

*In the opinion of Bond Counsel, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, interest on the 1997 Series A Notes (defined below) is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes, upon the conditions and subject to the limitations set forth herein under the caption "TAX TREATMENT." Interest on the 1997 Series A Notes is also exempt from Kentucky income tax, and the 1997 Series A Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

**\$200,400,000**  
**KENTUCKY ASSET/LIABILITY COMMISSION**  
**GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES**  
**1997 SERIES A**

**Dated: Date of Delivery****Due: June 25, 1998****Interest Rate: 4.50%****Priced to Yield: 3.85%**

The Kentucky Asset/Liability Commission (the "Commission") is issuing its General Fund Tax and Revenue Anticipation Notes, 1997 Series A (the "1997 Series A Notes") to finance General Fund cash flow requirements of the Commonwealth of Kentucky (the "Commonwealth") for the fiscal year ending June 30, 1998. The 1997 Series A Notes are issuable only in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. When issued the 1997 Series A Notes will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 1997 Series A Notes. Purchasers will not receive certificates representing their ownership interest in the 1997 Series A Notes purchased. Accordingly, principal of and interest on the 1997 Series A Notes will be paid by Bank One, Kentucky, NA, Lexington, Kentucky, as Trustee, Registrar and Paying Agent (in such capacities, the "Trustee," "Registrar" and "Paying Agent"), directly to DTC or Cede & Co., its nominee. DTC will, in turn, remit or direct its nominee to remit such principal and interest to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the 1997 Series A Notes. See "THE 1997 SERIES A NOTES — Book-Entry-Only System" herein.

The 1997 Series A Notes are payable in lawful money of the United States of America and interest on the 1997 Series A Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal and interest on the 1997 Series A Notes are payable at maturity.

The 1997 Series A Notes are direct obligations of the General Fund of the Commonwealth and are payable from taxes and certain revenues collected by the Commonwealth during Fiscal Year 1998. Under Kentucky law, taxes and revenues in amounts sufficient to pay the 1997 Series A Notes and interest thereon are required to be deposited into the General Fund, which shall be held by the Finance and Administration Cabinet of the Commonwealth (the "Finance and Administration Cabinet") for the benefit of the Holders of the 1997 Series A Notes. The Holders of the 1997 Series A Notes shall have a priority lien on and security interest in all taxes and revenues required to be deposited into the General Fund, and such taxes and revenues are pledged to the payment of the principal of the 1997 Series A Notes and interest thereon. **The 1997 Series A Notes are special limited obligations of the Commission and are payable solely from the taxes and revenues pledged thereto. See "SECURITY FOR THE 1997 SERIES A NOTES" herein.**

The 1997 Series A Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 1997 SERIES A RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

The 1997 Series A Notes are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Peck, Shaffer & Williams L.L.P., Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Brown, Todd & Heyburn PLLC, Louisville, Kentucky. It is expected that the 1997 Series A Notes in definitive form will be available for delivery in New York, New York, on or about July 10, 1997.

**Bear, Stearns & Co. Inc.**

**J.J.B. Hilliard, W.L. Lyons, Inc.**  
**First Kentucky Securities Corp.**

**J.C. Bradford & Co.**  
**Seasongood & Mayer**

**Morgan Keegan & Company, Inc.**  
**Ross, Sinclair & Associates, Inc.**

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the 1997 Series A Notes by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale. The information set forth herein has been obtained from the Kentucky Asset/Liability Commission and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Kentucky Asset/Liability Commission since the date hereof.

THE 1997 SERIES A NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE 1997 SERIES A NOTES IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE 1997 SERIES A NOTES AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE KENTUCKY ASSET/LIABILITY COMMISSION AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE 1997 SERIES A NOTES THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 1997 SERIES A NOTES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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# **KENTUCKY ASSET/LIABILITY COMMISSION**

## **COMMISSION MEMBERS**

John P. McCarty, Secretary of the Finance and Administration Cabinet, Chairperson  
Margaret A. Handmaker, Secretary of the Revenue Cabinet, Vice Chairperson  
A.B. Chandler, III, Attorney General  
John K. Hamilton, State Treasurer  
Dr. James R. Ramsey, State Budget Director

## **SECRETARY TO THE COMMISSION**

Gordon L. Mullis, Jr. - Executive Director of the Office of  
Financial Management and Economic Analysis

## **TRUSTEE**

Bank One, Kentucky, NA  
Lexington, Kentucky

## **BOND COUNSEL**

Peck, Shaffer & Williams L.L.P.  
Covington, Kentucky

## **UNDERWRITERS' COUNSEL**

Brown, Todd & Heyburn PLLC  
Louisville, Kentucky

## SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the 1997 Series A Notes and does not purport to be comprehensive. Such information is qualified in its entirety by reference to the more detailed information and descriptions appearing elsewhere in this Official Statement and should be read together therewith. The terms used in this Summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. The offering of the 1997 Series A Notes is made only by means of the entire Official Statement, including the Exhibits hereto. No person is authorized to make offers to sell, or solicit offers to buy, the 1997 Series A Notes unless the entire Official Statement is delivered in connection therewith.

- |                        |   |
|------------------------|---|
| <b>The Commission</b>  | The Kentucky Asset/Liability Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" (Page 17).  |
| <b>The Offering</b>    | The Commission is offering its \$200,400,000 General Fund Tax and Revenue Anticipation Notes, 1997 Series A (the "1997 Series A Notes").  |
| <b>Authority</b>       | The 1997 Series A Notes are being issued pursuant to House Bill No. 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky, Sections 1 through 11 inclusive (the "Act"), a Resolution adopted by the Commission on June 18, 1997 (the "Resolution"), and the Trust Indenture dated as of July 1, 1997 (the "Indenture"), between the Commission and Bank One, Kentucky, NA as trustee (the "Trustee"). |
| <b>Use of Proceeds</b> | The proceeds of the 1997 Series A Notes will be used by the Commonwealth to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 1998 ("Fiscal Year 1998") in anticipation of taxes and revenues to be collected during Fiscal Year 1998 and to pay the costs of issuance of the 1997 Series A Notes.   |
| <b>Security</b>        | The 1997 Series A Notes are direct obligations of the General Fund and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the 1997 Series A Notes and interest thereon into the General Fund. The  |

Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The lien on and security interest in taxes and revenues created by the Act and Indenture is prior and superior to any other lien or security interest created by law or otherwise.

The 1997 Series A Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission may issue Additional Notes on a parity basis with the 1997 Series A Notes under the circumstances outlined in the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE 1997 SERIES A INDENTURE" (Page 24).

**THE 1997 SERIES A NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE TAXES AND REVENUES PLEDGED THERETO.**

**Features**

The 1997 Series A Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. Interest on the 1997 Series A Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal of and interest on the 1997 Series A Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the 1997 Series A Notes are payable in lawful money of the United States to the registered holder of the 1997 Series A Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE 1997 SERIES A NOTES - Book-Entry-Only System" (Page 2).

**Redemption**

The 1997 Series A Notes are not subject to redemption prior to their maturity.

**Tax Status**

In the opinion of Bond Counsel for the 1997 Series A Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 1997 Series A Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the 1997 Series A Notes is also of the opinion that interest on the 1997 Series A Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the 1997 Series A Notes is of the opinion that interest on the 1997 Series A Notes is exempt from income taxation by the Commonwealth and the 1997 Series A Notes

are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" (Page 34), and Exhibit C.

**Continuing  
Disclosure**

On November 10, 1994, the Securities and Exchange Commission adopted in final form certain amendments (the "Amendments") to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended. In general, the Amendments prohibit an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually certain information, including audited financial information, and notice of various events described in the Amendments if material. The Amendments apply to municipal securities (such as the 1997 Series A Notes) sold on or after July 3, 1995. In order to enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

**General**

The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management and Economic Analysis.

**Information**

Information regarding the 1997 Series A Notes is available by contacting the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or the Underwriters, Bear, Stearns & Co. Inc., 245 Park Avenue, 10th Floor, New York, New York 10167, (212) 272-2193.

## **OFFICIAL STATEMENT**

**\$200,400,000**

### **KENTUCKY ASSET/LIABILITY COMMISSION GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES 1997 SERIES A**

#### **INTRODUCTION**

This Official Statement, which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of \$200,400,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 1997 Series A (the "1997 Series A Notes"). The 1997 Series A Notes are being issued pursuant to House Bill No. 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky, Sections 1 through 11 inclusive (the "Act"), a Resolution adopted by the Commission on June 18, 1997 (the "1997 Series A Resolution"), and the Trust Indenture dated as of July 1, 1997 (the "Indenture"), between the Commission and Bank One, Kentucky, NA, Lexington, Kentucky, as trustee (the "Trustee"). The Commission may issue subsequent series of General Fund Tax and Revenue Anticipation Notes (the "Notes") which will be secured by the Indenture. The 1997 Series A Notes are the first Notes to be issued under the Indenture.

The proceeds of the 1997 Series A Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 1998 ("Fiscal Year 1998") in anticipation of taxes and revenues to be collected during Fiscal Year 1998 and to pay the costs of issuance of the 1997 Series A Notes.

The 1997 Series A Notes are payable as described under the caption "THE 1997 SERIES A NOTES" herein. The 1997 Series A Notes are secured by the sources discussed under the caption "SECURITY FOR THE 1997 SERIES A NOTES" herein.

The summaries and references to the Act, the Indenture and the 1997 Series A Notes included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management and Economic Analysis ("OFMEA"), 702 Capitol Avenue, Room 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of Bear, Stearns & Co. Inc., 245 Park Avenue, 10th Floor, New York, New York 10167, (212) 272-2193.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them under the caption "DEFINITIONS" herein, in the 1997 Series A Resolution or in the Indenture.

## THE 1997 SERIES A NOTES

### General Provisions

The 1997 Series A Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple thereof. Interest on the 1997 Series A Notes will be computed on the basis of a 360-day year and a 30-day month and accrued from the date of issuance. Principal of and interest on the 1997 Series A Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the 1997 Series A Notes are payable in lawful money of the United States to the registered holder of the 1997 Series A Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE 1997 SERIES A NOTES - Book-Entry-Only System."

### Redemption

The 1997 Series A Notes are not subject to redemption prior to their maturity.

### Authorization

The General Assembly of the Commonwealth of Kentucky (the "General Assembly") enacted the Act at its Extraordinary Session in May, 1997. The Commission held its initial meeting on June 18, 1997, and at that meeting adopted the 1997 Series A Resolution, which (i) authorized the Indenture, (ii) authorized and approved the issuance of not to exceed Two Hundred Fifty Million Dollars (\$250,000,000) in outstanding principal amount of 1997 Series A Notes, subject to approval by a representative of OFMEA acting as authorized officer of the Commission (the "Authorized Officer") and (iii) directed the preparation and distribution of this Official Statement. On July 9, 1997, the Commission's Authorized Officer approved the issuance of the 1997 Series A Notes, the Official Statement and the delivery of the 1997 Series A Notes to the Underwriters.

### Book-Entry-Only System

The 1997 Series A Notes, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the 1997 Series A Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities and Exchange Act of 1934, as amended.

DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "DTC Participants"), thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC

system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC Participants will be credited in the records of DTC with the amount of such DTC Participants' interests in the 1997 Series A Notes. Beneficial ownership interests in the 1997 Series A Notes in the amount of \$100,000 or any integral multiple thereof may be purchased by or through DTC Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive a certificate representing his beneficial ownership interest. The ownership interest of each Beneficial Owner will be recorded through the records of the DTC Participant from which he purchased his 1997 Series A Notes. Transfers of ownership interests in the 1997 Series A Notes will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive a written confirmation of the ownership interest acquired by him in the 1997 Series A Notes from a DTC Participant.

So long as Cede & Co. is registered owner of the 1997 Series A Notes, as nominee of DTC, all references herein to the "Holder" or "Holders" of the 1997 Series A Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the 1997 Series A Notes. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of redemption or other communications to DTC, which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant.

Payments of principal of and interest on the 1997 Series A Notes will be paid by the Commission directly to DTC or its nominee, Cede & Co. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance can be given by the Commission that DTC and DTC Participants will make prompt transfer of payments to Beneficial Owners. The Commission is not responsible or liable for payment by DTC or DTC Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

For every transfer and exchange of the 1997 Series A Notes, the Holders may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

DTC may discontinue providing its services with respect to the 1997 Series A Notes at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law, or the Commission may terminate its participation in the system of transfers through DTC at any time.

