					
State and Municipal Obligations					
Total	\$23,911,555,888	\$ 288,145,306	\$ 988,667,102	\$ 24,927,506,227	\$ 25,188,388,386
Government Securities					
Securities Lending Collateral					
Held by Brokers/Dealers					
Mortgages					
Mutual Funds					
Real Estate					
State Investment Pool					
Other					
Total Investments				\$ 24,927,506,227	\$ 25,188,388,386

INVESTMENTS - COMPONENT UNITS

	Categories			Net Investment	Fair Value
	1	2	3		
Collateralized Mortgage Obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Paper					
Common Stocks					
Corporate Bonds					
Equity in Health Care Corps					
Government Securities					
Negotiable Certificates of Deposit					
Mutual Funds					
Repurchase Agreements					
Preferred Stock					
State & Municipal Obligations					
Other					
Total	\$ -	\$ -	\$ -	\$ -	\$ -
Guaranteed Investment Contracts					
Cash					
Corporate Bonds					
Investments held by Brokers/Dealers under Securities Loaned					
Mortgages					
Mutual Funds					
Real Estate					
State Investment Pool					
Other					
Total Investments	\$ -	\$ -	\$ -	\$ -	\$ -

Statutes require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement. The market value of securities underlying repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost

of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

Securities Lending Program - State statutes authorize the Commonwealth to enter into securities lending agreements. Collateral received in the transfer are of the type which the Commonwealth is legally authorized to hold. The Commonwealth does not have the ability to pledge or sell collateral securities without a borrower

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default. The market value of the securities received in the agreement is 102 percent of the value of the securities transferred. The securities transferred are a part of the total investments reported above. The securities being held are not reported as a part of the total investments. The Commonwealth retains the interest income on the securities being transferred and received a fee of 10.0 basis points from July 1, 2001 to January 31, 2002, and 75% of the profit earned by the agent with a floor of 10.0 basis points from February 1, 2001 to June 30, 2001. During the year, the Commonwealth earned \$XXXXXXX in securities lending income. On June 30, 2002, the market value of the securities transferred was \$XXXXXXX and the market value of the securities the Commonwealth was holding was \$XXXXXXX. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth had no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

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

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

	Current Investments	Non-Current Investments	Total
Governmental activities	\$ 1,566,022	\$ 36,525,525	\$ 38,091,547
Business-type activities	15,466	55,555	71,021
Fiduciary funds	1,555,263,100	12,255,105	1,567,518,205
	<u>\$ 1,556,844,588</u>	<u>\$ 48,836,185</u>	<u>\$ 1,605,680,773</u>

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Note 6

CAPITAL ASSET

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

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Primary Government:				
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 96	\$ -	\$ -	96
Easements				0
Works of Art and Historical Treasures				0
Infrastructure				0
Construction in progress				0
Total Assets not being depreciated	<u>96</u>	<u>0</u>	<u>0</u>	<u>96</u>
<i>Capital assets, being depreciated:</i>				
Buildings	7,463	147		7,610
Improvements other than buildings	410			410
Machinery and Equipment	401	98		499
Total capital assets, being depreciated	<u>8,274</u>	<u>245</u>	<u>0</u>	<u>8,519</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(2,159)	(689)		(2,848)
Improvements other than buildings	(125)	(45)		(170)
Machinery and Equipment	(107)	(42)		(149)
Total accumulated depreciation	<u>(2,391)</u>	<u>(776)</u>	<u>0</u>	<u>(3,167)</u>
Total capital assets, being depreciated, net	<u>5,883</u>	<u>(531)</u>	<u>0</u>	<u>5,352</u>
Governmental activities capital assets, net	<u>\$ 5,979</u>	<u>\$ (531)</u>	<u>\$ -</u>	<u>\$ 5,448</u>
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,055	\$ 0		\$ 1,055
Easements				0
Works of Art and Historical Treasures				0
Infrastructure				0
Construction in progress		11,716	(7,828)	3,888
Total Assets, not being depreciated	<u>1,055</u>	<u>11,716</u>	<u>(7,828)</u>	<u>4,943</u>
<i>Capital assets, being depreciated:</i>				
Buildings	19,817	8,164	(10)	27,971
Improvements other than buildings	1,250			1,250
Machinery and Equipment	104,761	651	(35)	105,377
Total capital assets, being depreciated	<u>125,828</u>	<u>8,815</u>	<u>(45)</u>	<u>134,598</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(4,769)	(728)	8	(5,489)
Improvements other than buildings	(188)	(154)		(342)
Machinery and Equipment	(13,429)	(1,872)	20	(15,281)
Total accumulated depreciation	<u>(18,386)</u>	<u>(2,754)</u>	<u>28</u>	<u>(21,112)</u>
Total capital assets, being depreciated, net	<u>107,442</u>	<u>6,061</u>	<u>(17)</u>	<u>113,486</u>
Business type activities capital assets, net	<u>\$ 108,497</u>	<u>\$ 17,777</u>	<u>\$ (7,845)</u>	<u>\$ 118,429</u>

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	<i>Governmental activities</i>	<i>Business-type activities</i>
General Government		
Legislative and Judicial	\$7,463	
Commerce	410	
Education and Humanities	401	
Human Resources		
Justice		
Natural Resources and Environmental Protection		
Public Protection and Regulation		
Transportation		
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets		
State Parks		19,817
Lottery Corporation		1,250
Horse Park		104,761
Insurance Administration		
Unemployment Insurance		
Total depreciation expense by activities	<u>\$8,274</u>	<u>\$125,828</u>

Discretely presented component units

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

	<i>Beginning Balance</i>	<i>Component Additions</i>	<i>Units Retirements</i>	<i>Ending Balance</i>
Capital assets, not being depreciated:				
Land	\$ 38,775	\$ 558		\$ 39,333
Easements				0
Works of Art and Historical Treasures				0
Infrastructure				0
Construction in progress		3,785		3,785
Totals, capital assets not being depreciated	<u>38,775</u>	<u>4,343</u>	<u>0</u>	<u>43,118</u>
Capital assets, being depreciated:				
Buildings	19,817	8,164	(10)	27,971
Improvements other than buildings	1,250			1,250
Machinery and Equipment	104,761	651	(35)	105,377
Total capital assets, being depreciated	<u>125,828</u>	<u>8,815</u>	<u>(45)</u>	<u>134,598</u>
Less accumulated depreciation for:				
Buildings	(3,382)	(846)		(4,228)
Improvements other than buildings	(549)	(118)		(667)
Machinery and Equipment	(690)	(148)		(838)
Total accumulated depreciation	<u>(4,621)</u>	<u>(1,112)</u>	<u>0</u>	<u>(5,733)</u>
Total capital assets, being depreciated, net	<u>121,207</u>	<u>7,703</u>	<u>(45)</u>	<u>128,865</u>
Component units capital assets, net	<u>\$ 159,982</u>	<u>\$ 12,046</u>	<u>\$ (45)</u>	<u>\$ 171,983</u>

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

Kentucky Housing Corporation	\$	232
Kentucky Higher Education Student Loan Corporation		94
Non-major Authorities		501
University of Kentucky		29
University of Louisville		347
Kentucky Community and Technical College System		99
Non-major Universities		
		<hr/>
Total depreciation expense by activities	\$	<u>1,302</u>
University of Louisville	\$	1,461
Kentucky Community and Technical College System		975
Non-major Universities		318
Total depreciation expense by activities	\$	<u>2,754</u>

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Note 7

Interfund Transfers

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

Transfer From	Transfer To					
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Non-major Governmental Fund	State Parks Fund
General Fund						
Transportation Fund						
Federal Fund						
Agency Revenue Fund						
Non-major Governmental Funds						
State Parks Fund						
Kentucky Lottery Corporation						
State Horse Park Fund						
Insurance Administration Fund						
Unemployment Compensation Fund						
Internal Service Funds						
Fiduciary Funds						
Total	-	-	-	-	-	-
Retirement Funds (5000s)						
Totals WITH 5000s included	-	-	-	-	-	-

Reasons for transfers:

Transfers are used to 1) move revenues from the funds that are required to collect to the funds that are required to expend the amount, 2) move the receipts restricted to debt service from the funds collecting the receipts to the debt service fund as a debt service payment comes due, 3) use unrestricted revenues collected in the General Fund to finance programs accounted for in other funds according to budgetary authorizations and 4) move the profits from the State Lottery Fund as required by the Commonwealth.

Interfund Receivables and Payables

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

Due To (Liability)	Due From (Asset)					
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Non-major Governmental Fund	State Parks Fund
General Fund	\$	\$	\$	\$	\$	\$
Transportation Fund						
Federal Fund						
Agency Revenue Fund						
Non-major Governmental Funds						
State Parks Fund						
Kentucky Lottery Corporation						
State Horse Park Fund						
Insurance Administration Fund						
Unemployment Compensation Fund						
Internal Service Funds						
Fiduciary Funds						
Totals	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Reasons for interfund receivables and payables:

Transfers in the receivables and payables area are used to 1) represent sales by the Proprietary Funds, 2) to distribute across funds, 3) to move fees from the agency recognized as payor to the agency recognized as the payee and 4) to move interfund loans from the loaning fund to the fund receiving the loan.

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. Cost-of-living adjustments (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% benefit rate and the sixty 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 Legislators' Retirement Plan is a single employer defined benefit plan, which provides retirement, disability, and death benefits to

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plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925% benefit rate and the sixty 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.

Cost-of-living adjustments (COLA) are one and one-half (1.5) 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.