#### **Discontinuation of Book-Entry-Only System; Delivery of Replacement Notes and Payment**

In the event that the book-entry-only system is discontinued, the Commission will execute and make available for delivery replacement Notes in the form of bearer certificates in

denominations of \$100,000 each or any integral multiple thereof. In such event, the principal on the 1997 Series A Notes will be payable in lawful money of the United States of America at the principal office of the Paying Agent upon presentation and surrender thereof. Interest on the 1997 Series A Notes will be paid by check or draft mailed on each Interest Payment Date to the Holder as of the Record Date, at such address as shall be shown by the registration records of the Registrar or at such other address as is furnished to the Paying Agent in writing by such Holder. Notwithstanding the foregoing, payment of interest on the 1997 Series A Notes, at the option of a Holder of at least \$1,000,000 in principal amount of 1997 Series A Notes, may be by wire transfer to such Holder upon the written request of such Holder delivered to the Paying Agent at least three Business Days prior to the Record Date (as defined herein), to the bank account number specified by such Holder.

## **SECURITY FOR THE 1997 SERIES A NOTES**

### **General**

The 1997 Series A Notes and any Additional Notes issued under the Indenture are direct obligations of the General Fund of the Commonwealth and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the Notes and interest thereon into the General Fund. The Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The Act further provides that the lien on and security interest in taxes and revenues created by the Act and Indenture is prior and superior to any other lien or security interest created by law or otherwise.

The 1997 Series A Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

### **Limited Obligations of the Commission**

The 1997 Series A Notes are special and limited obligations of the Commission. The 1997 Series A Notes are payable solely from the taxes and revenues pledged thereto, as described above.

### **Estimated Taxes and Revenues for Fiscal Year 1998**

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop Estimated Revenues as defined in the Act (the "Estimated Revenues") for the General Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The Group is comprised of six individuals, four nominated by the Executive Branch and two appointed by the Legislative Branch. The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each regular session of the



General Assembly. The Secretary of the Finance and Administration Cabinet (the "Finance and Administration Cabinet") can convene the Group as the need arises to review and revise the forecast. The most recent revision of the forecast was made on April 18, 1997 and provided for an increase in both Fiscal Year 1997 and 1998. The official forecast for Fiscal Year 1998 is \$5,723.9 million. The official forecast, when combined with the estimated beginning General Fund balance of \$252.2 million, operating transfers-in of \$12.9 million and \$29.9 million of EMPOWER Kentucky savings, projects total General Fund resources of \$6,018.9 million.

The Office of Financial Management and Economic Analysis ("OFMEA") provides staff to the Group and has day-to-day responsibility for monitoring receipts activity through its Revenue Estimating staff. The staff prepares the monthly receipts report that is required by law and also prepares the Quarterly Economic and Revenue Report (the "Report"). The Report provides a review of the most recently concluded quarter of activity and also contains a staff analysis of the expected receipts for a period three quarters into the future. This information is distributed to executive, judicial and legislative branches of state government and others.

Table 1 displays General Fund Total Receipts since Fiscal Year 1986-87. Data for Fiscal Year 1997 represents actual collections, net of refunds, through the month of May and a projection for the month of June. OFMEA has projected the maximum cumulative cashflow deficit for the General Fund for Fiscal Year 1998 to be \$205.9 million. The maximum cumulative cashflow deficit calculation is based upon six years of historical daily General Fund cash balance data and excludes \$150 million of the \$200 million Budget Reserve Trust Fund (see "Budget Reserve Trust Fund" below). The maximum cumulative cashflow deficit for Fiscal Year 1998 is expected to occur during the month of October. The Commission has sized the 1997 Series A Notes to ensure that the requirements of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder are met.

**Table 1**  
**General Fund Total Receipts**

<b><u>Fiscal Year</u></b>	<b><u>Total Receipts</u></b>	<b><u>Percent Change</u></b>
1996-97	\$5,663,553,289	
1995-96	5,336,883,824	6.1%
1994-95	5,154,077,980	3.5%
1993-94	4,467,078,322	10.9%
1992-93	4,511,721,822	3.0%
1991-92	4,360,835,365	3.5%
1990-91	4,311,675,984	1.1%
1989-90	3,560,983,377	21.1%
1988-89	3,289,923,473	8.2%
1987-88	3,030,205,722	8.6%
1986-87	2,874,881,543	5.4%
		5.0%

Table 2 displays the projected General Fund revenue sources and uses on a monthly basis for Fiscal Year 1998. While the Official Estimate is prepared on an annual basis and reviewed quarterly, the data in Table 2 has been converted to a monthly basis to reflect the seasonality of anticipated cashflows based upon historical General Fund collections.

**Table 2**  
**Projected Revenue Sources**

**TABLE 2**  
**FY98 - PROJECTED REVENUES & EXPENDITURES**

<b>Estimated Beginning Balance</b>	270,500,000	448,502,400	274,602,400	350,702,400	200,202,400	190,602,400	321,602,400	373,602,400	356,202,400	315,102,400	361,602,400	283,702,400	<b>Total</b>
<b>Revenue Source</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	
Sales Tax	125,600,000	135,900,000	180,800,000	154,000,000	158,900,000	194,100,000	198,100,000	164,100,000	146,400,000	193,500,000	147,200,000	188,100,000	1,986,700,000
Individual Income Tax	143,100,000	154,800,000	206,000,000	175,400,000	181,100,000	221,200,000	225,700,000	187,000,000	166,800,000	220,500,000	167,700,000	214,400,000	2,263,700,000
Corporate Income Tax	17,400,000	18,900,000	25,100,000	21,400,000	22,000,000	26,800,000	27,500,000	22,800,000	20,300,000	26,800,000	20,400,000	26,100,000	275,600,000
Coal Severance Tax	10,400,000	11,300,000	15,000,000	12,800,000	13,200,000	16,100,000	16,500,000	13,600,000	12,200,000	16,100,000	12,200,000	15,600,000	165,000,000
Property Tax	23,400,000	25,300,000	33,700,000	28,700,000	29,600,000	36,200,000	36,900,000	30,600,000	27,300,000	36,100,000	27,400,000	35,100,000	370,300,000
Lottery	9,900,000	10,700,000	14,300,000	12,200,000	12,600,000	15,300,000	15,700,000	13,000,000	11,600,000	15,300,000	11,600,000	14,900,000	157,100,000
Other*	138,000,000	37,500,000	49,900,000	42,500,000	43,900,000	53,600,000	54,600,000	45,300,000	40,400,000	53,400,000	40,600,000	48,600,000	648,300,000
TRANS Sold	201,202,400												201,202,400
TRANS Investment Income**													11,090,392
	669,002,400	394,400,000	524,800,000	447,000,000	461,300,000	563,400,000	575,000,000	476,400,000	425,000,000	561,700,000	427,100,000	553,890,392	6,078,982,792
<b>Total Resources</b>	939,502,400	842,902,400	799,402,400	797,702,400	661,502,400	754,002,400	896,602,400	850,002,400	781,202,400	876,802,400	788,702,400	837,592,792	6,349,492,792
<b>Uses</b>	<b>July</b>	<b>August</b>	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>	<b>Total</b>
Education	215,600,000	250,800,000	196,300,000	264,100,000	206,400,000	188,900,000	230,200,000	216,900,000	204,200,000	226,600,000	221,900,000	216,900,000	2,638,800,000
Postsecondary Education	69,500,000	80,900,000	63,300,000	85,200,000	66,600,000	60,900,000	74,200,000	69,900,000	65,900,000	73,100,000	71,600,000	69,900,000	851,000,000
Legal Liabilities	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,900,000	17,400,000	214,300,000
Other Government	188,000,000	218,700,000	171,200,000	230,300,000	180,000,000	164,700,000	200,700,000	189,100,000	178,100,000	197,600,000	193,600,000	189,200,000	2,301,200,000
Expenditures	491,000,000	568,300,000	448,700,000	597,500,000	470,900,000	432,400,000	523,000,000	493,800,000	466,100,000	515,200,000	505,000,000	493,400,000	6,005,300,000
TRANS Principal Repayment													200,400,000
TRANS Interest Repayment													8,642,250
	491,000,000	568,300,000	448,700,000	597,500,000	470,900,000	432,400,000	523,000,000	493,800,000	466,100,000	515,200,000	505,000,000	702,442,250	6,214,342,250
<b>Total Uses</b>	491,000,000	568,300,000	448,700,000	597,500,000	470,900,000	432,400,000	523,000,000	493,800,000	466,100,000	515,200,000	505,000,000	702,442,250	6,214,342,250
<b>Ending Balance</b>	448,502,400	274,602,400	350,702,400	200,202,400	190,602,400	321,602,400	373,602,400	356,202,400	315,102,400	361,602,400	283,702,400	135,150,542	135,150,542
<b>Budget Reserve Trust Fund</b>													
Unrestricted	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Restricted	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000	150,000,000

\*Includes Operating Transfers In, Fund Substitution, and EMPOWER Kentucky savings.  
EMPOWER Kentucky savings exclude TRANS benefit.

\*\*Projected

## **General Fund Budget Reduction Plan**

Pursuant to KRS 48.130 and 48.600, a General Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in Estimated Revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. Direct services, obligations essential to the minimum level of constitutional functions, and other items that may be specified in the Budget Act, are exempt from the requirements of this Plan. No budget revision shall be taken by a branch government head in excess of the actual or projected deficit.

The Governor, the Chief Justice of the Supreme Court, and the Chairmen of the Legislative Research Commission shall direct and implement reductions in allotments and appropriations only for their respective branch budget units as may be necessary as well as other measures which shall be consistent with the provisions of branch budget bills.

In the event of a revenue shortfall under the provisions of KRS 48.120, General Fund budget reduction actions shall be implemented in the following sequence:

1. The Local Government Economic Assistance and the Local Government Economic Development Funds shall be adjusted by the Secretary of the Finance and Administration Cabinet to equal revised estimates of receipts.
2. Unappropriated funds available in the General Fund Surplus Account shall be applied toward the shortfall.
3. Transfers of excess unappropriated and unbudgeted restricted funds other than fiduciary funds shall be applied as determined by the head of each branch for its respective budget unit.
4. Excess General Fund appropriations derived from reduced debt service requirements.
5. Excess General Fund appropriations which accrue as a result of personnel vacancies and turnover, and reduced requirements for operating expenses, grants, and capital outlay shall be determined and applied by the branch government heads of the executive, legislative and judicial departments of state government for their respective branches. The branch heads shall certify the available amounts which shall be applied to budget units within the respective branches and shall promptly transmit the certification to the Secretary of the Finance and Administration Cabinet and the Legislative Research Commission. The Secretary of the Finance and Administration Cabinet shall execute the certified actions as transmitted by the branch heads.

Branch government heads shall take care, by their respective actions, to protect, preserve, and advance the fundamental health, safety, legal and social welfare, and educational well being of the citizens of the Commonwealth.

6. Monies available in the Budget Reserve Trust Fund shall be applied in an amount not to exceed \$50,000,000 in each fiscal year.
7. If actions contained in one (1) through six (6) (above) are insufficient to eliminate the revenue shortfall by up to five (5) percent of the enacted General Fund revenue receipts, then the Governor is empowered and directed to take necessary actions with respect to the executive branch budget units to balance the budget.

### **The Budget Reserve Trust Fund**

The Commonwealth established the Budget Reserve Trust Fund (the "Trust Fund") as a statutory account in the 1995 Third Extraordinary Session of the General Assembly. The provisions for the Trust Fund are found in KRS 48.705 which outlines the manner in which funds may be added or withdrawn. The Trust Fund currently has a balance of \$200 million which was attained upon the conclusion of the fiscal year ended June 30, 1996. The General Assembly, in both the 1996 regular session and the Extraordinary Session of 1997, indicated its preference that the Trust Fund be maintained at current levels.

The Biennial Budget Act for Fiscal Years 1997 and 1998 contains provisions which permit the Governor to access up to \$50 million for necessary governmental expenses without the approval of the Legislature. The remaining \$150 million may only be accessed with the approval of the General Assembly in a regular or special session. All sums appropriated or deposited to the Trust Fund do not lapse at the close of the fiscal year, but carry forward into the next fiscal year and shall remain available for the purposes outlined in KRS 48.705.

Table 3 below displays Budget Reserve Trust Fund Year End Balances since Fiscal Year 1993.

**Table 3**  
**Budget Reserve Trust Fund Year End Balances**

<u>Fiscal Year</u>	<u>Year End Balance</u>
1997	\$ 200,000,000
1996	200,000,000
1995	100,000,000
1994	90,000,000
1993	28,500,000

See "THE COMMONWEALTH" herein and Exhibit A and Exhibit B for additional financial information on the Commonwealth of Kentucky.

### **Parity Obligations**

The Commission may, as provided in the Indenture, from time to time issue Additional Notes on a basis of parity as to security and source of payment with the 1997 Series A Notes; provided that the aggregate principal amount of all Notes outstanding shall not exceed \$350,000,000. Such Additional Notes may be issued in one or more Interest Rate Modes. See the caption "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE INDENTURE--Issuance of Notes, Additional Notes and Other Obligations" herein.

### **THE COMMONWEALTH**

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenies to be settled by pioneers. Kentucky is bounded by the Ohio River to the north and the Mississippi River to the west, and is bordered by the States of Illinois, Indiana, Ohio, West Virginia, Tennessee, Missouri and the Commonwealth of Virginia.

The Commonwealth's economy in many ways resembles a scaled-down version of the U.S. economy in its diversity. The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified modern economy including manufacturing of industrial machinery, automobiles and automobile parts, consumer appliances, and nondurable goods such as apparel. In addition, Kentucky's nonmanufacturing industries have grown considerably in recent years, with strong gains in air transportation, health and business services, and retail trade. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

Certain information regarding debt issuing authorities of the Commonwealth is included in Exhibit A hereto.

Certain information regarding the financial operations of the Commonwealth is included in *The Kentucky Comprehensive Annual Financial Report* attached hereto as Exhibit B. *The Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, General Fund Condition-Budgetary Basis, General Governmental Functions-GAAP Basis, Debt Administration, Cash Management, Risk Management and Funds. This information is detailed on pages 5 through 11 of *The Kentucky Comprehensive Annual Financial Report*. In addition, certain information is set forth in the Notes to Combined Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* beginning on page 36, including information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans.

Certain general information pertaining to the Commonwealth is included in the "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* from page 164 through page 176, including Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the Bonds to comply with the provisions of Rule 15c2-12, See "CONTINUING DISCLOSURE." In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report and Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with depositories as required under Rule 15c2-12.

### **Fiscal Year 1994**

General Fund revenue on a budgetary basis for 1994 was \$4.76 billion, an increase of 5.1% over 1993. This amount included \$4.65 billion in tax and non-tax receipts, and \$117.10 million of operating transfers-in. Taxes represented 93.5% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1994 totaled \$4.65 billion, including Operating Transfers Out of \$180.65 million. During 1994, expenditures increased by 9.5% and transfers decreased by 59.7% compared to 1993. The general governmental functions included \$662.96 million of expenditures and \$2.22 million of transfers for eight State supported universities, which together amounted to 14.3% of the General Fund total.

The General Fund had a 1994 budgetary undesignated fund balance of \$98,175,229. This was an increase of \$58,995,823 when compared to the 1993 year-end budgetary undesignated fund balance of \$39,219,406. In addition, the General Fund ended 1994 with a \$90,000,000 reservation of fund balance to establish a Budget Reserve Trust Fund.

General government functions on a GAAP basis are accounted for in four governmental funds - General, Special Revenue, Debt Service, and Capital Projects. Revenue for general governmental functions totaled \$8.75 billion for 1994, an increase of 3.0% over the amount recognized during 1993.

1994 Governmental Funds Revenue was \$257.7 million higher than 1993 as restated. Taxes went up \$318.0 million due primarily to collection of \$193.8 million more in Individual Income Tax and \$96.6 million more in Sales and Gross Receipts Taxes. The \$30.3 million drop in Other Revenues represents a return to normal after the unusually high level of accruals during 1993. Intergovernmental Revenue went down \$29.7 million, due to a drop in Federal Fund

receipts from agencies and instrumentalities of the United States Government. Charges for Services went up, but were more than offset by the combined drop in Licenses, Fees and Permits receipts, Interest and Investment earnings, and Fines and Forfeits collections.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$8.05 billion for 1994, an increase of 0.4% compared to 1993.

1994 Governmental Funds expenditures were \$35.5 million over 1993 as restated. Education, Arts and Humanities expenditures rose \$85.6 million because of the continuing funding priority for the Kentucky Education Reform Act ("KERA"). Human Resources and Transportation expenditures dropped \$59.4 million and \$30.7 million, respectively, in compliance with cutbacks to balance the budget and create the Budget Reserve Trust Fund. Natural Resources and Environmental Protection expenditures rose \$22.4 million due to the transfer of the Abandoned Mines Land Program from the Capital Outlay function. The \$70.2 million drop in Capital Outlay was more than offset by \$72.4 million in higher debt service costs resulting from \$33.4 million more in principal retirement and \$39.1 million more in interest and fiscal charges.

Ending fund balances for all governmental funds types increased 6.6%, from \$1.67 billion as restated from 1993, to \$1.78 billion in 1994. Of these totals, unreserved fund balances decreased 0.8% from \$967 million at June 30, 1993, to \$959 million at June 30, 1994.

During 1994, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible securities. The amount of investment income received was \$115,891,144. excluding pension trust funds. This amount represents a 13.85% decrease in interest earned on temporary investments compared to 1993.

### **Fiscal Year 1995**

General Fund revenue on a budgetary basis for 1995 was \$5.19 billion, an increase of 8.9% over 1994. This amount included \$5.15 billion in tax and non-tax receipts, and \$33.52 million of Operating Transfers In. Taxes represented 94.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1995 totaled \$5.01 billion, including Operating Transfers Out of \$262.17 million. During 1995, expenditures increased by 6.2% and transfers increased by 45.1% compared to 1994. The general government functions included \$679.74 million of expenditures and \$6.42 million of transfers for the eight State supported universities, which together amounted to 13.7% of the General Fund total.

The General Fund had a 1995 budgetary undesignated fund balance of \$261,007,822. This was an increase of \$162,832,593 when compared to the 1994 year-end budgetary undesignated fund balance of \$98,175,229. In addition, \$10 million was appropriated to the



Budget Reserve Trust Fund in July 1994, bringing the balance to \$100 million. The Budget Reserve Trust Fund was a line item in the Commonwealth's biennial budget.

Revenues for general governmental functions on a GAAP basis totaled \$9.50 billion for 1995, an increase of 8.6% over the amount recognized during 1994.

1995 Governmental Funds Revenue was \$749.6 million higher than in 1994. Higher Tax and Intergovernmental receipts accounted for 84% of the increase. Sales and Gross Receipts, Individual and Corporate Income, Property, and License and Privilege Taxes grew by a combined \$407 million. Inheritance and Estate Taxes were up \$3.4 million but offset by Coal Severance Taxes that declined by \$3.5 million. Miscellaneous Taxes dropped \$3 million. Federal fund receipts from the United States Government went up \$219.6 million. Receipts from other governments, up by a combined \$8.0 million in the General, Agency Revenue, and Other Special Revenue Funds, were offset by a \$4.4 million drop in the Transportation Fund. The Capital Projects Fund received \$2.6 million in grant receipts.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$8.76 billion for 1995, an increase of 8.7% compared to 1994.

1995 Governmental Funds Expenditures were \$703.0 million higher than in 1994. The Human Resources, Transportation, and Education, Arts and Humanities functions accounted for 89.9% of the increase. Significant growth categories included: \$315.9 million more in Human Resources for General Fund grants and Medicaid benefits payments funded in the Federal and Agency Revenue Funds; \$123.0 million more in the Transportation Fund costs including highways, motor vehicle regulation, Kentucky State Police enforcement, and general administration; and \$174.7 million more in General Fund grants awarded by the Education, Arts and Humanities Cabinet to local boards of education for continuing implementation of the Kentucky Education Reform Act of 1990.

Ending fund balances for all governmental fund types increased 19.3%, from \$1.75 billion as restated for 1994, to \$2.09 billion in 1995. Of these totals, unreserved fund balances increased 29.8%, from \$937.3 million as restated at June 30, 1994, to \$1.22 billion at June 30, 1995.

During 1995, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible securities. Investment income from those securities for 1995, excluding that from pension trust funds, was \$124,088,765, a 7.14% increase compared to 1994.

### **Fiscal Year 1996**

General Fund revenue on a budgetary basis for 1996 was \$5.38 billion, an increase of 3.8% over 1995. This amount included \$5.34 billion in tax and non-tax receipts, and \$47.27

million of Operating Transfers In. Taxes represented 94.5% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1996 totaled \$5.29 billion, including Operating Transfers Out of \$330.90 million. During 1996, expenditures increased by 4.5% and transfers increased by 26.2% compared to 1995. The general government function included \$698.56 million of expenditures and \$6.34 million of transfers for the eight State supported universities, which together amounted to 13.3% of the General Fund total.

The General Fund had a 1996 budgetary undesignated fund balance of \$223,427,568. This was a decrease of \$37,580,254 when compared to the 1995 year-end budgetary undesignated fund balance of \$261,007,822. In addition, the Kentucky General Assembly made the Budget Reserve Trust Fund a statutory account of the Commonwealth, and in November 1995 an additional \$100 million was appropriated to the Budget Reserve Trust Fund, bringing the balance to \$200 million.

Revenues for general governmental functions on a GAAP basis totaled \$10.31 billion for 1996, an increase of 3.9% over the amount recognized during 1995.

1996 Governmental Funds Revenue was \$386.0 million higher than in 1995. Higher Tax and Intergovernmental receipts account for 77.6% of the increase. Sales and Gross Receipts, Individual Income, Property, Severance, and Inheritance and Estate Taxes grew by a combined \$282.1 million, but were offset by Corporate Income, License and Privilege, and Miscellaneous Taxes, which fell by a combined \$70.5 million. Federal Fund receipts from the United States government went up \$59.9 million. Receipts from other governments rose by a combined \$3.3 million in General, Transportation, and Other Special Revenue Fund. Capital Projects Fund grant receipts increased by \$30.9 million compared to 1995.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$9.47 billion for 1996, an increase of 3.2% compared to 1995.

1996 Governmental Funds Expenditures were \$295.4 million higher than in 1995. Significant growth categories included: \$53.8 million more for highways in the Transportation Fund; an additional \$45.1 million for General Government Judgments and contingent liabilities in the General Fund; and a \$30.5 million rise in combined General Fund personal services costs for the Education, Arts and Humanities Cabinet and Workforce Development Cabinet.

Ending fund balances for all governmental fund types increased 12.0%, from \$2.07 billion as restated for 1995, to \$2.32 billion in 1996. Of these totals, unreserved fund balances increased 6.4%, from \$1.19 billion as restated at June 30, 1995, to \$1.27 billion at June 30, 1996.

During 1996, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible securities. Investment income from those

securities for 1996, excluding that from pension trust funds, was \$109,807,323, a 12.5% decrease compared to 1995.

### **Fiscal Year 1997 (Unaudited)**

The Commonwealth concluded Fiscal Year 1997 with \$5.66 million in General Fund Revenues, a growth of 6.1% over the prior year. Receipts for June totaled \$584.4 million, a 10.9% increase over the same period last year. The strong growth is attributable to better than expected performance in the Individual Income Tax which grew \$130 million over FY96, the Sales and Use Tax which exceeded FY96 by \$98.8 million and the Other Tax categories, which increased by over \$82 million.

The General Assembly has met twice in Extraordinary Session during the fiscal year. The first session passed landmark legislation dramatically reforming Workers Compensation laws in Kentucky. The broad ranging changes are currently being implemented, and have already led to reductions in rates paid by employers in the Commonwealth.

The second session focused on reorganization of the Commonwealth's post-secondary education programs, additional funding for those programs and legislation which created the Commission. The Commission will manage net interest rate exposure and provide for short-term borrowing for both cash management and capital needs of the Commonwealth.

### **Investment Policy**

The Commonwealth of Kentucky's investments are governed by KRS 42.500 *et seq.* and Kentucky Administrative Regulations Title 200 Chapter 14. The State Investment Commission, which is comprised of the Governor, the Treasurer, the Secretary of the Finance and Administration Cabinet and one gubernatorial appointee each from the Community Independent Banker's Association and the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The State Investment Commission is required to meet at least quarterly, and delegates the day to day investment management to the Office of Financial Management and Economic Analysis.