	Kentucky Legislators' Retirement Plan	Kentucky Judicial Retirement Plan	State Police Retirement System	Kentucky Employes Retirement System	Kentucky Teachers' Retirement System
Contribution rates:					
State	45.20%	22.84%	21.58%	5.89% - 18.84%	13.105% - 13.840%
Plan members	5.00%	5.00%	8.00%	5% - 7%	6.160% - 9.855%
Portion of State Contribution for Health Insurance			21.58%	5.89% - 12.66%	0.75%
Annual pension costs (Thousands)	\$692	\$3,841	\$10,211	\$113,879	\$262,800
Contributions made (Thousands)	\$692	\$3,878	\$9,629	\$114,210	\$262,800
Actuarial valuation date	June 30, 2000	June 30, 2000	June 30, 2000	June 30, 2000	June 30, 2001
Actuarial cost method	Projected unit credit	Projected unit credit	Entry age normal	Entry age normal	Projected unit credit
Amortization method	Interest + 1%	Interest + 1%	Level percent closed	Level percent closed	Level percent open
	Unfunded past liability	Unfunded past liability			
Remaining amortization period	25 years	25 years	30 years	30 years	4 years
Asset valuation method	Cost	Cost	Five-year average of market to book value	Five-year average of market to book value	Five-year average of market to book value
Actuarial assumptions:					
Investment rate of return	7.00%	7.00%	8.25%	8.25%	7.50%
Inflation Rate			3.50%	3.50%	4.00%
Projected salary increases	5.50%	5.50%	6.50%	6.50%	4.00% - 8.10%
Increases in Health Insurance Cost	6% - 10%	6% - 10%	7.5% - 10%	7.5% - 10%	9% - 13.5%
(Dollar amounts in thousands)					
ARC	\$ 692	\$ 3,878	\$ 9,635	\$ 111,808	\$ 262,800
Interest on NPO	0	260	836	5,273	0
Adjustment to ARC	0	(298)	(508)	(3,202)	0
Annual pension cost	692	3,841	9,963	113,879	262,800
Contributions made	692	3,878	9,629	114,210	262,800
Increase (Decrease) in NPO	0	(37)	334	(331)	0
NPO beginning of year	0	3,719	10,133	63,913	0
NPO end of year	<u>0</u>	<u>3,682</u>	<u>10,467</u>	<u>63,582</u>	<u>0</u>

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Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
June 30, 1999	\$ 5,264,340,397	\$ 4,327,622,821	\$ (936,717,576)	1.216	\$ 1,330,766,100	(0.704)
June 30, 2000	6,806,675,460	4,876,825,772	(1,929,849,688)	1.396	1,409,504,668	(1.369)
June 30, 2001	6,844,742,687	5,444,035,294	(1,400,707,393)	1.257	1,505,299,220	(0.931)
<u>Hazardous</u>						
June 30, 1999	\$ 259,839,319	\$ 204,282,788	\$ (55,556,531)	1.272	\$ 103,464,123	(0.537)
June 30, 2000	336,213,464	243,365,557	(92,847,907)	1.382	115,639,439	(0.803)
June 30, 2001	361,677,475	285,193,761	(76,483,714)	1.268	122,857,992	(0.623)
<u>State Police Retirement System</u>						
June 30, 1999	\$ 357,623,196	\$ 314,021,673	\$ (43,601,523)	1.139	\$ 40,433,405	(1.078)
June 30, 2000	459,168,574	336,579,763	(122,588,811)	1.364	43,619,383	(2.810)
June 30, 2001	456,160,709	356,211,860	(99,948,849)	1.281	44,646,678	(2.239)
<u>Judicial Retirement Plan</u>						
June 30, 1999	\$ 244,347,903	\$ 165,220,509	\$ (79,127,394)	1.479	\$ 21,491,692	(3.682)
June 30, 2000	271,044,593	179,117,938	(91,926,655)	1.513	24,031,129	(3.825)
June 30, 2001	280,506,852	172,720,874	(107,785,978)	1.624	25,520,504	(4.224)
<u>Legislators' Retirement Plan</u>						
June 30, 1999	\$ 61,609,860	\$ 41,746,335	\$ (19,863,525)	1.476	\$ 3,080,000	(6.449)
June 30, 2000	66,971,719	45,253,158	(21,718,561)	1.480	2,887,500	(7.522)
June 30, 2001	70,852,489	47,068,104	(23,784,385)	1.505	5,075,759	(4.686)
<u>Kentucky Teachers' Retirement System</u>						
June 30, 1999	\$ 11,958,600,000	\$ 12,288,200,000	\$ 329,600,000	0.973	\$ 2,041,400,000	0.161
June 30, 2000	12,759,600,000	13,330,400,000	570,800,000	0.957	2,133,700,000	0.268
June 30, 2001	13,299,200,000	14,642,100,000	1,342,900,000	0.908	2,213,800,000	0.607

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

	<u>Kentucky Employees Retirement System</u>		<u>County Employees Retirement System</u>		<u>State Police Retirement System</u>	<u>Judicial Retirement Fund</u>
	<u>Non-Hazardous</u>	<u>Hazardous</u>	<u>Non-Hazardous</u>	<u>Hazardous</u>		
Retirees and beneficiaries receiving benefits	25,118	1,053	24,415	3,221	842	221
Terminated plan members - vested	3,312	123	4,080	148	12	23
Terminated plan members - non-vested	13,429	799	24,276	462	78	
Active plan members	47,780	4,228	78,773	8,586	1,016	252
Total Members	<u>89,639</u>	<u>6,203</u>	<u>131,544</u>	<u>12,417</u>	<u>1,948</u>	<u>496</u>
Number of participating employers	408		1,297		1	1

Note 9

Three year trend for contributions
(Amounts expressed in thousands)

	Annual Required Contribution	Percentage Contributed
Kentucky Employees Retirement System		
Non-Hazardous		
1999	106,861	100.6%
2000	113,183	101.7%
2001	88,662	101.9%
Hazardous		
1999	19,306	100.7%
2000	21,578	100.3%
2001	23,146	103.1%
State Police Retirement System		
1999	9,465	99.9%
2000	10,211	100.0%
2001	9,634	99.9%
Judicial Retirement Plan		
1999	5,984	102.2%
2000	5,984	102.2%
2001	3,878	100.0%
Legislator's Retirement Plan		
1999	1,547	109.7%
2000	1,547	109.7%
2001	692	100.0%
Kentucky Teachers' Retirement System		
1999	288,500	100.0%
2000	311,300	100.0%
2001	262,800	100.0%

EMPLOYEE BENEFIT PLANS

A. Self-Insured Health Care

The Kentucky Kare Health Insurance Authority Board of Directors withdrew the Kentucky Kare Self-Insured Health Kare Plan from open enrollment for the Plan Year 1999. Prior to 1999 the Plan had been offered as one of ten health insurance options to employees of the Commonwealth, local boards of education, local health departments and retirees under the age of 65. Under health care reform, individuals, municipal governments, and qualified small businesses were also eligible to purchase health insurance from the Commonwealth's self-insured plan. The Plan was administered by third parties responsible for the processing of claims, cost containment, and utilization review. Kentucky Kare has no active contracts. The third party administrators will continue paying claims incurred for the last year the Plan was offered.

B. 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 insurance companies 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 are reported in a Pension Trust Fund within the fiduciary fund type, in compliance with Internal Revenue Code and GASB 32 requirements.

Of the \$XXXXXX in the 457 Plan at June 30, 2002, \$XXXXXXX was applicable to the Commonwealth, while the remaining \$XXXXXX represents assets of the other jurisdictions participating in the Plan.

Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TO TAL
114	31,894	86,878
59	5,710	13,467
		39,044
119	54,236	194,990
<u>292</u>	<u>91,840</u>	<u>334,379</u>
1	202	1,910

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Note 10

LEASE OBLIGATIONS

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

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

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

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

	Primary Government		
	Business-Type Activities	Governmental Activities	Component Units
Buildings	\$ 0	\$ 0	\$ 0
Equipment	0	0	0
Total	0	0	0
Less: Accumulated Depreciation	0	0	0
Total Net of Depreciation	\$ 0	\$ 0	\$ 0

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

	Primary Government		Component Units	Total
	Governmental Activities	Business-Type Activities	University and College Funds	
2003	\$ 0	\$ 0	\$ 0	\$ 0
2004	0	0	0	0
2005	0	0	0	0
2006	0	0	0	0
2007			0	0
2008-12			0	0
Total minimum lease payments	0	0	0	0
Less: Amount representing interest (4.5-26.5%)	0	0	0	0
Present value of future minimum lease payments	\$ 0	\$ 0	\$ 0	\$ 0

Note 11

RISK MANAGEMENT

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

Fire and Tornado Insurance:

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$300,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. **Settled claims have not exceeded commercial coverage in any of the past three fiscal years.**

The claims liability of **\$XXXXXX** reported in the Program at June 30, 2002, is based on the requirements of GASB 10, which

requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 893,225
Incurred Claims		1,941,963
Changes in Estimates:		
Claim Payments:		(1,707,565)
Balance at Fiscal Year End	\$ 0	\$ 1,127,623

Self Insured Workers' Compensation:

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

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

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
Beginning of Fiscal Year Liability:	\$	\$ 19,491,107
Claims and Claims Adjustments Incurred:		3,653,895
Changes in Estimates:		
Claims and Claims Adjustment Payments:		<u>(3,321,445)</u>
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 19,823,557</u>

	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>
Beginning of Fiscal Year Liability	\$	\$ 60,517,697
Claims and Claims Adjustments Incurred:		
Current Year		19,097,065
Prior Year		<u>14,647,811</u>
Total Claims and Claims Adjustments Incurred:		33,744,876
Claims and Claims Adjustment Payments:		
Current Year		(3,790,048)
Prior Year		<u>(9,775,981)</u>
Total Claims and Claims Adjustment Payments		<u>(13,566,029)</u>

Note 12

RISK POOLS

The Commonwealth's risk pools are the Insurance Administration Fund (enterprise fund) and the Grain Insurance Corporation (component unit). The Insurance Administration Fund includes the operations of six risk pools, as follows: Kentucky Kare, 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 pre-existing 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 re-employment 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)

Transportation Cabinet Workers' Compensation:

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

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that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$XXXX as reported in the financial statements, is the present value of the aggregate actuarial determined claims liability of \$XXXX, discounted at 7.0%, and the net of the estimated realizable value of reimbursements. The claims adjusted liability of \$XXXX, as reported in the financial statements, is the present value of the aggregate actuarial determined liability of \$XXXX, discounted at 7.0%.