The Commonwealth maintains an average operating portfolio of approximately \$2.85 billion in cash and securities. The composition of investments as of May 31, 1997 is as follows: U.S. Treasury securities (30%), securities issued by agencies, corporations and instrumentalities of the United States Government (38%), repurchase agreements collateralized by the aforementioned (25%), municipal securities rated A or higher by Standard & Poor's or Moody's (1%), and money market securities rated A1-P1 or higher by S&P or Moody's (6%). Money market securities, which include Bankers' Acceptances, Commercial Paper and Certificates of Deposit, are limited to twenty percent (20%) of the total portfolio and ten million dollars (\$10,000,000) per issuer. The current yield of the portfolio is 5.94% and the portfolio has a modified duration of 1.07 years. The Commonwealth's investments are marked to market daily.

As of July 1, 1995, the Commonwealth's investments have been categorized into five distinct classifications or investment pools: the Short-Term Pool, Long-Term Pool, University Pool, Trust and Other Fund Pool and the U.S. Treasury and Agency Pool. The purpose of these pools and funds is to provide economies of scale that enhance yield, ease of 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 Long-Term Pool represents State Agency and Road Fund investments. The University Pool is dedicated solely to the investment of state held component unit funds. The Trust and Other Fund Pool consists of fiduciary fund accounts held for the benefit of others. The U.S. Treasury and Agency Pool, which invests solely in U.S. Treasury and Agency obligations, is where construction bond proceeds are deposited until expended for their intended purpose.

The Commonwealth of Kentucky engages in certain 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 has executed a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, fixed receiver interest rate swaps, and most 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 both put and call options on a covered basis; covered basis is defined as 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 (20%) of the total portfolio of treasury and agency securities. Historically, this commitment has been less than ten percent (10%) of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980's. This program is structured as a paired tri-party repurchase transaction with an approved custodian bank and a primary dealer acting as principal. The Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible collateral is defined as securities eligible pursuant to KRS 42.500. Currently, the Commonwealth receives a guaranteed 9.5 basis points of the average market value of securities in the program.

The State Investment Commission also engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. 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, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. Currently the Commonwealth has two swap transactions outstanding.

Both of these transactions are \$50 million notional amount fixed receiver swaps which have a stated final maturity of July 9, 1999.

House Bill 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional securities with excess funds available for investment. The new classes of securities include: United States dollar denominated corporate, Yankee and Eurodollar securities, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one of the three highest categories by a nationally recognized rating agency. Asset Backed Securities rated in the highest category by a nationally recognized rating agency are also available for investment.

On June 18, 1997 the State Investment Commission adopted policies and procedures to govern the purchase of the newly authorized securities. The new asset classes will be limited to twenty-five percent (25%) of the assets of any investment pool, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit, and twenty-five million (\$25,000,000) per issuer. These securities are limited to a stated final maturity of five (5) years or less. Asset Backed Securities are limited to a stated final maturity of ten (10) years or less and must have a weighted-average-life of not more than four (4) years. The State Investment Commission also adopted policies and procedures regarding the investment of funds in United States Agency Mortgage Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMOs"). MBS and CMOs are limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS are limited to a stated final maturity of ten (10) years or less with a weighted-average-life of four (4) years or less. CMOs are subject to the guidelines established by the Federal Financial Institutions Examination Council for CMO security purchases for regulated financial institutions. CMOs are further limited to a weighted-average-life of four (4) years or less.

## THE KENTUCKY ASSET/LIABILITY COMMISSION

### General Information

The Act created the Kentucky Asset/Liability Commission, which is composed of five members, each serving in an ex officio capacity. The members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairperson; the Attorney General; the State Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. The Secretary to the Commission is the Executive Director of OFMEA.

The current members of the Commission are as follows:

John P. McCarty	Secretary of the Finance and Administration Cabinet, Chairperson
Margaret A. Handmaker	Secretary of the Revenue Cabinet, Vice Chairperson
A. B. Chandler, III	Attorney General

John K. Hamilton                      State Treasurer

Dr. James R. Ramsey                State Budget Director

The Commission was created by the General Assembly to develop policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and interest-sensitive liabilities. The Commission is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue anticipation notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency. The 1997 Series A Notes are the first issue of obligations to be issued by the Commission.

The Commission expects to issue additional Notes in Fiscal Year 1998.

#### **Other Personnel of the Commission**

**Gordon L. Mullis, Jr.**, is the Secretary of the Commission. Mr Mullis is also the Executive Director of OFMEA. From October 1991 to August 1993 Mr. Mullis served as the Deputy Executive Director of Kentucky Educational Television ("KET"). Mr. Mullis was responsible for the administration and support, budgeting, personnel and operations and technology at KET. Mr. Mullis has twenty three years of experience in state government. Prior to joining KET, Mr. Mullis was the Deputy Executive Director of OFMEA. Mr. Mullis has a Masters of Business Administration and a Bachelor of Psychology from the University of Kentucky.

**F. Thomas Howard**, is the Deputy Executive Director of OFMEA and has served in that capacity since April 1993. Previously, Mr. Howard served for over two years as the state's investment portfolio manager. Since 1983, Mr. Howard has had extensive experience in money management for individuals and institutions, both public and private. Mr. Howard holds a Bachelor of Business Administration with a concentration in Finance from the University of Kentucky.

**Mary E. Lassiter**, is a senior financial analyst for OFMEA. Ms. Lassiter has served in both an investment and debt capacity within the office and has over thirteen years of experience in financial management for state government. Ms. Lassiter holds both a Bachelor and Masters Degree in Business Administration from the University of Kentucky.

**Brett L. Antle**, is a Certified Public Accountant and a financial analyst for OFMEA. Mr. Antle has served in this capacity since November 1996. Previously, Mr. Antle served as an accounting supervisor in the Commonwealth's Office of the Controller, and has a total of six

years of financial management experience in state government. Mr. Antle holds a Bachelor of Science Degree in Accounting from the University of Kentucky.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds are to be applied as follows:

#### Sources

Par Amount of 1997 Series A Notes	\$200,400,000.00
Premium on the 1997 Series A Notes	\$ <u>1,202,400.00</u>
Total Sources	<u>\$201,602,400.00</u>

#### Uses

Deposit to Proceeds Fund	\$201,202,400.00
Deposit to Costs of Issuance Account	\$ 172,796.50
Underwriters' Discount	\$ <u>227,203.50</u>
Total Uses	<u>\$201,602,400.00</u>

### **DEFINITIONS**

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the 1997 Series A Resolution, which are not otherwise defined herein. Reference is hereby made to the Indenture and the 1997 Series A Resolution for a complete recital of the terms defined therein.

"Act" shall mean House Bill No. 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky, Sections 1 through 11 inclusive, as amended.

"Additional Notes" shall mean Notes issued from time to time in accordance with the Indenture pursuant to a Series Resolution and ranking on a parity as to security and source of payment with the 1997 Series A Notes.

"Alternate Credit Facility" shall mean any Credit Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution of a Credit Facility, which Credit Facility shall be the same in all material respects (except as to expiration date) as the Credit Facility it is replacing.

"Alternate Liquidity Facility" shall mean any Liquidity Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution for a Liquidity Facility. Extensions of the term of a Liquidity Facility then in effect shall not be deemed an Alternate Liquidity Facility.

"Authorized Officer" shall mean (i) with respect to the 1997 Series A Notes, the Executive Director of the Office of Financial Management and Economic Analysis and (ii) with respect to any Additional Notes, any officer, member or employee of the Office of Financial Management and Economic Analysis authorized by a certificate of the Executive Officer to perform the act or sign the document in question, and if there is no such authorization, means the Executive Officer.

"Book-Entry-Only Notes" shall mean Notes which, at the election of the Commission, shall be issued in accordance with the DTC Operational Arrangements.

"Business Day" shall mean any day other than a day on which the Trustee or the Paying Agent is required, or is authorized or not prohibited, by law (including executive orders) to close and is closed.

"Certificate of Award" shall mean the certificate of an Authorized Officer establishing certain terms of the applicable Series of Notes and authorized in the applicable Series Resolution and the Indenture.

"Commission" shall mean the Kentucky Asset/Liability Commission.

"Costs of Issuance" shall mean only the costs of issuing Notes as designated by the Commission; including, but not being limited to, the fees and charges of the financial advisors or Underwriter, bond counsel, Trustee, Trustee's counsel, rating agencies, note and official statement printers, Credit Facility Provider, Liquidity Provider or Remarketing Agent, and such other fees and expenses normally attendant to an issue of the Notes.

"Cost of Issuance Fund" shall mean the Fund so designated which is established and created by the Indenture.

"Credit Facility" shall mean with respect to any Series of Notes (A) a letter of credit, bond insurance policy or surety bond to be issued by the Credit Facility Provider and delivered to the Trustee on the same date as the initial delivery of such Series of Notes and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (a) the principal amount of such Series of Notes outstanding to enable the Trustee to pay (i) the principal amount of such Series of Notes when due at maturity or upon redemption or acceleration, and (ii) an amount equal to the principal portion of the purchase price of any of such Series of Notes tendered for purchase pursuant to the Indenture, plus (b) the amount of interest due on such Series of Notes at the Maximum Rate to enable the Trustee to pay (i) interest on such Series of Notes when due and (ii) an amount equal to the interest portion, if any, of the purchase price of such Series of Notes tendered for purchase; as the same may be



transferred, reissued amended or replaced in accordance with this Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility.

"Credit Facility Provider" shall mean the provider of a Credit Facility with respect to any Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated SP1+ or better by S&P, A1+ or better by Moody's, or F-1+ or better by Fitch.

"DTC" shall mean The Depository Trust Company, New York, New York (a limited purpose trust company).

"DTC Operational Arrangements" shall mean DTC's operational arrangements, as amended from time to time.

"Eligible Investments" shall mean any investment authorized by Section 42.500 of the Kentucky Revised Statutes, as the same may be amended from time to time.

"Executive Officer" shall mean the Chairman of the Issuer.

"Expenditure Demands" shall mean amounts required to be paid from the General Fund during the Fiscal Year.

"Fiduciary" or "Fiduciaries" shall mean the Trustee, any Paying Agent or Agents, or any of them, as may be appropriate.

"Fiscal Year" shall mean the period which begins on July 1, 1997 and ends on June 30, 1998.

"Fitch" shall mean Fitch Investors Service, L.P.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Fund and Rebate Fund established by the Indenture.

"General Fund" shall mean the General Fund of the Commonwealth described in Section 47.010 of the Kentucky Revised Statutes.

"Holder", or "Owner", or any similar term (when used with reference to Notes), shall mean the person in whose name a Note is registered.

"Indenture" or "Trust Indenture" shall mean the Trust Indenture, dated as of July 1, 1997, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

"Interest Account" shall mean the account by that name in the Note Fund established under the Indenture.

"Interest Payment Date" shall mean (i) with respect to any Series of Notes bearing interest at the Daily Rate or Weekly Rate, the first Business Day of a month, (ii) with respect to any Series of Notes bearing interest at the Commercial Paper Rate, the first Business Day after the end of the Commercial Paper Rate Period, and (iii) with respect to any Series of Notes bearing interest at the Fixed Rate, the maturity date of such Series of Notes.

"Interest Rate Mode" shall mean any of those modes of interest with respect to a Series of Notes permitted by the Indenture, specifically, the Daily Rate, the Weekly Rate, the Commercial Paper Rate, or the Fixed Rate.

"Issue Date" shall mean the date of any Notes issued under the Indenture as determined by the Certificate of Award authorizing such Notes.

"Liquidity Facility" shall mean with respect to any Series of Notes (a) the obligation of the Commission to purchase such Series of Notes that are tendered or required to be tendered for purchase as contemplated pursuant to the Indenture, (b) a standby bond purchase agreement, letter of credit, line of credit, revolving credit agreement, bond insurance policy, surety bond or similar liquidity enhancement or support facility or agreement or undertaking or combination thereof issued by a Liquidity Provider in favor of the Trustee, for the account of the Commission, obligating the Liquidity Provider to pay during the periods described therein, upon request and in accordance with the terms thereof, the amounts described therein for the purposes of making certain payments on or with respect to such Series of Notes as contemplated pursuant to the Indenture and (c) upon acceptance by the Trustee of any Alternate Liquidity Facility, such Alternate Liquidity Facility provided, that (i) any Alternate Liquidity Facility accepted under the Indenture shall (except as otherwise specifically required by the Indenture) support payments of Purchase Price to the same extent as the Liquidity Facility it replaces and (ii) for purposes of drawing upon or otherwise causing moneys to be available pursuant to a Liquidity Facility on or prior to a Purchase Date relating to the acceptance by the Trustee of an Alternate Liquidity Facility, "Liquidity Facility" shall mean the Liquidity Facility in effect immediately prior to acceptance of such Alternate Liquidity Facility.

"Liquidity Provider" shall mean the provider of a Liquidity Facility with respect to any Series of Notes named in the Certificate of Award relating to such Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated SP1+ or better by S&P, A1+ or better by Moody's, or F-1+ or better by Fitch.

"Memorandum of Instructions" shall mean a Memorandum of Instructions Regarding Rebate which may be delivered to the Commission and the Trustee at the time of the issuance and delivery of a Series of Notes, as the same may be amended or supplemented in accordance with its terms.

"Note Fund" shall mean the Fund so designated which is established and created by the Indenture.

"Note Purchase Agreement" shall mean the applicable Note Purchase Agreement between the Commission and the Underwriter providing for the purchase by the Underwriter of a Series of Notes.

"Paying Agent" shall mean any bank or trust company so designated, and its successor or successors hereafter appointed, as paying agent for the Notes in the manner provided in the Indenture.

"Pledged Assets" shall mean (i) the proceeds of sale of the Notes, (ii) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including monies and securities therein.

"Principal Account" shall mean the account by that name in the Note Fund established under the Indenture.

"Proceeds Fund" shall mean the Proceeds Fund created by the 1997 Series A Resolution.

"Purchase Account" shall mean the account within the Note Fund established under the Indenture.

"Purchase Date" shall mean a date on which Notes shall be purchased upon tender thereof under the provisions of the Indenture.

"Purchase Price" shall mean (i) an amount equal to the principal amount of any Notes purchased on any Purchase Date, plus, accrued interest, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of any Notes purchased on a Mandatory Purchase Date, plus accrued interest, if any, to the Mandatory Purchase Date.

"Rebate Fund" shall mean the fund by that name established pursuant to the Indenture.

"Redemption Date" shall mean the date established for the redemption of Notes under the Indenture.

"Remarketing Agent" shall mean Bear, Stearns & Co. Inc., acting in its capacity as Remarketing Agent under the Remarketing Agreement or a successor Remarketing Agent appointed under the terms of the Indenture.

"Remarketing Agreement" shall mean the Remarketing Agreement, dated as of the first Issue Date of any Series of Notes to initially bear interest at the Daily Rate, Weekly Rate or Commercial

Paper Rate, between the Remarketing Agent and the Commission, as the same may be amended or supplemented from time to time in accordance with its terms.

"Series" shall mean any series of Notes issued in accordance with the Indenture and Series Resolution, and shall mean and include Additional Notes as defined in the 1997 Series A Resolution.

"Series Resolution" shall mean any resolution of the Commission adopted in connection with, and authorizing, the issuance of a Series of Notes.

"Underwriter" shall mean Bear, Stearns & Co. Inc. as representative of the underwriters identified in the Note Purchase Agreement.

"1997 Series A Resolution" shall mean Resolution 97-02 of the Commission adopted on June 18, 1997 authorizing the Indenture and the issuance of the 1997 Series A Notes in an aggregate principal amount not to exceed \$250,000,000.

#### **SUMMARY OF CERTAIN PROVISIONS OF THE 1997 SERIES A RESOLUTION AND THE INDENTURE**

Summarized below are certain provisions of the 1997 Series A Resolution and the Indenture. This summary does not purport to be complete, and is qualified by reference to the 1997 Series A Resolution and the Indenture.

##### **Delivery of the 1997 Series A Notes and Additional Notes**

The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$350,000,000. The Notes are to be issued in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund. Each Series of Notes is to be authorized pursuant to a Series Resolution and upon delivery of a Certificate of Award. The Commission has authorized the Executive Director of the Office of Financial Management and Economic Analysis (its "Authorized Officer") to provide final authorization for the 1997 Series A Notes by issuing a Certificate of Award. Every Certificate of Award is required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes shall be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the optional redemption provisions relating to such Series of Notes; (vii) the optional and mandatory tender provisions relating to such Series of Notes; (viii) the price at which such Series of Notes shall be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; and (x) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Series Resolution or the Indenture. An opinion of Bond Counsel in substantially the form of the opinion set forth in Exhibit C hereto must be delivered upon the issuance of any Series of Notes.

All Notes shall rank on a parity and equality with one another, without regard to Series designation or Issue Date and shall be entitled to the benefit of the continuing pledge and lien created by the Act, which constitutes a portion of the trust estate created by the Indenture, to secure the full and final payment of principal of and interest on all Notes.

### **Security and Pledge of Revenues**

The 1997 Series A Notes together with all Additional Notes issued under the Indenture are special limited obligations of the Commission, payable only from taxes or revenues specifically pledged under the Act for the payment and interest on the Notes. There have been pledged for payment of the principal of and interest on the Notes: (i) the proceeds of sale of the Notes, (ii) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including monies and securities therein.

### **Establishment of Funds**

The 1997 Series A Resolution establishes the Proceeds Fund. The Indenture establishes the following special funds: (i) the Cost of Issuance Fund; (ii) the Note Fund; and (iii) the Rebate Fund. Each of these Funds is discussed below.

#### **Cost of Issuance Fund**

The Indenture establishes a separate Cost of Issuance Fund and within such Fund for each Series of Notes a separate Account on each Issue Date, which separate Account shall be identified by inserting in the designation therefor the Issue Date of the Notes for which the Account was established.

There shall be deposited in the Cost of Issuance Account established on the Issue Date for each Series of Notes, the amount of monies necessary to pay the Costs of Issuance of such Notes specified and determined in the Certificate of Award authorizing the issuance of such Notes.

The Trustee is required from time to time to pay out, or to permit the withdrawal of, monies from the applicable Cost of Issuance Account to pay any Costs of Issuance, free and clear of any lien or pledge or assignment in trust created by the Indenture, for the purpose of paying in the manner herein authorized any Costs of Issuance of the Notes for which such Account was established, upon receipt by said Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made, for Costs of Issuance to be so paid and identifying the Account from which such requisition is to be paid.

If any monies remain in a Cost of Issuance Account on the date which is five months from the date of issuance of the applicable Series of Notes, the Trustee is required to transfer such amounts to the Note Fund.

## **Proceeds Fund**

The 1997 Series A Resolution establishes a Proceeds Fund. The Proceeds Fund is to be held by the Finance and Administration Cabinet as an account of the General Fund. The proceeds of the 1997 Series A Notes that remain after (i) deposit of accrued interest to the Interest Account of the Note Fund and (ii) deposit of cost of issuance monies to the Cost of Issuance Fund are required to be deposited to the Proceeds Fund.

Monies in the Proceeds Fund are to be used by the Commonwealth for meeting Expenditure Demands on the General Fund of the Commonwealth and, to the extent needed, as set forth below, to pay interest, principal and purchase price, if any, of the Notes.

To the extent that there are not already sufficient monies on deposit in the Note Fund, the Commission, on each Interest Payment Date, is required to cause the Finance and Administration Cabinet (i) to transfer the amount needed to pay interest on the Notes on such Interest Payment Date from the Proceeds Fund to the Trustee for deposit to the Interest Account of the Note Fund and (ii) to transfer the amount needed to pay the principal and purchase price, if any, of the Notes on such dates from the Proceeds Fund to the Trustee for deposit to the Principal Account of the Note Fund, or Purchase Account of the Note Fund, as applicable.

## **Note Fund**

The Indenture establishes a Note Fund. Under the Indenture, the Trustee is required to maintain the Note Fund.

The Trustee is required to establish the following accounts in the Note Fund:

(A) An Interest Account, into which shall be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Notes; (ii) transferred from the Proceeds Fund for the payment of interest on the Notes; or (iii) received as proceeds of Notes to pay interest on Notes when due.

(B) A Purchase Account, into which shall be deposited all amounts received (i) from the Remarketing Agent with respect to any remarketing of the Notes or (ii) under draw on any Liquidity Facility or Credit Facility for the payment of the Purchase Price for any Notes which are tendered and not remarketed by the Remarketing Agent.

(C) A Principal Account, into which shall be deposited all amounts (i) transferred from the Proceeds Fund to pay principal of and premium, if any, the Notes due at maturity, on a Redemption Date or upon acceleration; and (ii) representing proceeds of Notes to pay principal of and premium, if any, the Notes at maturity on a Redemption Date, or upon acceleration.

(D) A Credit Facility Account, into which shall be deposited all amounts received from draws under a Credit Facility to pay the principal of, interest on and premium, if any, on any Notes.

As discussed above under "Proceeds Fund," the Commission is required to cause the Finance and Administration Cabinet to transfer monies on each Interest Payment date from the Proceeds Fund to the Trustee for deposit to the Note Payment Fund for the purpose of paying principal, purchase price and interest on the Notes.

Monies in the Note Fund are required to be used as follows:

(1) Amounts in the Interest Account shall be used to pay interest on the Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws (plus any related fees of the Credit Facility Provider) shall be paid to the Credit Facility Provider.

(2) Amounts in the Purchase Account shall be used to purchase Notes which have not been remarketed, subject to certain provisions of the Indenture.

If the Trustee receives moneys representing amounts drawn on a Liquidity Facility or Credit Facility to pay the Purchase Price of Notes on a Purchase Date or Mandatory Purchase Date, the Paying Agent by wire transfer, shall pay to the Liquidity Provider or Credit Facility Provider the entire amount thereafter deposited in the Purchase Account with respect to such Notes. If the Paying Agent fails to receive remarketing proceeds from the Remarketing Agent or moneys drawn on the Liquidity Facility or Credit Facility in an amount sufficient to pay the Purchase Price of tendered Notes, (a) the Paying Agent shall pay to the Remarketing Agent the entire amount then on deposit in the Purchase Account, and the Remarketing Agent shall return such amount to the prospective purchasers which provided such moneys to the Remarketing Agent, (b) any amount paid by the Liquidity Provider or Credit Facility Provider on such draw shall be deposited in the Note Fund, (c) pursuant to provisions in the Indenture, the Trustee shall declare the Notes to be due and payable and (d) the Trustee shall hold for payment pursuant to provision of the Indenture all Notes tendered for purchase on the applicable Purchase Date or required to be purchased on a Mandatory Purchase Date.

Amounts deposited in the Purchase Account shall remain uninvested pending application thereof in accordance with the provisions of the Indenture.

(3) Amounts in the Principal Account shall be used to pay principal of and premium, if any, on the Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws (plus any related fees of the Credit Facility Provider) shall be paid to the Credit Facility Provider.

The Trustee shall transmit to any Paying Agent, as appropriate, from monies in the Note Fund applicable thereto, amounts sufficient to make timely payments of principal or Purchase Price of and interest on the Notes to be made by those Paying Agents then due and payable. The Commission authorizes and directs the Trustee to cause withdrawal of monies from the Note Fund which are available for the purpose of paying, and are sufficient to pay, the principal or Purchase Price of and interest on the Notes as they become due and payable (whether on an Interest Payment Date, upon tender thereof, at stated maturity, or upon acceleration or redemption), for the purposes of paying or transferring monies to the Paying Agents which are necessary to pay such principal, Purchase Price and interest.

### **Rebate Fund**

The Indenture establishes a fund separate from any other fund established and maintained hereunder or under any laws governing the creation and use of funds by the Commission designated as the "Rebate Fund," which fund is required to be held by the Trustee as a trust fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Memorandum of Instructions. Subject to certain transfer provisions, all monies at any time deposited in the Rebate Fund are required to be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Memorandum of Instructions), for payment to the federal government of the United States of America, and neither the Commission, any Governmental Agency nor the owner of any Notes shall have any rights in or claim to such monies.

Upon receipt of the Commission's written directions, the Trustee is required to remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit monies into or transfer monies out of the Rebate Fund from or into such account or funds as directed by the Commission's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Notes and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee shall be withdrawn and remitted to, or at the direction of, the Commission.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of the foregoing and the Memorandum of Instructions shall survive the defeasance or payment in full of the Notes.

### **Investment of Funds**

Amounts on deposit in any Fund or Account are required to be invested in Eligible Investments.

The Trustee is required to sell at the best price obtainable, or present for redemption or exchange, any Eligible Investment purchased by it as an investment pursuant to the Indenture whenever it shall be necessary in order to provide monies to meet any payment or transfer from



the Fund or Account from which such investment was made. The Trustee is required to advise the Commission in writing, on or before the last business day of each calendar month, of the details of all Eligible Investments held for the credit of each Fund or Account in its custody under the provisions of the Indenture as of the end of the preceding month.