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

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 2,314,558,183
Claims and Claims Adjustments Incurred:		159,377,394
Changes in Estimates:		0
Claims and Claims Adjustment Payments:		(99,995,489)
Balance at Fiscal Year End	\$ 0	\$ 2,373,940,088

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 three percent (3%) 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 \$XXXX, as reported in the financial statements, is the present value of the aggregate actuarial determined liability of \$XXXX discounted at 7.0%. The claims adjustment liability of \$XXXX, as reported in the financial statements, is the present value of the aggregate actuarial determined liability of \$XXXX, discounted at 7.0%. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 11,135,285
Claims and Claims Adjustments Incurred:		(8,027,078)
Changes in Estimates:		
Claims and Claims Adjustment Payments:		(120,500)
Balance at Fiscal Year End	\$ 0	\$ 2,987,707

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. The Program is funded by a fee paid by dealers on each gallon of gasoline and special fuels received in the Commonwealth at a rate of one and four-tenths (\$0.014) cents per gallon.

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

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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 \$XXXX reported in the financial statements, is the aggregate actuarial determined claims liability and is not discounted. The claims adjustments liability of \$XXXX reported in the financial statements is the actuarial determined aggregate 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 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 493,600,000
Claims and Claims Adjustments Incurred:		54,500,000
Changes in Estimates:		
Claims and Claims Adjustment Payments:		(228,700,000)
Balance at Fiscal Year End	\$ 0	\$ 319,400,000

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 standards, used to evaluate potential Bond Pool members, consider factors such as mining experience, reclamation history, and financial condition of the applicant.

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 \$XXXX as reported in the financial statements, is the aggregate actuarially determined claims liability. The claims adjustment liability of \$XXXX is the actuarial determined aggregate liability and is not discounted. **Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:**

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 5,459,494
Claims and Claims Adjustments Incurred:		3,155,586
Changes in Estimates:		
Claims and Claims Adjustment Payments:		
Balance at Fiscal Year End	\$ 0	\$ 8,615,080

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 pre-existing damage is determined to exist. The Program provides coverage subject to a deductible of 2% 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.

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

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	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 100,000
Claims and Claims Adjustments Incurred:		(1,892)
Changes in Estimates:		
Claims and Claims Adjustment Payments:		(62,108)
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 36,000</u>

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 0
Claims and Claims Adjustments Incurred:		2,038,439
Changes in Estimates:		
Claims and Claims Adjustment Payments:		(1,149,037)
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 889,402</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 then a provider network is established, or a provider network is created by contracting with an insurer for a statewide provider network. Under KRS 304.17B-011 the established provider network is available and limited only to Kentucky Access enrollees.

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

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

Grain Insurance:

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

No claims liability was reported in the Program at June 30, 2002, based on the requirements of GASB 10, which states that a liability for claims be reported, 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. Changes in the Program's claims liability amount in Fiscal Years 2002 and 2001 were:

	Fiscal Year 2002	Fiscal Year 2001
Beginning of Fiscal Year Liability:	\$	\$ 0
Claims and Claims Adjustments Incurred:		0
Changes in Estimates:		0
Claims and Claims Adjustment Payments:		0
Balance at Fiscal Year End	<u>\$ 0</u>	<u>\$ 0</u>

net savings (reduction in cash flow) for the Refunding Bonds will be \$XXXX. The present value is \$XXXX at a rate of XXXX%.

The State Property and Buildings Commission issued \$XXXX of Revenue and Revenue Refunding Bonds, Project 69 Series A, Series B, Series C, and Series D. \$XXXX of the proceeds were placed in an escrow account(s) to advance refund a portion of Project 54, Project 56, Project 59, Project 64, Project 65, and current refund a portion of Project 40 (second Series), Project 53, and Project 54. The net savings (reduction in cash flow) for the Refunding Bonds will be \$XXXX. The present value is \$XXXX at a rate of XXXX%.

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the refunding issues are placed in escrow accounts to pay the future debt service on the issue(s) refunded. During the fiscal year ended June 30, 2002 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated March 15, 2001, were issued for the Floyd County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$XXXX maturing April 1, 2002 through April 1, 2011 and carrying interest rates from XXX% to XXX%.

Revenue refunding bonds dated April 1, 2001, were issued for the Ashland Independent School District Finance Corporation to refund 1992 Series A & B issues. The Commission's portion of the refunding issue was \$XXXX maturing February 1, 2002 through February 1, 2012 and carrying interest rates from XXX% to XXX%.

Revenue refunding bonds dated April 1, 2001, were issued for the Garrard County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$XXXX maturing November 1, 2001 through November 1, 2011 and carrying an interest rate of XXX%.

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

Revenue refunding bonds dated April 1, 2001, were issued for the Middlesboro Independent School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding

Note 13

DEFEASANCE OF LONG-TERM DEBT

The State Property and Buildings Commission issued \$xxxxx of Revenue Refunding Bonds, Project 68 (Second Series), dated January 1, 2001. The net proceeds of this issue were \$XXXX with a premium of \$XXXX and issuance cost and underwriters' discounts of \$XXXX. The net proceeds were placed in an escrow account to advance refund the 2008, 2009, and 2010 maturities of Project 68 bonds. The

issue was \$XXXX maturing June 1, 2002 through June 1, 2011 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated April 1, 2001, were issued for the Augusta Independent School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$XXXX maturing August 1, 2001 through August 1, 2010 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated April 1, 2001, were issued for the Science Hill Independent School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$XXXX maturing October 1, 2001, through October 1, 2011 and carrying an interest rate of XXX%.

Revenue refunding bonds dated May 1, 2001, were issued for the West Point Independent School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$XXXX maturing November 1, 2001 through November 1, 2011 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated April 1, 2001, were issued for the Bullitt County School District Finance Corporation to refund 1989 & 1991 issues. The Commission's portion of the refunding issue was \$XXXX maturing September 1, 2001 through September 1, 2008 and carrying interest rates of XXX% to XXX%.

Revenue bonds dated April 1, 2001, were issued for the Owen County School District Finance Corporation and a portion of this issue was used to refund a 2000 issue. The Commission's portion of the issue was \$XXXX maturing April 1, 2002 through April 1, 2021 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated May 1, 2001, were issued for the Graves County School District Finance Corporation to refund 1991 & 1994 issues. The Commission's portion of the refunding issue was \$XXXX maturing December 1, 2001 through December 1, 2014 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated June 1, 2001, were issued for the Clark County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was \$XXX maturing May 1, 2002 through May 1, 2012 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated February 1, 2001, were issued for the Caverna Independent School District Finance Corporation to refund a 1990 issue. The Commission's portion of the refunding issue was \$XXXX maturing June 1, 2001 through December 1, 2009 and carrying interest rates of XXX% to XXX%.

Revenue refunding bonds dated May 1, 2001, were issued for the Webster County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was \$XXXX maturing September 1, 2001 through September 1, 2011 and carrying interest rates of XXX% to XXX%.

Component Units

The University of Kentucky issued \$XXXXX Consolidated Educational Building Revenue Refunding Bonds (CEBRB) Series N (Second Series) at a net interest cost of XXXX%, representing a full refunding of the original CEBRB Series N bonds, dated June 1, 1992. The refunding will defease \$XXXX Series N bonds outstanding as of June 30, 2001. The refunding will decrease the University's debt service payment over the next eleven years by \$XXXX, representing an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$XXXX.

The Turnpike Authority of Kentucky issued Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2001 Series A and Series B in the aggregate principal amount of \$XXXX. The proceeds of the Bonds were used to provide funds for the refunding of certain of the Authority's Economic Development Road Revenue bonds. The bonds to be refunded are Series 1993 (maturing July 1, 2011 through July 1, 2013), Series 1995 (maturing July 1, 2009 through July 1, 2015), and Series 2000 (maturing July 1, 2007 through July 1, 2013). Proceeds were deposited in an escrow account to pay the future debt service requirements of the bonds being refunded. The economic gain is the difference between the present value of the old and new debt. The economic gain on the advance refunding is \$XXXXX.

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, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

Several of the Commonwealth's universities receive funding from independent foundations specifically created to benefit the respective universities. Financial information pertaining to these foundations is not presented as part of the Commonwealth's reporting entity because they are considered independent entities. At June 30, 2002, net assets held by these foundations totaled \$XXXXXX.

Note 15

SHORT-TERM AND LONG-TERM OBLIGATIONS

Short-Term Obligations

Short-term debt instruments are those amounts that will be repaid within one year. The following are outstanding at June 30, 2002.

\$XXXXXX, Project 67, dated September 1, 2000, maturing on September 1, 2001, at XXXX%

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

Agency	Short-term	Additions	Repayments	Short-term
	Debt on			Debt on
	July 1, 2001			June 30, 2002
	\$	\$	\$	\$
Totals	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Long-Term Obligations

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

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

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax-exempt status of such "municipal debt," whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by -State Government in activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School Building Authority, and the Kentucky Infrastructure Authority, which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide "debt service," 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, 2002, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

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

General Long-Term Obligations Account Group	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property & Buildings Commission	\$ 1,620,706	3.1% -7.65%	2,018
Turnpike Auth. Of Kentucky	1,324,133	4.9% -9.7%	2,019
Total	\$ <u>2,944,839</u>		

Future revenue bond debt service requirements, to be paid with State funds, at June 30, 2001, are as follows (Expressed in Thousands):

Year Ending	Principal	Interest	Totals
2002	\$ 208,248	\$ 145,265	353,513
2003	224,933	137,026	361,959
2004	240,956	127,043	367,999
2005	200,065	116,671	316,736
2006	199,699	105,635	305,334
Thereafter	<u>1,870,938</u>	<u>519,012</u>	<u>2,389,950</u>
	\$ <u>2,944,839</u>	\$ <u>1,150,652</u>	\$ <u>4,095,491</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky School Facilities Construction Commission	\$ 629,367	2.75-5.85%	2020
Kentucky Housing Corporation*	1,173,650	3.75-8.1%	2039
Kentucky Infrastructure Authority	169,805	4.0-7.6%	2019
Kentucky Higher Education Student Loan Corporation	675,735	4.7-9.25%	2030
Kentucky Local Correctional Facilities Construction Authority	34,475	4.65-5.5%	2014
University of Kentucky	229,826	3.0-6.5%	2024
University of Louisville	141,699	2.8-10.0%	2018
Eastern Kentucky University	47,375	3.0-6.5%	2021
Western Kentucky University	23,065	2.6-6.1%	2012
Murray State University	22,137	3.0-6.2%	2022
Morehead State University	27,280	3.0-7.15%	2021
Kentucky State University	15,535	4.8-6.3%	2014
Northern Kentucky University	45,035	3.0-7.8%	2021
Kentucky Community and Technical College System	75,305	3.0-7.2%	2011
Total Component Unit Revenue Bonds Payable	\$ <u>3,310,289</u>		

* Amounts reflect original issue.