The Trustee is required to keep the Commission fully advised as to the details of all such investments and is required to comply with any directions of the Commission with respect to investments in Eligible Investments. Except as otherwise provided in the Indenture, earnings and losses on Eligible Investments are required to be credited to the Fund or Account with respect to which such investments were made (or pro-rated thereto) and such earnings or losses become a part thereof for all purposes.

### **Defeasance**

If the Commission shall pay or cause to be paid, or there shall otherwise be paid, to Holders of the Notes, such amounts as will, taking into account the investment earnings therefrom, fully provide for all of the principal and interest to become due on any particular Notes, at the times and the manner stipulated therein and in the Indenture, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission hereunder shall be satisfied and discharged for those particular Notes, and in such event, the Trustee shall, upon the request of the Commission, execute and deliver to the Commission all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Commission all monies or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption for those particular Notes.

Notes or interest installments of particular Notes for the payment or redemption of which monies shall have been set aside and shall be held in trust by Fiduciaries shall, at the maturity or date of redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. Particular Notes shall, prior to the maturity or redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of said Notes are to be redeemed on any date prior to their maturity, the Commission shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption in the manner herein prescribed, (b) there shall have been deposited with the Trustee either monies in an amount which shall be sufficient, or Defeasance Obligations, hereinafter defined, the principal of and the interest on which when due will provide monies which, together with the monies, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal and interest due and to become due on said Notes on and prior to the redemption or maturity date thereof, as the case may be, and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission shall have given the Trustee in form satisfactory to it irrevocable instructions to notify the Holders of such Notes of such redemption in the manner herein provided for giving notice of redemption and (d) the Trustee shall have received a Rating Confirmation Notice for

the Notes to be defeased. Neither Defeasance Obligations or monies deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Indenture to the contrary notwithstanding, any monies held by a Fiduciary in trust for the payment and discharge of any of the Notes which remain unclaimed for six (6) years after the date when all of the Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such monies were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such monies if deposited with the Fiduciary after said date when all of the Notes became due and payable, shall (subject to the provisions of Article V of the Indenture), at the written request of the Commission, be repaid by the Fiduciary to the Commission, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged.

"Defeasance Obligations" means and includes any of the following:

(i) Direct and general non-callable obligations of the United States of America, backed by the full faith and credit of the United States of America or obligations that are unconditionally guaranteed as to principal and interest by the United States of America. The obligations described in this paragraph are hereinafter called "United States Obligations".

(ii) Prerefunded municipal obligations rated "AAA" by each Rating Service then rating the Notes and meeting the following conditions:

(a) the municipal obligations are (i) not to be redeemed prior to maturity or the Trustee has been given irrevocable instructions concerning their calling and redemption and (ii) the issuer has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or United States Obligations that may be applied only to interest, principal, and premium payments of such municipal obligations;

(c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities on the municipal obligations;

(d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

(e) the United States Obligations (plus any cash in the escrow fund) are not available to satisfy any other claims, including those against the trustee or escrow agent.

## Events of Default

Each of the following events is an "Event of Default" under the Indenture:

- (1) payment of any principal on any Note shall not be made when and as the same shall become due or upon call for redemption or otherwise; or
- (2) payment of any installment of interest on any Note shall not be made when and as the same shall become due; or
- (3) payment of any Note tendered to the Remarketing Agent for purchase shall not be made and the continuance of such failure for one Business Day after the Paying Agent has given written notice of such failure to the Remarketing Agent, the Liquidity Provider, the Credit Facility Provider, and the Commission; or
- (4) the Commission shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or the Notes and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Trustee or the Liquidity Provider, the Credit Facility Provider or the Holders of not less than five percent (5%) in principal amount of the Outstanding Notes; or
- (5) receipt by the Trustee of a written notice from the Liquidity Provider or Credit Facility Provider that an Event of Default has occurred under the Liquidity Facility or Credit Facility and directing the Trustee to declare a mandatory acceleration of all Notes then outstanding if and to the extent provided in the Indenture; or
- (6) failure of the Liquidity Provider or Credit Facility Provider to honor any drawing which conforms with the requirements of the Liquidity Facility or Credit Facility; or
- (7) the Liquidity Provider or Credit Facility Provider shall: (i) commence a proceeding under any Federal or state insolvency, reorganization or similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for 90 days; or (ii) have a receiver, conservator, liquidator or trustee appointed for it or for the whole or any substantial part of its property, and such receiver, conservator, liquidator or trustee shall not be dismissed within 30 days of being appointed.

The provisions of paragraph (7) above are subject to the conditions that (1) none of the acts or circumstances specified therein shall constitute an Event of Default if the Commission, within 10 days thereafter, provides an Alternate Liquidity Facility or Alternate Credit Facility acceptable to the Trustee and (2) the declaration of an Event of Default due to any of the acts or circumstances specified therein, and the exercise of remedies upon any such declaration, shall be subject to any applicable limitations of bankruptcy, insolvency or receivership laws applicable to the Liquidity Provider or Credit Facility Provider affecting or precluding such declaration or exercise during the pendency of or immediately following any bankruptcy, insolvency, receivership, liquidation or reorganization proceedings.

Upon the occurrence of an Event of Default as specified in paragraph (1), (2), (3) or (6) above, the Trustee shall declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Upon the occurrence of any other Event of Default (except an Event of Default as specified in paragraph (7) above), the Trustee may, or at the direction of the Holders of not less than twenty-five percent (25%) of the Notes Outstanding shall, declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Upon the occurrence of an Event of Default described in paragraph (7) above, if there is not then existing an Event of Default described in paragraphs (1), (2), (3) or (6) above, then the Trustee may, and upon the written request of the Holders of not less than twenty-five percent of Notes then outstanding shall, declare the principal of all Notes then outstanding, together with the interest accrued thereon, to be due and payable immediately.

Any such declaration shall be by notice in writing to the Commission and the Remarketing Agent, and, upon said declaration, principal and interest on all Notes shall become and be immediately due and payable. The Trustee immediately upon such declaration shall give notice thereof in the same manner as provided with respect to the redemption of the Notes without regard to the times stated for notice of redemption. Such notice shall specify the date on which payment of principal and interest shall be tendered to the Holders of the Bonds which date shall be no later than fifteen days from the date of such declaration of an Event of Default. Interest shall accrue to the payment date determined by the Trustee (which payment date shall be the earliest date practicable).

If an Event of Default shall have occurred under paragraphs (6) or (7) above or if for any reason the Liquidity Facility shall no longer be in effect and upon the happening and continuance of any Event of Default specified in paragraphs (1), (2) or (3) above, the Trustee shall proceed, or upon the happening and continuance of any Event of Default specified in paragraph (4) above, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) of the Outstanding Notes shall proceed, in its own name, to protect and enforce its rights and the rights of the Holders by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture

or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by its counsel, shall deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Commission for principal, interest or otherwise, under any provision of the Indenture or of the Notes, with interest on overdue payments at the rate or rates of interest specified in such Notes, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Notes, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce a judgment or decree against the Commission, but solely as provided in the Indenture and in the Notes for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the monies adjudged or decreed to be payable.

### **Supplemental Indentures**

The Indenture provides procedures whereby the Commission may amend the Indenture by adoption of a Supplemental Indenture, subject to the consent of the Trustee. Amendments that may be made without the consent of the Noteholders must be for purposes of further securing the Notes, imposing further limitations on, surrendering rights of the Commission, curing ambiguities or for any other purpose that does not materially adversely affect the rights of the Noteholders affected thereby.

Amendments of the respective rights and obligations of the Commission and the Noteholders may be made with the written consent of the Holders of not less than 66  $\frac{2}{3}$ % in principal amount of the Outstanding Notes affected by such amendment. No such amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Note or of the rate of interest thereon or reduce the percentages or otherwise affect the classes of Notes the consent of the Holders of which is required to effect such amendment.

### **The Trustee**

The Trustee will agree to perform the duties and obligations under the Indenture so long as no Event of Default shall have occurred and be continuing only as such duties and obligations are specifically set forth in the Indenture, and no duties or obligations shall be implied to the Trustee. In case a default or an Event of Default has occurred and is continuing under the Indenture (of which the Trustee has been notified or is deemed to have notice), the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The Indenture provides that the Trustee will be entitled to act upon opinions of counsel and will not be responsible for any loss or damage

resulting from reliance thereon in good faith. In addition, the Indenture provides that the Trustee will be entitled to rely on certain other instruments, and it will not be liable for any action reasonably taken or omitted to be taken by it in good faith or be responsible other than for its own gross negligence or willful neglect.

## TAX TREATMENT

In the opinion of Bond Counsel for the 1997 Series A Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the 1997 Series A Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the 1997 Series A Notes is also of the opinion that interest on the 1997 Series A Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the 1997 Series A Notes is of the opinion that interest on the 1997 Series A Notes is exempt from income taxation by the Commonwealth and the 1997 Series A Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the 1997 Series A Notes is set forth in Exhibit C, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the 1997 Series A Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the 1997 Series A Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the 1997 Series A Notes being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the 1997 Series A Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 1997 Series A Notes may adversely affect the tax status of the interest on the 1997 Series A Notes.

Certain requirements and procedures contained or referred to the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 1997 Series A Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 1997 Series A Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams, L.L.P.

Although Bond Counsel for the 1997 Series A Notes has rendered an opinion that interest on the 1997 Series A Notes is excludable from gross income for Federal and Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 1997

Series A Notes may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the 1997 Series A Notes on the tax liabilities of the individual or entity.

For example, corporations are required to include all tax-exempt interest in determining "adjusted current earnings" under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the 1997 Series A Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any 1997 Series A Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of 1997 Series A Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the 1997 Series A Notes.

The Commission has not designated the 1997 Series A Notes as "qualified tax-exempt obligations" under Section 265 of the Code.

### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 1997 Series A Notes, or in any way contesting or affecting the validity of the 1997 Series A Notes or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the 1997 Series A Notes or due existence or powers of the Commission.

### **APPROVAL OF LEGALITY**

Certain legal matters incident to the authorization, issuance, sale and delivery of the 1997 Series A Notes are subject to the unqualified approving opinion of Peck, Shaffer & Williams L.L.P., Covington, Kentucky, Bond Counsel to the Commission. Certain other legal



matters will be passed on by Brown, Todd & Heyburn PLLC, Louisville, Kentucky, counsel to the Underwriters.

## **RATINGS**

The following rating agencies (each a "Rating Agency") have given the 1997 Series A Notes the following respective ratings: Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc., "SP-1+"; Moody's Investor's Service, "MIG1" and Fitch Investors Service, L.P. "F-1+". Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc., 25 Broadway, New York, New York 10004, (212) 208-8000; Moody's Investor's Service, 99 Church Street, New York, New York 10007, (212) 583-0300; and Fitch Investors Service, L.P., One State Street Plaza, New York, New York 10004 (212) 908-0500.

No rating is a recommendation to buy, sell or hold the 1997 Series A Notes, and there is no assurance that any rating will be maintained for any given period of time by a Rating Agency or that it will not be revised or withdrawn entirely by such Rating Agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of a rating may have an adverse affect on the market price of the 1997 Series A Notes.

## **CONTINUING DISCLOSURE**

The Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule") as amended, under the Securities Exchange Act of 1934. Specifically, the Commission will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the 1997 Series A Notes, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the securities; (vii) modifications to rights of security holders; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale or property securing repayment of the securities; and (xi) rating changes. The Commonwealth is already providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

## **UNDERWRITING**

Bear, Stearns & Co. Inc., as representative of the Underwriters, has agreed to purchase the 1997 Series A Notes from the Commission at a purchase price equal to \$201,375,196.50 which represents the aggregate principal amount of the 1997 Series A Notes plus premium.



\$1,202,400 less Underwriters' discount of \$227,203.50. The Underwriters are committed to purchase all of the 1997 Series A Notes if any are purchased.

The Underwriters have advised the Commission that they intend to make a public offering of the 1997 Series A Notes at the initial public offering prices or yields set forth on the cover page hereof; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters deem necessary in connection with the marketing of the 1997 Series A Notes.

### MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Commission and the purchasers or Holders of any of the 1997 Series A Notes.

### KENTUCKY ASSET/LIABILITY COMMISSION

By /s/ John P. McCarty

John P. McCarty  
Chairperson

By /s/ Gordon L. Mullis, Jr.

Gordon L. Mullis, Jr.  
Secretary

**EXHIBIT A**

**DEBT INFORMATION**

**PERTAINING TO THE COMMONWEALTH OF KENTUCKY**

**COMMONWEALTH DEBT MANAGEMENT**

**Overview of Kentucky's Debt Authorities**

Kentucky's indebtedness is comprised of bonds and notes which are either direct obligations of the State or obligations of one of the debt-issuing entities created by the Kentucky General Assembly to finance various projects or programs. Direct debt is General Obligation debt that pledges the full faith, credit, and taxing powers of the state as security for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of General Obligation Bonds in amounts exceeding \$500,000. The State has not incurred any General Obligation debt since 1966. There is currently no General Obligation debt outstanding.

The second type of debt incurred by the State is project revenue debt. Project revenue debt pledges as security for repayment of the debt only the revenues produced by the projects funded from the debt. Project revenue bonds are not a direct obligation of the State. Project revenues are, in some cases, derived partially, or solely, from General Assembly appropriations which are subject to biennial renewal by the General Assembly. In other cases, revenues generated from the project financed by the debt are used to make the debt service payments in full.

The third type of debt incurred by the State is moral obligation debt. These obligations are not direct obligations of the State and no appropriations of the State are pledged to pay the debt service. Rather these entities covenant to request funds of the Governor and General Assembly in the event of a shortfall in the debt service reserve account.

**Debt Issuing Entities of the State**

Project revenue debt has been incurred by seventeen of the commissions, corporations, authorities, or boards created by the General Assembly. Eleven of these seventeen debt issuing entities are active and are listed in Table I along with the specific statutory authority which created these debt entities and the purposes for which each entity may incur debt.

Seven of the debt issuing authorities listed in Table I issue bonds to finance projects that are not repaid by state revenues. These are the Kentucky Housing Corporation, the Kentucky Infrastructure Authority, the Kentucky Higher Education Student Loan Corporation, the School Facilities Construction Commission, the Kentucky Economic Development Finance Authority, the Kentucky Local Correctional Facilities Construction Authority and the Kentucky Agricultural Finance Corporation. None of these entities, except for some of the debt of the School Facilities Construction Commission and the Kentucky Infrastructure Authority, receive an appropriation of

the General Assembly for the payment of debt service for their borrowings. Project revenues are used to repay debt service for these debt authorities. The General Assembly has placed specific debt limitations on the principal debt outstanding of the Kentucky Housing Corporation (\$1.125 billion), the Kentucky Higher Education Student Loan Corporation (\$553 million) and the Kentucky Agricultural Finance Corporation (\$500 million). The debt of the Kentucky Local Correctional Facilities Construction Authority is limited to the level of debt service supported by a \$10 fee collected from certain cases in the District Courts of the State. Currently, no debt limitation exists for the Kentucky Economic Development Finance Authority.

The remaining debt issuing entities of the State receive a General Assembly appropriation biennially for the payment of debt service. The appropriation to the School Facilities Construction Commission is used to subsidize the debt service payments, in whole or in part, made by local school districts on local school construction projects. The subsidy has varied by project. Two financing programs of the Kentucky Infrastructure Authority; the Governmental Agencies Program and the Multiple Projects Construction Loan Program, receive no General Assembly appropriation and have a debt ceiling. Bonds and notes with a maturity of 3 years or less are limited to \$60 million, those with maturities greater than 3 years are limited to \$125 million in bonds outstanding. The three other financing programs of the Kentucky Infrastructure Authority created by the 1988 General Assembly, the Federally Assisted Wastewater Program, the Infrastructure Revolving Fund Program and the Solid Waste Revolving Loan and Grant Program, have been appropriated General Fund monies. The State Property and Buildings Commission, the Turnpike Authority of Kentucky and the State Universities cannot incur debt for any project without prior approval of the projects and appropriation of debt service by the General Assembly.

During its 1997 Extraordinary Session, the General Assembly enacted House Bill 5 which created the Kentucky Asset/Liability Commission. The Commission will develop and implement programs to assist in the management of the Commonwealth's net interest margin and may issue tax and revenue anticipation notes, project notes, and funding notes to achieve its purpose.

**TABLE I**  
**ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY</u>	<u>PURPOSE</u>
State Property and Buildings Commission	KRS 56.450	Provide financing for capital construction projects and financing programs approved by the General Assembly.
Kentucky Asset/Liability Commission	KRS 56*	Provide for short-term financing of Capital projects and the management of cash borrowings.
Turnpike Authority of Kentucky	KRS 175.410-175.990	Construct, maintain, repair, a n d operate Turnpike projects, resource recovery roads and economic development roads.
The State Universities (consisting of eight)	KRS 56.495	Construct educational buildings and housing and dining facilities.
Kentucky Housing Corporation	KRS 198A	Make below market interest mortgage and construction loans to low and moderate income Kentuckians.
Kentucky Infrastructure Authority	KRS 224A	Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.
Kentucky Higher Education Student Loan Corporation	KRS 164A	Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.
School Facilities Construction Commission	KRS 157.800-157.895	Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.

Kentucky Economic  
Development Finance Authority

**KRS 154**

Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in high unemployment counties.

Kentucky Local Correctional  
Facilities Construction Authority

**KRS 441.605-441.695**

Provide an alternative method of constructing, improving, repairing and financing local jails.

Kentucky Agricultural  
Finance Corporation

**KRS 247.940**

Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.

\*House Bill 5, 1997 Extraordinary Session, has not been codified at this printing.

## **Default Record**

Neither the Commonwealth nor any of its agencies have ever defaulted in the payment of principal or interest on general obligation indebtedness or project revenue obligations.

## **Debt Management**

The Office of Financial Management and Economic Analysis, Finance and Administration Cabinet, has central responsibility for the issuance and management of debt of the State and its agencies. Specific functions of the Office include the review and approval of bonds sold by all entities which issue bonds in the name of the state, as well as all entities created by the state. The Office is also responsible for coordination and monitoring of cash needs relative to debt activity, making debt service payments, and the development and maintenance of a debt management plan. The Office serves as primary staff to the Kentucky Asset/Liability Commission, the State Property and Buildings Commission, the Kentucky Local Correctional Facilities Construction Authority and the Kentucky Infrastructure Authority.

**EXHIBIT B**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE COMMONWEALTH OF KENTUCKY**

Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Year Ended June 30, 1996

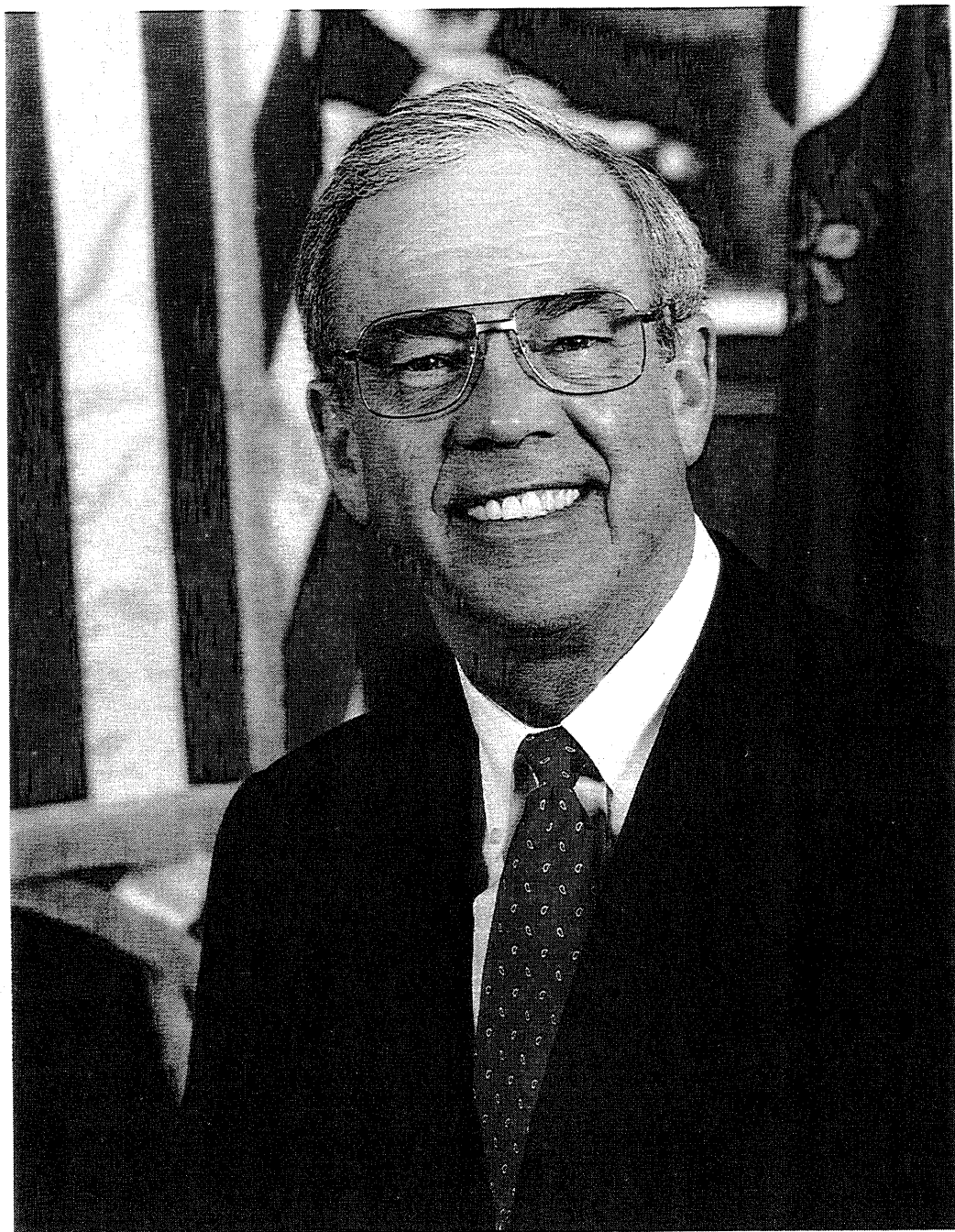
Paul E. Patton, Governor



Prepared by:  
Finance and Administration Cabinet  
John P. McCarty, Secretary

Office of the Controller  
Edgar C. Ross, Controller

Division of Accounts  
Stuart Weatherford, Director



Paul E. Patton  
Governor





COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR

PAUL E. PATTON  
GOVERNOR

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

December 30, 1996

My Fellow Kentuckians:

I am proud to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 1996. The information included in the report fairly presents and fully discloses all appropriate financial information required by taxpayers, investors, creditors, and others to understand and evaluate Kentucky's financial condition. It is a detailed account of the Commonwealth's financial management and includes an economic forecast and major initiatives undertaken during the reporting period.

This report has been prepared by the Finance and Administration Cabinet and audited by the Office of the Auditor of Public Accounts. It complies with Generally Accepted Accounting Principles for State Government 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.

I would like to extend my appreciation to all State Government agencies for their cooperation in compiling this valuable information. With the Finance and Administration Cabinet's leadership, and the assistance of the Auditor of Public Accounts, we have a comprehensive document which provides a complete and accurate picture of the Commonwealth's financial status.

Sincerely,

A handwritten signature in dark ink, appearing to read "Paul E. Patton".

Paul E. Patton

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**INTRODUCTORY SECTION**



PAUL E. PATTON  
GOVERNOR

OFFICE OF THE SECRETARY  
FINANCE AND ADMINISTRATION CABINET  
383 CAPITAL AVENUE  
FRANKFORT, KENTUCKY 40601  
(502) 564-4240  
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JOHN P. MCCARTY  
SECRETARY

December 30, 1996

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, 1996. This report is prepared by the Finance and Administration Cabinet, Office of the Comptroller, Division of Accounts, 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 1995 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, account groups, 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 River Authority, Kentucky Lottery Corporation, Kentucky School Facilities Construction Commission, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority and State Board of Physical Therapy.

The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, 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, and the eight state supported universities.

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

Real gross domestic product (GDP), an inflation adjusted measure of the total output of goods and services provided in the United States, averaged a growth rate of 2.9% in 1996. On average the U.S. economy has been exceptionally strong during the last four years with an average growth rate of about 3%.

The current recovery has been helped by low interest rates which have resulted in strong gains in housing starts as well as increased investment in producers' durables. Another important factor is consumer confidence. In spite of relatively high mortgage rates in the last four months, housing starts and sales have continued to grow unabated. Much of this consumer confidence stems from a historically low unemployment rate.