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Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units, at June 30, 2001, are as follows (Expressed in Thousands):

Year Ending June 30,	Principal	Interest	Totals
2002	\$ 177,758	\$ 170,007	\$ 347,765
2003	176,277	162,024	338,301
2004	167,248	154,095	321,343
2005	189,647	145,764	335,411
2006	160,177	136,583	296,760
Thereafter	2,439,182	1,567,706	4,006,888
	<u>\$ 3,310,289</u>	<u>\$ 2,336,179</u>	<u>\$ 5,646,468</u>

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

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

The Commission issued \$XXXXXX in Revenue Bonds as follows:

\$XXXXX, Project 67, dated September 1, 2000, maturing serially each September 1, 2001 through 2019, at XXX% to XXX%; and

\$XXXXX, Project 68, dated October 1, 2000, maturing serially each October 1, 2001 through 2015, at XXX% to XXX%; and

\$XXXXX, Project 68 Second Series, dated January 1, 2001, with delayed serial maturities each October 1, 2016 through 2020 at XXX% to XXX%; and

\$XXXXX, Project 69 Series A, dated March 15, 2001, with \$XXXXX in each August 1, 2001 through 2019 at XXX% to XXX%, and \$XXXXX in term bonds due August 1, 2021 at XXX%; and

\$XXXXX, Project 70 (Agency Funds Revenue Bonds), dated March 15, 2001, maturing serially each May 1, 2002 through 2021 at XXX% to XXX%.

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 \$XXXXX Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects) as follows:

\$XXXXX, Series 2000, dated November 15, 2000, maturing serially each July 1, 2001 through 2015 at XXX% to XXX%; and

\$XXXXX, 2001 Series A (Revenue Refunding Bonds), dated February 1, 2001, maturing each July 1, 2009 through 2015 at XXX% to XXX%; and \$XXXXX, 2001 Series B (Revenue Refunding Bonds), dated March 1, 2001, maturing each July 1, 2016 through 2019 at XXX% to XXX%

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.

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State supported universities issued \$XXXXX in revenue and refunding revenue bonds as follows:

\$XXXXX, University of Kentucky, Consolidated Educational Buildings Revenue Bonds, Series Q, dated October 15, 2000, maturing serially each May 1, 2001 through 2020, at XXX% to XXX%; and

\$XXXXX, University of Kentucky, Housing and Dining System Revenue Bonds, Series R, dated December 1, 2000, maturing serially each June 1, 2001, through 2020, at XXX% to XXX%; and

\$XXXXX, University of Kentucky, Consolidated Educational Buildings Revenue Bonds, Series R, dated March 1, 2001 maturing serially each May 1, 2002 through 2021, at XXX% to XXX%; and

\$XXXXX, University of Kentucky, Consolidated Educational Buildings Refunding Revenue Bonds, Series N (Second Series), dated May 1, 2001, maturing serially each May 1, 2002 through 2012 at XXX% to XXX%; and

\$XXXXX, Eastern Kentucky University, Housing System Revenue Bonds, Series N, dated May 1, 2001, with \$XXXXX in serial maturities each February 1, 2002 through 2019 at XXX% to XXX% and a \$XXXX term bond due February 1, 2021 at XXX%; and

\$XXXXX, Murray State University, Housing and Dining System Revenue Bonds, Series O, dated June 1, 2001, with \$XXXX in serial maturities each September 1, 2004 through 2018 at XXX% to XXX%. Term Bonds total \$XXXX, with \$XXXX due September 1, 2003 at XXX% and \$XXXX due September 1, 2021 at XXX%.

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

The Corporation issued \$XXXX in replacement refunding **Housing Revenue Bonds** as listed below:

Three series, dated **September 1, 2000**, aggregate principal of \$XXXXX, as follows:

\$XXXXX, 2000 Series E (NON-AMT), having term maturities of \$XXXXX due July 1, 2017, at XXX%, and \$XXXXX due July 1, 2031, at XXX%; and

\$XXXXX, 2000 Series F (AMT), having term maturities of \$XXXXX due July 1, 2020, at XXX%, \$XXXXX due July 1, 2026, at XXX%, and \$XXXXX due July 1, 2031, at XXX%, and

\$XXXXX, 2000 Series G (TAXABLE), term bond due July 1, 2018, at XXX%.

Five series, expected date of delivery on or about **May 22, 2001**, aggregate principal \$XXXXX as follows:

\$XXXXX, 2001 Series A (NON-AMT), term bond due July 1, 2021, at XXX%; and

\$XXXXX, 2001 Series B (AMT), with serial maturities of \$XXXXX each due January 1, and July 1, beginning January 1, 2003 through July 1, 2012 at XXX% to XXX%. Term bonds include \$XXXXX due July 1, 2020, at XXX%; \$XXXXX due January 1, 2021, at XXX%; \$XXXXX due January 1, 2032 at XXX% and \$XXXXX due July 1, 2032, at XXX%, and

\$XXXXX, 2001 Series C (NON-AMT), term bond due July 1, 2033, at XXX%; and

\$XXXXX, 2001 Series D (NON-AMT), term bond due July 1, 2022, at XXX%; and

\$XXXXX, 2001 Series E (TAXABLE), variable rate term bond due July 1, 2020.

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

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

The Kentucky Higher Education Student Loan Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic

acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by a seven member board of directors consisting of the Chairman of the Council on Higher Education, the Secretary of the Finance and Administration Cabinet, the Chairman of the Kentucky-Higher Education Assistance Authority, and four members chosen from the general public. The Corporation is limited to a maximum principal outstanding of \$553 million.

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

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

On June 22, 2000, the Commonwealth of Kentucky State Property and Building Commission (the Commission) issued \$XXXXX in bonds payable on behalf of the Authority. The proceeds of the bonds are to be used to house the Authority's operations located in Frankfort, Kentucky. The bonds bear interest from XXX% to XXX% with a maturity date of May 1, 2020 and are a special and limited obligation of the Commission. However, the bonds do not constitute a debt, liability, or obligation of the Commonwealth of Kentucky, or a pledge of the full faith and credit or taxing power of the Commonwealth, but are payable solely from amounts deposited in certain funds and accounts created by resolution and from rental income derived from the biennially renewable lease agreement with KHEAA.

The Authority entered into a two-year, renewable, financing/lease agreement with the Commission. The initial anniversary of the agreement is June 30, 2002, with the right to renew for nine additional two-year periods.

The agreement also contains a termination clause that can be activated by notification on the last business day of May preceding the anniversary date of renewal.

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

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

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

During the fiscal year ended June 30, 2002, the Commission sold forty-two school building revenue bond issues having aggregate state participation of \$XXXXX maturing through June 1, 2021, at interest rates of XXX% to XXX%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2002, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

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

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

The Kentucky Economic Development Finance Authority established in 1958 under KRS Chapter 154, is an independent agency of the Commonwealth that operates in close cooperation

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with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

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

NOTES PAYABLE:

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

The 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 judgements against the Commonwealth or any state agency.

\$XXXXX is outstanding on Commission Notes as follows:

\$XXXXX is outstanding on **Project Notes, 1999 General Fund First Series**, dated **March 1, 1999**, and is due **serially** each **March 1, 2001 through 2006**, at **3.40% to 4.125%**.

\$XXXXX is outstanding on **Project Notes, 2001 General Fund First Series**, dated **February 1, 2001**, and is due **serially** each **February 1, 2002 through 2008**, at **3.60% to 5.00%**.

Kentucky Higher Education Student Loan Corporation had \$XXXXX outstanding at June 30, 2002, from a line of credit agreement. This is a short-term borrowing to finance loans until bonds are issued.

The Kentucky Housing Corporation reported \$XXXXX in notes payable for the current portion of long-term debt/Notes Payable during fiscal year 2002.

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

The University of Kentucky reported \$XXXXX in notes payable as follows: (1) Kentucky Technology, Incorporated has a \$1.5 million note due 2003 at 2.0% annual interest. (See Note 6 to UK Research Foundation's audited financial statements.) (2) Health Associates of Kentucky has three notes with aggregate principal of \$**186,102** due in annual principal installments through July 2005. (See Note 9 to the audited financial statement for the Albert B. Chandler Medical Center, University Hospital.)

The University of Louisville Athletic Association reported \$XXXXX in notes payable from 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.

Northern Kentucky University reported \$XXXXX in notes payable for various installment purchase contracts to acquire property and equipment during fiscal year 2001.

Murray State University reported notes payable of \$XXXXX including \$**90,685** for the **Regional Special Events Center** maturing in 2002 at 6.7%, \$**182,787** in **Murray State University Foundation Notes** with maturities to 2008 at 7.0% to 8.5% for various departmental operating expenditures, \$**32,138** in **Ohio Valley Conference assessment program notes** maturing in 2003 at 6.0% and four bank master lease agreements totaling \$**1,534,550** and maturing through 2007 at 4.23% to 5.59% to finance the campus networking project, computer equipment and vehicles.

Western Kentucky University reported notes payable of \$**2,520,324** related to the payment of debt service on substantially all the University's residence hall, which have been transferred to the **WKU Student Life Foundation, Inc.** (See Note 8 to the University's audited financial statements.)

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 judgements attributable to the governmental activities.

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Future debt service requirements for aggregate Notes Payable at June 30, 2001, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Total
2002	\$ 47,751	\$ 3,568	\$ 51,319
2003	13,262	2,975	16,237
2004	14,653	2,408	17,061
2005	13,446	1,827	15,273
2006	14,145	1,243	15,388
Thereafter	20,930	909	21,839
	<u>\$ 124,187</u>	<u>\$ 12,930</u>	<u>\$ 137,117</u>

Changes in General Long-Term Obligations in general long-term obligation for the fiscal year ended 30, 2002, are as follows (Expressed in Thousands):

*Changes
June*

Government Activities	Beginning Balance Restated	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due after One Year
Bonds Payable:	\$	\$	\$	\$ -	\$	\$
General obligation debt				-		
Revenue Bonds				-		
Taxable Universities	16,150			16,150	1,567	
Tumpike Authority of Kentucky	1,324,133			1,324,133	105,440	
State Property and Buildings Commission	1,604,556			1,604,556	102,808	
Notes Payable:		100,400	(245,205)	(144,805)	51,319	
Transportation	218,860			218,860		
State Property and Buildings Commission				-		
				-		
				-		
Total Bonds and Notes	<u>\$ 3,163,699</u>	<u>\$ 100,400</u>	<u>\$ (245,205)</u>	<u>\$ 3,018,894</u>	<u>\$ 261,134</u>	<u>\$ -</u>
Other long-term obligations				-		
Compensated absences	226,707	164,884	(155,122)	236,469		
Capital lease obligations	2,311	1,079	(1,237)	2,153		
Judgements and contingent liabilities	315,888	26,927	(432)	342,383		
Unfunded employer pension contributions	77,765	334	(368)	77,731		
Total Other	<u>\$ 3,786,370</u>	<u>\$ 293,624</u>	<u>\$ (402,364)</u>	<u>\$ 3,677,630</u>	<u>\$ 261,134</u>	<u>\$ -</u>
Total	<u>\$ 6,950,069</u>	<u>\$ 394,024</u>	<u>\$ (647,569)</u>	<u>\$ 6,696,524</u>	<u>\$ 522,268</u>	<u>\$ -</u>
Business Type Activities						
Bonds Payable:	\$	\$	\$	\$ -	\$	\$
				-		
Notes Payable:				-		
Capitol Lease Obligations				-		
Compensated absences				-		
Judgements and contingent liabilities				-		
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Grand Total	<u>\$ 6,950,069</u>	<u>\$ 394,024</u>	<u>\$ (647,569)</u>	<u>\$ 6,696,524</u>	<u>\$ 522,268</u>	<u>\$ -</u>

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COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

Note 16

SEGMENT INFORMATION

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

CONDENSED STATEMENT OF NET ASSETS

	Non-Major Colleges and Universities						Total non-major Colleges and Universities
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	
Assets:							
Current Assets	\$	\$	\$		\$	\$	\$
Capital Assets							
Other Assets							
Due from other funds							
Total Assets	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:							
Current Liabilities							
Capital Lease Obligations							
Due to other funds							
Other Liabilities							
Non-current liabilities							
Total Liabilities	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net Assets							
Investment in Capital Assets							
net of related debt:							
Restricted							
For Debt Service							
Other Purposes							
Unrestricted							
Total Net Assets	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

CONDENSED STATEMENT OF NET ASSETS

	Non-major Component Units- Authorities					
	Bluegrass State Skills Corporation	Kentucky School Facilities Construction Commission	Kentucky State Fair Board	Kentucky Center for the Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority
	\$	\$	\$	\$	\$	\$
Assets:						
Current Assets						
Capital Assets						
Other Assets						
Due from other funds						
Total Assets	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities:						
Current Liabilities						
Capital Lease Obligations						
Due to other funds						
Other Liabilities						
Non-current liabilities						
Total Liabilities	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net Assets						
Investment in Capital Assets net of related debt:						
Restricted:						
For Debt Service		387				
Other Purposes		629				
Unrestricted						
Total Net Assets	<u>\$ 1,016</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

Non-major Component Units- Authorities					
Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Agriculture Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facility	Total Non-major Component Units
\$	\$	\$	\$	\$	\$
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Non-Major Colleges and Universities						Total non-major Colleges and Universities
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	
Goods or service provided	Education	Education	Education	Education	Education	Education	
Operating revenues							
Charges for services	\$	\$	\$	\$	\$	\$	\$
Operating grants and contributions							
Capital grants and contributions							
Total operating revenues							
Operating expenses							
Operating and other expenses							
Depreciation and amortization							
Operating expenses							
Operating income (loss)							
Nonoperating revenues (expenses)							
Transfers:							
From Primary Government							
From Component Units							
To Primary Government							
To Component Units							
Net income (loss)							
Capital contributions and additions to permanent and term endowments: Special and extraordinary items							
Change in net assets							
Retained Earnings - July 1, 2000							
Retained Earnings - June 30, 2001	\$	\$	\$	\$	\$	\$	\$

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COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Non-major Component Units- Authorities				
	Bluegrass State Skills Corporation	Kentucky School Facilities Construction Commission	Kentucky State Fair Board	Kentucky Center for the Arts	Kentucky Educational Television Authority
Goods or service provided	Employment assistance	School construction	State fair accounting	Promote the arts	Educational television
Operating revenues					
Charges for services	\$	\$	\$	\$	\$
Operating grants and contributions					
Capital grants and contributions					
Total operating revenues					
Operating expenses					
Operating and other expenses					
Depreciation and amortization					
Total operating expenses					
Operating income (loss)					
Nonoperating revenues (expenses)					
Transfers:					
From Primary Government					
From Component Units					
To Primary Government					
To Component Units					
Net income (loss)					
Capital contributions and additions to permanent and term endowments:					
Special and extraordinary items					
Change in net assets					
Retained Earnings - July 1, 2000					
Retained Earnings - June 30, 2001	\$	\$	\$	\$	\$

CONDENSED STATEMENT OF CASH FLOWS

	Non-Major Colleges and Universities			Non-Major Colleges
	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University
Net cash provided (used) by:				
Operating activities	\$	\$	\$	\$
Noncapital financing activities				
Capital and related financing activities				
Investing activities				
Net increase (decrease)				
Beginning cash and cash equivalent balances				
Ending cash and cash equivalent balances	\$	\$	\$	\$

CONDENSED STATEMENT OF CASH FLOWS

	Non-major				
	Bluegrass State Skills Corporation	Kentucky School Facilities Construction Commission	Kentucky State Fair Board	Kentucky Center for the Arts	Kentucky Educational TV Authority
Net cash provided (used) by:					
Operating activities	\$	\$	\$	\$	\$
Noncapital financing activities					
Capital and related financing activities					
Investing activities					
Net increase (decrease)					
Beginning cash and cash equivalent balances					
Ending cash and cash equivalent balances	\$	\$	\$	\$	\$

Note 17

COMMITMENTS AND CONTINGENCIES

Litigation - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the

opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities or may

A. PRIMARY GOVERNMENT

The following table summarizes liabilities for claims and judgments as of June 30:

Time Period Payable	Contingent Liabilities			
	Within One Year		In Future Periods	
	Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
Balance at June 30, 2001	\$	\$	\$	\$
Amounts Paid During The Year				
Amounts Incurred During The Year				
Amounts Reclassified				
Balance at June 30, 2002	\$ -	\$ -	\$ -	\$ -

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

and Universities		
Northern Kentucky University	Kentucky State University	Total non-major Colleges and Universities
\$	\$	\$
_____	_____	_____
_____	_____	_____
\$	\$	\$
=====	=====	=====

Component Units- Authorities							Total Non-major Component Units
Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Agriculture Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facility		
\$	\$	\$	\$	\$	\$	\$	\$
_____	_____	_____	_____	_____	_____	_____	_____
\$	\$	\$	\$	\$	\$	\$	\$
=====	=====	=====	=====	=====	=====	=====	=====

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.

Judgments			
Within One Year		In Future Periods	
Governmental Activities	Business Type Activities	Governmental Activities	Business Type Activities
\$	\$	\$	\$
_____	_____	_____	_____
\$ -	\$ -	\$ -	\$ -
=====	=====	=====	=====

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 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.**

B. COMPONENT UNITS

Claims and judgments for all component units totaled \$XXXXXX.

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

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2002 and 2001 amounted to \$XXXX million and \$65.6 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences - Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. **Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Fund, and the Other Special Revenue Fund.**

A. PRIMARY GOVERNMENT

The following table summarizes liabilities for compensated absences as of June 30:

	Annual Leave		Compensatory Leave		Totals
	Within One Year	In Future	Within One Year	In Future	
Governmental activities	\$	\$	\$	\$	\$ -
Business-type activities					-
Total primary government	\$ -	\$ -	\$ -	\$ -	\$ -

B. COMPONENT UNITS

Compensated absence liabilities for all component units totaled \$XXXXX, which represents Authorities only.

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

Construction Projects - The Transportation Cabinet, at June 30, 2002, had contractual commitments of approximately \$XXXXX, for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 29% State funds, 62% Federal funds, and the remaining 9% with proceeds from the sale of revenue bonds.

Deferred Revenue - Deferred revenue may result from the recognition of assets before the earnings process is complete (unearned revenue), or if using the modified accrual basis of accounting, deferred revenue may represent unavailable revenues. "Unavailable" means that the assets are not available to finance expenditures of the current fiscal period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

Note 18

SUBSEQUENT EVENTS

The debt issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2001, and prior to December 31, 2001, and reported other subsequent events for the same period, as described below.

The State Property and Buildings Commission issued \$556,050,000 in project revenue bonds as follows:

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

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

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

\$152,860,000, Project 71, dated August 1, 2001, with serial maturities each August 1, 2002, through 2015, at 3.00% to 5.50%. The proceeds of the Bonds will be used to (i) pay costs of constructing, acquiring, installing and equipping the Project as described more fully in the Official Statement, (ii) pay the costs of issuing the Bonds; and

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

\$90,240,000, Project 73, dated November 1, 2001 with serial maturities each November 1, 2002 through 2014, at 2.30% to 5.50%. The proceeds of the bonds will be used to (i) pay costs of constructing, acquiring, installing and equipping the Project as described more fully in the Official Statement, (ii) pay the costs of issuing the Bonds.

The Kentucky Housing Corporation issued Housing Revenue Bonds in the aggregate principal amount of \$50,000,000 to continue the Corporation's program of purchasing qualified mortgage loans made to eligible borrowers to finance owner occupied single family residences, and refinance certain borrowings, Prior Bonds and Notes of the Corporation as more fully described in the Official Statement dated August 2, 2001. The Series were issued as follows: On July 2, 2001 the Corporation executed a request and authorization and received a draw in the principal amount of \$6,038,000 against the Single Family Mortgage Revenue Bonds, Draw Down Series 2000.

The proceeds of the borrowings are invested in short term repurchase agreements collateralized by federal agency obligations. The purpose of the borrowing is to preserve tax-exempt bond issuance capacity.

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

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

The Corporation issued \$150,000,000 in Student Loan Revenue Bonds, dated on the expected date of delivery on or about July 27, 2001. These bonds which were issued as two Senior Series and one Subordinate Series, Auction Rate Certificates, bear interest as described in the Official Statement, described as follows:

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

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

Kentucky Infrastructure Authority issued a \$68,020,000 Composite Issue, Revenue Bond, 2001 Series for the purpose of (1) providing moneys which will assist certain Governmental Agencies to finance waste water, drinking water and water service programs of those Governmental Agencies and (11) paying costs of issuance as described in the Official Statement dated December 1, 2001, as follows:

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

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

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

Morehead State University issued \$9,990,000 in Housing and Dining System Revenue Bonds and Refunding Revenue Bonds as follows:

\$5,125,000, Series P, Housing and Dining System Revenue Bonds, due serially and semi-annually each May 1 and November 1, commencing November 1, 2001 through 2020 at 2.75% to 4.9%

interest. The bond proceeds will pay the costs of installing fire safety equipment at West Mignon Hall and East Mignon Hall and construction of a 28 unit Lakewood Terrace Family Housing Complex; and

\$4,875,000, Series L, Consolidated Educational Buildings Refunding Revenue Bonds, due serially each May 1, 2002 and 2012 at 2.25% to 4.30%. The proceeds will be used as follows:

- a) The amount received from purchaser(s) representing accrued interest from December 1, 2001 to the date of delivery, will immediately be deposited into the Bond Fund, to be maintained by J.P. Morgan Trust Company, National Association, Louisville, Kentucky, The Trustee, Paying Agent and Bond Registrar.
- b) The amount necessary to be set aside on deposit in the Morehead State University Consolidated Educational Buildings, Series L Escrow Account (the "Escrow Account"), the amount necessary to be held by the Escrow Agent to effect the refunding is more fully described under "Plan of Refunding".
- c) The amount of proceeds of the Series L Bonds necessary to pay the cost of issuance of the Series L Bonds will be set aside into a "Cost of Issuance Account" to be maintained by the Trustee Bank and used to pay all expenses incident to the issuance, sale and delivery of the Series L. Bonds, including the fee of the Financial Advisor, rating fees and such other appropriate expenses as may be approved by the Board.

Eastern Kentucky University issued Consolidated Educational Buildings Revenue Bonds, Series U, dated September 1, 2001, in the Principal amount of \$9,035,000, due serially and annually each May 1, 2002 through 2011 at 3.50% to 4.00% interest. The bond proceeds will be used as follows:

- a) The amount received from purchaser(s) representing accrued interest from September 1, 2001 to the date of delivery, will immediately be deposited into the Bond Fund, to be maintained by Bank One, Kentucky, NA, Lexington, Kentucky, The Trustee, Paying Agent, and Bond Registrar.
- b) The amount necessary to be set aside on deposit in the Eastern Kentucky Consolidated Educational Buildings, Series U Escrow Account (the "Escrow Account") and held by the Escrow Agent to effect the refunding, is more fully described in the Official Statement dated September 1, 2001.

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

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

\$17,590,000, due January 1, 2032, at 5.45%, and \$10,000,000, due July 1, 2032, at 5.45%; and

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

- c) The amount of proceeds of the Series U Bonds necessary to pay the cost of issuance of the Series U Bonds will be set aside into a "Cost of Issuance Account" to be maintained by the Trustee Bank and used to pay all expenses incident to the issuance, sale and delivery of the Series U Bonds, including the fee of the Financial Advisor, rating fees and such other appropriate expenses as may be approved by the Board.

Western Kentucky University acquired a segment of the old Bowling Green Mall, on September 27, 2001, for \$2.3 million. The property is to be used as a research center and is to house the University's Applied Physics Institute and Materials Characterization Center.

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, 2001, and maturing as to principal through 2019 as follows:

School District	Sale Date	Principal at Issue	State Share	Interest Rates
Christian County	07/24/01	7,990,000	5,081,003	3.7-4.75%
Bullitt County	07/12/01	4,105,000	3,131,213	2.7-4.35%
Hardin County	07/18/01	2,415,000	666,840	3.75-4.25%
Williamsburg Independent	07/19/01	1,085,000	76,107	2.75-4.20%
Metcalfe County	07/23/01	2,685,000	1,006,852	2.7-4.20%
Larue County	08/08/01	8,170,000	2,508,928	2.7-4.80%
Perry County	08/30/01	1,865,000	129,110	3.5-4.40%
Powel County	09/18/01	4,430,000	785,554	2.7-4.75%
Letcher County	09/19/01	4,750,000	1,708,636	2.5-4.125%
Rockcastle County	09/25/01	6,650,000	1,674,284	2.5-4.25%
		\$ 44,145,000	\$ 16,768,527	

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

Audited financial statements may be requested at the following addresses:

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

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

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

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

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

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

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

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

Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

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

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

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

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

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

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

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

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

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

Kentucky Infrastructure Authority
3750 Versailles Rd.
Frankfort, Kentucky 40601

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

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

Kentucky Horse Park
4089 Iron Works Parkway
Lexington, Kentucky 40511

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

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

COMMONWEALTH OF KENTUCKY
Notes to Combined Financial Statements
June 30, 2002

Audited financial statements may be requested at the following addresses:

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

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

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

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

Kentucky Access
Public Protection And Regulation
215 West Main Street
Frankfort, Kentucky 40601

Kentucky River Authority
70 Wilkinson Boulevard
Capitol Plaza Authority
Frankfort, Kentucky 40601

STATISTICAL SECTION

The **Statistical Section** gives report users a better historical perspective of financial information that may assist in assessing current financial status and trends of the Commonwealth. In addition, certain demographic and economic data have been presented that will allow a broader understanding of the economic and social environment in which the State Government operates.

**COMMONWEALTH OF KENTUCKY
REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

<u>SOURCE</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
Taxes:				
Sales & Gross Receipts	\$ 2,442,419	\$ 2,539,066	\$ 2,739,653	\$ 2,873,176
Individual Income	1,676,263	1,870,096	1,964,960	2,080,418
Corporation Income	254,797	269,048	340,913	289,508
Property	353,711	370,200	386,389	409,175
License & Privilege	117,471	114,052	137,578	130,778
Severance	180,704	181,340	177,826	185,019
Inheritance & Estate	71,040	76,173	79,531	82,673
Miscellaneous	125,636	120,036	117,077	104,819
Total Taxes	<u>5,222,041</u>	<u>5,540,011</u>	<u>5,943,927</u>	<u>6,155,566</u>
Intergovernmental Revenue	2,687,598	2,657,925	3,307,139	3,394,888
Charges for Services	147,617	192,659	222,309	277,165
Licenses, Fees & Permits	161,510	134,161	160,975	163,331
Fines & Forfeitures	39,972	38,563	40,720	40,485
Interest & Investments	107,210	90,931	112,124	148,908
Other Income	123,951	93,683	133,506	133,524
Total Non-Tax Income	<u>3,267,858</u>	<u>3,207,922</u>	<u>3,976,773</u>	<u>4,158,301</u>
Total Revenues	<u>\$ 8,489,899</u>	<u>\$ 8,747,933</u>	<u>\$ 9,920,700</u>	<u>\$ 10,313,867</u>

**COMMONWEALTH OF KENTUCKY
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)**

<u>FUNCTIONS</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
General Government	\$ 444,901	\$ 452,593	\$ 418,256	\$ 494,599
Legislative & Judicial	120,036	128,575	132,421	147,563
Commerce	37,279	37,656	42,430	42,704
Education & Humanities	2,578,179	2,663,797	2,835,220	2,962,449
Human Resources	3,129,059	3,077,162	3,818,430	3,819,907
Justice	229,972	232,221	255,424	282,999
Natural Resources and Environmental Protection	83,481	105,920	110,509	96,094
Corrections	0	0	0	0
Public Protection and Regulation	83,322	79,816	86,411	94,124
Transportation	874,160	843,456	980,083	1,061,589
Capital Outlay	149,910	79,707	82,040	79,245
Debt Service	284,323	357,122	416,756	392,130
Total Expenditures	<u>\$ 8,014,622</u>	<u>\$ 8,058,025</u>	<u>\$ 9,177,980</u>	<u>\$ 9,473,403</u>

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report

NOTE: In 1993 the Corrections Function was incorporated within the Justice Function.

1997	1998	1999	2000	2001	2002
\$ 3,018,770	\$ 3,167,442	\$ 3,255,990	\$ 3,546,343	\$ 3,609,499	\$
2,201,574	2,390,823	2,538,948	2,701,349	2,768,302	
291,536	338,354	312,579	307,939	288,418	
440,973	405,528	424,471	440,438	457,216	
145,178	162,122	170,480	139,922	146,422	
185,744	187,126	173,094	169,154	177,774	
93,962	105,550	79,168	76,751	83,267	
109,451	114,903	120,765	3,390	3,203	
<u>6,487,188</u>	<u>6,871,848</u>	<u>7,075,495</u>	<u>7,385,286</u>	<u>7,534,101</u>	<u>0</u>
3,625,241	3,809,686	3,825,985	4,602,881	4,208,631	
262,366	289,555	298,952	359,782	426,173	
164,557	170,454	188,304	203,608	200,239	
48,538	47,265	53,024	49,986	54,297	
155,878	191,986	140,328	163,893	232,100	
193,206	218,883	185,881	238,325	616,361	
<u>4,449,786</u>	<u>4,727,829</u>	<u>4,692,474</u>	<u>5,610,475</u>	<u>5,737,801</u>	<u>0</u>
<u>\$ 10,936,974</u>	<u>\$ 11,599,677</u>	<u>\$ 11,767,969</u>	<u>\$ 12,995,761</u>	<u>\$ 13,271,902</u>	<u>\$ 0</u>

1997	1998	1999	2000	2001	2002
\$ 593,500	\$ 652,980	\$ 556,913	\$ 541,008	\$ 672,605	\$
150,604	165,645	186,168	212,978	216,608	
44,408	45,953	49,927	52,941	51,283	
3,076,843	3,187,712	3,250,456	3,351,422	3,442,741	
4,208,762	4,253,354	4,368,927	5,109,752	5,110,365	
340,100	402,149	451,532	511,106	553,499	
103,356	112,923	120,938	125,724	127,048	
0	0	0	0	0	
105,763	115,479	130,245	131,350	124,725	
1,092,563	1,135,102	1,356,322	1,502,356	1,588,052	
99,702	135,106	266,165	225,409	309,011	
332,127	438,029	357,698	302,708	410,058	
<u>\$ 10,147,728</u>	<u>\$ 10,644,432</u>	<u>\$ 11,095,291</u>	<u>\$ 12,066,754</u>	<u>\$ 12,605,995</u>	<u>\$</u>

DESCRIPTION OF TAX SOURCES - ALL GOVERNMENTAL FUND TYPES**JUNE 30, 2002**

SALES AND USE - On July 1, 1960, Kentucky became the thirty-fourth state to enact a sales and use tax. Although the tax was broad based at the time of its inception, the sales and use tax has been significantly eroded over the years with the passage of numerous exemptions. This has been partially offset with rate increases in 1968 (3% to 5%) and 1990 (5% to 6%), and expansion of the tax base in 1985 to cover leases and rentals of tangible personal property. Effective January 1, 2001, the sales tax base expanded to include interstate communications services. During fiscal year 2001, the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

COAL SEVERANCE - Kentucky's coal severance tax became effective April 1, 1972, and was intended to replace a major portion of the revenue expected to be lost by the exemption of groceries from the sales tax. It was the first major severance tax among the states. The initial rate of 4% 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-sevenths of the total set aside for rural and secondary roads. On July 1, 1962, administration of the motor fuels use tax was transferred from the Department of Revenue to the Department of Motor Transportation, and on July 1, 1972, the tax rate increased to nine cents per gallon. Effective July 1, 1980, the rate was changed to 9% 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 per-cent 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 "re-tail price" of the motor vehicles as defined by statute. The tax was increased to 5 per-cent on April, 1968 and to 6 per-cent 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 fifty cents for the County Clerk) for passenger cars. Similar fees were enacted in 1938 for farm trucks and in 1944 for church buses, water well drillers, and certain wreckers. Truck licenses were changed to a graduated "gross weight" basis in 1964. The current \$11.50 fee for passenger cars, farm trucks, and the lightest trucks was passed in 1968. Effective January 1, 1993 there was an additional \$.50 (fifty cents) 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 \$38,775 in 2002) and interest on federal obligations. 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 CPI-U and is currently set at \$1,800 for 2002. A low income tax credit of 5% to 100% for single persons or married couples with adjusted gross income of \$25,000

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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 1996 General Assembly amended KRS 141.120 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept and allows affiliated corporations to elect to file consolidated Kentucky income tax returns, with such election being binding for 96 consecutive calendar months.

Effective for tax years beginning on or after January 1, 2002, net income is computed using the Internal Revenue Code in effect on December 31, 2001.

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2001 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly. The General Assembly has not adopted the thirty percent federal bonus depreciation, five-year net operating loss carryback and other provisions of the Job creation and Worker Assistance act of 2002.

PROPERTY TAX - Kentucky has levied a property tax since the creation of the state in 1792. Prior to 1934, the property tax was the State's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from 30 cents to 5 cents per \$100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five cents to 1.5 cents and on tangible property from 50 cents to 15 cents. House Bill 4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from 1.5 cents to 31.5 cents per \$100 of assessed value and the tax rate on tangible personal property from 15 cents to 45 cents per \$100 of assessed value. This increase in the State property tax rate was accompanied by a 30 cents per \$100 of assessed value decrease in local school tax rates. The tax rate on intangible personal property, which is not subject to local rates, remained at 25 cents per \$100. House Bill 44, enacted by the 1979 extraordinary legislative session, established a new rate setting mechanism which limited the increase in aggregate revenues for all taxing districts in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 57% from 31.5 cents per \$100 in 1978 to 13.5 cents per \$100 in 2002.

The 1996 General Assembly repealed the bank shares property tax and enacted a bank franchise tax for state tax purposes and a local deposits franchise tax for local tax purposes. A discussion of the bank franchise tax follows.

INHERITANCE AND ESTATE TAX - Inheritance Tax is a tax on the right to receive property upon the death of the owner. The tax rates and exemptions are based on the relationship of the beneficiary to the decedent. The Kentucky inheritance tax began in 1906 and taxed all beneficiaries other than nearest relatives. Beneficiaries taxed were given a \$500 exemption. Many changes have been enacted over the years to the inheritance tax, however, the Kentucky estate tax that was enacted in 1936, has not been changed. The Kentucky estate tax is equal to the

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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.

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 30, 2000. Effective July 1, 2000, the tax on outpatient prescription drugs expired.

BANK FRANCHISE TAX - House Bill 416 as enacted by the 1996 General Assembly created the bank franchise tax. The tax is imposed on any financial institution which obtains or solicits business from 20 or more persons within the Commonwealth or has receipts attributable to sources in the Commonwealth which equal or exceed \$100,000. The bank franchise tax is based on a five-year average of net capital accounts reflected on the quarterly reports of condition filed with the applicable federal regulatory institution. The minimum tax is \$300 per year. Because HB 416 is effective for the calendar year 1996, the first tax returns and payments were due on March 15, 1997.

Effective for tax years beginning after December 31, 1997, KRS 136.500 was amended in 1998 to define the term "Kentucky obligations" to mean all obligations of the Commonwealth of Kentucky, its counties, municipalities, taxing districts, and school districts, exempt from taxation under the Kentucky Revised Statutes and the Kentucky Constitution. The amendment allows as a deduction from capital an amount equal to the same percentage of total capital as the book value of Kentucky obligations bears to the book value of the total assets of the financial institution. Additionally, the quarterly averages of net capital and deductions for United States and Kentucky obligations will be divided by four, without regard to the actual existence of the financial institution.

COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 1992 - 2001
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated	Assessed Value	Estimated	Assessed Value	Estimated	
		Actual Value		Actual Value		Actual Value	
1992	78,150,012	87,809,002	140,219,154	140,219,154	218,369,166	228,028,156	95.8%
1993	82,268,682	89,422,480	141,750,516	141,750,516	224,019,198	231,172,996	96.9%
1994	89,570,464	95,287,728	153,225,083	153,225,083	242,795,547	248,512,811	97.7%
1995	94,579,246	100,616,219	161,791,401	161,791,401	256,370,647	262,407,620	97.7%
1996	101,534,494	108,015,419	152,832,983	152,832,983	254,367,477	260,848,402	97.5%
1997	108,116,208	115,017,243	126,697,050	126,697,050	234,813,258	241,714,293	97.1%
1998	115,597,215	122,975,761	135,357,598	135,357,598	250,954,813	258,333,359	97.1%
1999	124,491,269	132,437,520	138,552,878	138,552,878	263,044,147	270,990,398	97.1%
2000	134,620,481	143,213,278	141,748,226	141,748,226	276,368,707	284,961,504	97.0%
2001							

SOURCE: Kentucky Revenue Cabinet

NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

COMMONWEALTH OF KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
FOR FISCAL YEARS 1992 - 2001
(Expressed in Thousands Except Percentages)

For the Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total
						Tax Collections to Tax Levy
1992	356,238	329,783	92.6%	8,765	338,548	95.0%
1993	374,257	345,089	92.2%	9,669	354,758	94.8%
1994	392,652	357,996	91.2%	12,204	370,200	94.3%
1995	417,799	377,710	90.4%	17,615	395,325	94.6%
1996	424,505	391,977	92.3%	17,200	409,177	96.4%
1997	410,755	399,759	97.3%	15,099	414,858	101.0%
1998	365,014	349,774	95.8%	13,019	362,793	99.4%
1999	377,738	358,478	94.9%	11,927	370,405	98.1%
2000	403,120	371,715	92.2%	15,543	387,258	96.1%
2001						

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 respecified 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
1993	3,792	224,019,198	3,144,038	1.4%	829
1994	3,823	242,795,547	3,098,553	1.3%	811
1995	3,855	256,370,647	3,133,332	1.2%	813
1996	3,881	254,367,477	3,134,342	1.2%	808
1997	3,908	235,805,417	3,133,332	1.3%	802
1998	3,934	251,976,181	2,833,433	1.1%	720
1999	3,961	263,456,885	2,178,683	0.8%	550
2000	3,988	276,368,707	2,315,533	0.8%	581
2001	4,015	291,500,000	2,944,839	1.0%	733
2002	4,066	Projected	Estimated		

SOURCE: U.S. Department of Commerce, Bureau of the Census, released March 2001 and provided by Kentucky Economic Development Cabinet.
NOTE: General long-term bonded debt outstanding includes adjustments to eliminate bonds accounted for by Proprietary Funds, State Universities, as well as adjustments reflecting updated amortization schedules, bonds redeemed prior to scheduled maturity, and correction of maturity.

COMMONWEALTH OF KENTUCKY
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO
TOTAL EXPENDITURES FOR GENERAL GOVERNMENTAL FUNCTIONS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

For the Year Ended June 30	General Long - Term Debt Service	Total Expenditures	Ratio
1993	284,323	8,014,622	3.5%
1994	357,122	8,058,025	4.4%
1995	416,756	9,177,980	4.5%
1996	392,130	9,473,403	4.1%
1997	332,127	10,147,728	3.3%
1998	438,029	10,644,432	4.1%
1999	357,698	11,095,291	3.2%
2000	302,708	12,066,754	2.5%
2001	410,058	12,605,995	3.3%
2002			

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report.

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

For the Year Ended June 30	Unrestricted Current Funds Beginning Balance	Unrestricted Current Funds Revenues and Additions	Unrestricted Current Funds Expenditures and Transfers	Net Revenue Available for Debt Service Requirements	Debt Service Requirements	Coverage
1993	144,239	1,378,410	1,365,768	156,881	108,448	1.45
1994	156,881	1,446,681	1,405,432	198,130	81,304	2.44
1995	198,435	1,531,477	1,475,510	254,402	81,113	3.14
1996	254,402	1,584,733	1,587,982	251,153	84,791	2.96
1997	251,153	1,763,331	1,743,647	270,837	84,962	3.19
1998	270,778	1,788,100	1,782,483	276,395	88,252	3.13
1999	265,694	1,961,010	1,897,023	329,681	84,782	3.89
2000	314,956	2,063,076	2,084,044	293,988	86,164	3.41
2001	301,203	2,186,443	2,185,997	301,649	83,069	3.63
2002						

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

**COMMONWEALTH OF KENTUCKY
DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 1992-2001**

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
1992	3,756,358	17,320	6.9%
1993	3,792,288	17,815	6.2%
1994	3,823,215	18,514	5.4%
1995	3,855,248	19,215	5.4%
1996	3,881,051	20,155	5.6%
1997	3,907,816	21,215	5.4%
1998	3,934,310	22,353	4.6%
1999	3,960,825	23,237	4.5%
2000	4,041,769	24,057	4.1%
2001	4,065,556	0	5.5%

SOURCE: U.S. Department of Commerce, Bureau of Census; U.S. Department of Commerce, Bureau of Economic Analysis; Kentucky Cabinet for Human Resources

**COMMONWEALTH OF KENTUCKY
CONSTRUCTION AND BANK DEPOSITS
FOR CALENDAR YEARS 1992-2001**

(Expressed in Thousands, Except Number of Units)

For the Year Ended December 31	Non-Residential Construction		Residential Construction		Bank Deposits
	Number of Units	Value	Number of Units	Value	
1992	8,437	677,181	14,689	1,023,682	34,882,000
1993	8,952	797,365	15,907	1,172,971	35,112,000
1994	10,024	801,728	18,554	1,370,011	37,352,000
1995	10,025	1,247,662	17,625	1,276,432	37,893,000
1996	See Note	See Note	18,778	1,484,079	39,769,000
1997	See Note	See Note	18,114	1,483,895	38,247,000
1998	See Note	See Note	20,640	1,730,505	39,921,000
1999	See Note	See Note	21,581	1,909,051	37,173,000
2000	See Note	See Note	18,460	1,767,181	48,345,000
2001	See Note	See Note	17,685	1,817,684	52,519,000

SOURCE: U.S. Department of Commerce, Bureau of Census; Federal Deposit Insurance Corporation

NOTE: Beginning January 1996, the Bureau of Census, Building Permits Section has discontinued collection of Nonresidential Data due to budget reductions.

COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 1992-2001
(Expressed in Thousands, Except Percent Data)

Source	1992		1993		1994		1995		1996	
	Amount	Percent								
Farm	\$ 1,218,102	2.7%	\$ 1,038,066	2.2%	\$ 1,062,592	2.1%	\$ 651,984	1.3%	\$ 1,005,924	1.8%
Agriculture Services, Forestry, Fisheries and Others	292,038	0.6%	337,604	0.7%	319,445	0.6%	341,495	0.7%	343,124	0.6%
Mining	1,491,082	3.3%	1,426,899	3.0%	1,435,725	2.9%	1,322,910	2.6%	1,280,840	2.4%
Manufacturing	9,774,810	21.4%	10,274,871	21.5%	10,975,287	21.9%	11,424,900	22.1%	11,589,170	21.3%
Construction	2,463,938	5.4%	2,684,113	5.6%	2,875,033	5.7%	2,877,756	5.6%	3,076,508	5.7%
Wholesale and Retail Trade	6,608,880	14.4%	6,911,573	14.5%	7,355,968	14.7%	7,828,796	15.1%	8,196,534	15.1%
Finance, Insurance and Real Estate	2,075,570	4.5%	2,354,124	4.9%	2,330,102	4.7%	2,469,422	4.8%	2,638,070	4.8%
Transportation and Public Utilities	3,179,558	7.0%	3,321,852	7.0%	3,577,361	7.1%	3,702,916	7.2%	3,923,834	7.2%
Services	9,382,867	20.5%	9,951,554	20.9%	10,454,944	20.9%	11,128,883	21.5%	11,967,410	22.0%
Government and Government Enterprises	9,261,611	20.2%	9,389,110	19.7%	9,692,029	19.4%	10,032,371	19.4%	10,424,575	19.1%
Earnings by Place of Work	<u>\$ 45,748,456</u>	100.0%	<u>\$ 47,689,766</u>	100.0%	<u>\$ 50,078,486</u>	100.0%	<u>\$ 51,781,433</u>	100.0%	<u>\$ 54,445,989</u>	100.0%

Source	1997		1998		1999		2000		2001	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,089,167	1.9%	\$ 952,853	1.6%	\$ 517,624	0.8%	\$ 1,483,888	2.2%	\$	#DIV/0!
Agriculture Services, Forestry, Fisheries and Others	381,648	0.7%	418,171	0.7%	459,520	0.7%	486,861	0.7%		#DIV/0!
Mining	1,285,507	2.2%	1,349,932	2.2%	1,317,251	2.1%	1,271,373	1.9%		#DIV/0!
Manufacturing	12,115,128	21.0%	12,627,586	20.8%	13,250,867	20.7%	13,801,043	20.1%		#DIV/0!
Construction	3,327,837	5.8%	3,564,392	5.9%	3,860,806	6.0%	4,185,053	6.1%		#DIV/0!
Wholesale and Retail Trade	8,799,702	15.3%	9,416,822	15.5%	10,058,449	15.7%	10,443,036	15.2%		#DIV/0!
Finance, Insurance and Real Estate	2,879,267	5.0%	3,047,100	5.0%	3,179,882	5.0%	3,683,236	5.4%		#DIV/0!
Transportation and Public Utilities	4,139,835	7.2%	4,606,622	7.6%	4,900,018	7.6%	5,351,130	7.8%		#DIV/0!
Services	12,756,562	22.1%	13,696,971	22.5%	14,746,767	23.0%	15,582,556	22.7%		#DIV/0!
Government and Government Enterprises	10,820,700	18.8%	11,137,773	18.3%	11,772,286	18.4%	12,397,504	18.0%		#DIV/0!
	<u>\$ 57,595,353</u>	100.0%	<u>\$ 60,818,222</u>	100.0%	<u>\$ 64,063,470</u>	100.0%	<u>\$ 68,685,680</u>	100.0%	<u>\$ 0</u>	#DIV/0!

SOURCE: Kentucky Cabinet for Economic Development, Division of Research
NOTE: Percentages may not add to 100% due to rounding.

COMMONWEALTH OF KENTUCKY
TOP 10 MANUFACTURERS
 (Ranked by Number of Employees)
2002

<u>Company</u>	<u>Number of Plants</u>	<u>Number of Employees</u>
Ford Motor Company	2	10,900
General Electric Company	6	9,725
Toyota Motor Corporation	3	8,714
Johnson Controls, Incorporated	16	5,109
Lexmark International Group	1	5,000
Dana Corporation	14	4,592
Toyota Tsusho	9	3,821
Emerson Electric Company	7	2,641
Publishers Printing	2	2,583
R.R. Donnelly and Sons Company	2	2,299

SOURCE: 2001 Kentucky Directory of Manufacturers, Harris InfoSource in cooperation with the Kentucky Cabinet for Economic Development.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF MISCELLANEOUS STATISTICS
JUNE 30, 2002

Adoption of Kentucky Constitution	1792
Form of Government	Legislative, Executive, Judicial
Land Area (square miles)	39,650
Miles of Highways, Roads and Streets	78,912

Police Protection:

Statewide Jurisdiction	
Number of Kentucky State Police Posts	16
Number of Sworn Officers	954
Number of Other Statewide Agencies	6
Number of Officers	476
County Jurisdictions	
Number of Sheriffs	120
Number of Deputies	1,515
Number of County Departments	11
Number of County Officers	618
Local Jurisdictions	
Number of Departments	250
Number of Sworn Officers	3,892
College and Universities	
Number of Departments	8
Number of Sworn Officers	144
Other Law Enforcement/Task Forces/Airport Security/ County Schools Security	
Number of Departments	13
Number of Sworn Officers	173

Higher Education:

State Supported Universities and Community Colleges	
Number of Campuses	22
Number of Full-Time Instructional Faculty	5,616
Number of Students, Fall 2000	158,084
Private Colleges and Universities	
Number of Campuses	21
Number of Full-Time Instructional Faculty	1,420
Number of Students, Fall 2000	29,168

State Supported Recreation:

Number of Resort Parks	17
Number of Recreation Parks	22
Number of Historic Sites	10
Area of State Parks (acres)	43,948
Number of 2002 Overnight Visitors	503,445

Permanent Full-Time Executive Branch Employees 37,219

SOURCES: Kentucky Revised Statutes
Kentucky Transportation Cabinet
Kentucky State Police
Kentucky Council on Higher Education
Kentucky Department of Parks
Kentucky Personnel Cabinet

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