Kentucky's economy has consistently outperformed the nation since 1988 in terms of both increases in personal income and growth in employment. In 1996, Kentucky's personal income is estimated to have grown by 5.7% (versus 5.3% nationally), and nonagricultural employment increased by 2.1% (compared to 1.6% nationally). Over the past five years, manufacturing employment has declined by 2.5% nationally, but registered an increase of 10.7% in Kentucky.

Both the U.S. and Kentucky economies are expected to continue the current pattern of growth in 1997.

## MAJOR INITIATIVES

Inaugurated in mid-year, you became the first Governor this century who may succeed yourself in office due to the passage of an amendment to the Kentucky constitution. Consequently, depending on the will of the electorate, an opportunity unprecedented in modern times presents itself for continuity in state policy direction, leadership, and management.

**Financial Policy** - 1996 continued a recent pattern of steady financial advancement for the Commonwealth. A new 1996-98 biennial budget was enacted by the 1996 Regular Session of the General Assembly. That budget, for the first time in recent history, was "structurally balanced." This structurally balanced standard was recommended by your administration at the outset of the 1996 Regular Legislative Session and was defined and operationalized as annual General Fund expenditures remaining within annual General Fund revenues. This more rigorous standard was adopted mindful of the Commonwealth's Constitutional and statutory structure which remains based on a biennial budget and financial plan. The new standard was met at the same time that the Budget Reserve Trust Fund ("rainy day fund") was doubled from \$100 million at the close of 1995 to \$200 million in 1996 General Fund reserves. Another key element was the enactment of a modest level of debt-financed capital improvements for the second straight biennium. Actual new debt authorized was some \$210 million, while at the same time more than \$509 million in outstanding debt was scheduled for retirement during the same period.

With respect to taxes, the Commonwealth continued the phase out of income taxes on private pensions and much of the state's inheritance tax. In addition, new tax reductions were enacted, also to be phased in over a multi-year period, increasing the standard deduction on individual income taxes, reducing the personal property tax for vehicle sales, and phasing out the state's health care provider tax. The Commonwealth also repealed the heavy fuel surtax and made other adjustments in its heavy vehicle tax structure in order to come into compliance with the International Fuel Tax Agreement (IFTA).

On the revenue side of the equation, both the General Fund and Road Fund exceeded the 1996 estimates as revised in the 1996 Regular Session of the General Assembly. Continuing a trend of recent years, Kentucky's economy outperformed the national average in terms of unemployment, manufacturing growth, and a number of other key indicators. The result translated into a state General Fund (and Road Fund) balance at June 30 that outstripped estimates and expectations by \$67 million in General Fund dollars as well as a modest overage in Road Fund dollars. This development, combined with efforts to maximize the lapse of unspent funds and identify additional non-General Fund transfers to supplement the General Fund, resulted in a year ending underspent fund balance of \$223

million. These balances allowed the Commonwealth to fully fund companion initiatives entirely from cash with contingent appropriations derived from year ending surplus, i.e., "Empower Kentucky" and "contingent capital projects."

**Empower Kentucky** - A broad-based policy initiative of national significance was authorized to reengineer Kentucky state government. It was designated the "Empower Kentucky" program. This gubernatorial plan was comprised of two major components. First, a cash-funded technology-oriented reengineering effort unprecedented in any other state. In supporting this, the General Assembly conferred upon the Executive Branch broad latitude to adjust authorized spending levels, and to selectively prioritize and implement numerous major information technology-based improvements and reforms. In return, it mandated a \$50 million recurring annual expenditure savings as the product of these efforts.

The Empower effort is headed by a private sector executive on loan to the Commonwealth who directs some 200 state employees who have been trained in the reengineering methodology and who impart their experience and expertise to broad-based recommendations for change. These recommendations are formulated by a dozen or more process teams looking at both immediate and long-term opportunities for greater efficiencies and improved service delivery. The \$103 million in General Fund support provided to the Empower program will be approved by a Redesign Steering Committee comprised of both Executive and Legislative Branch members who will make the final priority decisions on project funding. All of this will be accomplished with the existing personnel and procurement statutory provisions. However, both the procurement and personnel systems are being reexamined with a view to making recommendations for change where warranted. It is anticipated that the Empower program launched in 1996 will need to be institutionalized and continued to maximize its effectiveness.

**Capital Projects** - The second element of the Empower Kentucky program was a \$103 million cash-funded pool of capital projects ranked in priority order (27 in total). These projects were directed at top gubernatorial and legislative priorities involving Juvenile Justice, Higher Education, Workforce Development, and State Parks revitalization. As the fiscal year ended, both the Empower Kentucky Technology First Fund program and its twin counterpart, the Contingent Capital Projects Pool, described herein, were fully funded and authorized. These programs reflect a renewed emphasis on fully financed cash-supported initiatives in contrast to previous strategies involving long-term borrowing.

**Task Force on Postsecondary Education** - Senate Concurrent Resolution 93, passed by the 1996 General Assembly, provided for the establishment of a joint legislative executive Task Force on Postsecondary Education. The purpose of the Task Force is "... to develop recommendations and an implementation plan for a system of postsecondary education in Kentucky that promotes quality instruction designed to provide students with the knowledge and skills to be competitive in a global economy."

As fiscal year 1996 came to a close, the Task Force held its first meeting. The challenge is to design a comprehensive blueprint for postsecondary education in the 21st century that will enable the Commonwealth to enhance the standard of living for Kentucky's citizens. Moreover, the Task Force will address the total system of postsecondary education including not only the eight four-year public institutions of higher education, but also the vocational/technical school system, the community college system, private colleges, and postsecondary proprietary institutions.

**Commission on Higher Education Institutional Efficiency and Cooperation** - On April 2, 1996, you signed an Executive Order establishing the Commission on Higher Education Institutional Efficiency and Cooperation. The mission of the Commission is to "recommend new and effective ways to enhance academic delivery and inter-institutional cooperation in the delivery of academic programs, to increase institutional administrative efficiency, and to explore the uses and potential effectiveness of new technologies to enhance academic programs and services."

The Commission adopted a work plan which indicated that a final report to you, the Council on Higher Education, and the Task Force on Postsecondary Education would be published by October 1996.

**Workers' Compensation** - 1996 marked the beginning of a thoroughgoing review of the Commonwealth's Workers' Compensation system. A select group was impelled to scrutinize the reforms passed by the 1994 General Assembly and the trends affecting Workers' Compensation payments and the Commonwealth's economy with a view toward effecting major reforms and course corrections. By the close of fiscal year 1996, a policy redirection had been identified that would completely overhaul the Workers' Compensation system. These changes were enacted into law during the December 1996 special legislative session.

**Juvenile Justice Reform** - 1996 also marked a period of tremendous change and reform for the Commonwealth's juvenile justice system. Against a backdrop of state and national concern with juvenile crime, the Commonwealth first entered an Agreed Order with the U.S. Department of Justice (Consent Decree) to effect substantial upgrades and policy/procedural changes at the existing juvenile treatment and detention facilities operated by the state. In addition, the 1996 General Assembly enacted House Bill 117 completely transforming the legal, organizational, and policy structure of state government regarding juvenile treatment and detention. Primary responsibility was shifted from the old Cabinet for Human Resources, which was dismantled, to a new Department of Juvenile Justice under the auspices of the Justice Cabinet. Functions previously performed by the Department of Corrections were also consolidated with the new Juvenile Justice Department and funds, personnel, and facilities were merged as well. In addition, the Commonwealth funded three secure juvenile detention facilities for various regions of the state placing the Commonwealth - for the first time - in the field as a provider of secure (pre-adjudicatory) juvenile detention. Historically, this has been solely a local (county) responsibility. A further realigning of state/local responsibilities and pre/post adjudicatory responsibilities was envisioned in the reform legislation as enacted and was being studied for attention at a later Special Session of the General Assembly.

**Sustaining Policy Initiatives** - 1996 also saw the continuation and re-enforcement of critical policy initiatives previously enacted in the areas of: Education Reform, Health Care Reform, and Parks/Tourism Revitalization. The seminal Education Reform Act of 1990 (KERA) continued broad-based support and received additional funding from the 1996 General Assembly. This marked the third gubernatorial administration and fourth consecutive regular session of the General Assembly backing this landmark, national legislation. Viewed as a long-term project, the elementary and secondary education budget continued to be the highest priority of the Commonwealth. Its renewal and continued support, after gubernatorial transition, re-enforced the prospects for long-term success triggered by the Kentucky Supreme Court decision in 1989.

The Health Care Reform initiatives of the 1994 legislative session were recast in 1996 with the abolishment of the Health Care Policy Board and with modifications to the enabling legislation. (As noted earlier, the medical provider tax began to be phased out as part of this review.) Nonetheless, the critical elements of Health Care Reform enacted previously were continued, albeit with modifications.

The Parks Revitalization projects, which are the centerpiece of the Commonwealth's Tourism Development efforts, began to show concrete progress in 1996 upon award of dozens of construction and renovation project bids. After 20 to 40 years without systematic renovation and repair, the statewide effort began to touch nearly every state park in 1996, with several of the major resorts completing major elements of required work. Moreover, in order to help foster private sector development of new tourism attractions, a new Tourism/Parks tax credit was enacted in 1996 paralleling similar credits provided through the Economic Development programs previously enacted.

## FINANCIAL INFORMATION

### *The Accounting System and Budgetary Controls*

The Commonwealth's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The governmental funds, expendable trust funds, and agency funds are presented on the modified accrual basis of accounting whereby revenues are recognized when measurable and available, and expenditures are recognized when goods or services are received and the related liabilities are incurred. The proprietary and pension trust funds are presented on the accrual basis of accounting with all revenues and expenses recognized when the transactions occur, regardless of when related cash is received or disbursed.

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 judgments by management. All internal control evaluations occur within this framework.

Budgetary control is maintained at the budget unit level described in the Notes to Combined Financial Statements 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 Special Revenue and Capital Projects Funds at June 30, 1996.

### General Fund Condition - Budgetary Basis

General Fund revenue on a budgetary basis for 1996 was \$5.38 billion, an increase of 3.8% over 1995. This amount includes \$5.34 billion in tax and non-tax receipts, and \$47.27 million of Operating Transfers In. Taxes represented 94.3% of all General Fund revenue collected during the period. The amounts and percentages of 1996 revenue derived from specific sources and the changes from 1995 are shown below (expressed in thousands) and are illustrated in Chart 1.

#### General Fund Revenue and Other Financing Sources - Budgetary Basis

Revenue Source	Amount	Percent of Total	Increase (Decrease) from	
			1995	Percent
Individual Income Tax	\$ 2,074,572	38.5%	109,729	5.6%
Sales and Gross Receipts Taxes	1,954,920	36.3%	111,354	6.0%
Property Taxes	409,177	7.6%	13,852	3.5%
Corporate Income Tax	284,733	5.3%	(56,179)	(16.5)%
Non-Tax Revenue	249,131	4.6%	19,108	8.3%
Severance Tax	186,124	3.5%	7,007	3.9%
License and Privilege Taxes	93,436	1.7%	(6,718)	(6.7)%
Inheritance and Estate Taxes	81,441	1.5%	1,929	2.4%
Operating Transfers In	47,272	0.9%	13,755	41.0%
Miscellaneous Taxes	3,349	0.1%	(17,217)	(83.8)%
Total General Fund Revenue	\$ 5,384,155	100.0%	\$ 196,560	3.8%

General Fund expenditures on a budgetary basis for 1996 totaled \$5.29 billion, including Operating Transfers Out of \$330.90 million. During 1996, expenditures increased by 4.5% and transfers increased by 26.2% compared to 1995. The general government function includes \$698.56 million of expenditures and \$6.34 million of transfers for 1995. The general government function includes \$698.56 million of expenditures and \$6.34 million of transfers for 1995. The general government function includes \$698.56 million of expenditures and \$6.34 million of transfers for 1995. The amounts and the eight State supported universities, which together amount to 13.3% of the General Fund total. The amounts and percentages of 1996 expenditures for the various governmental functions and the changes from 1995 are shown below (expressed in thousands) and are illustrated in Chart 1.

#### General Fund Expenditures and Other Financing Uses - Budgetary Basis

Function	Amount	Percent of Total	Increase (Decrease) from	
			1995	Percent
General Government	\$ 1,169,598	22.1%	\$ 84,153	7.8%
Legislative and Judicial	145,137	2.7%	9,995	7.4%
Commerce	108,682	2.1%	8,939	9.0%
Education and Humanities	2,500,868	47.3%	71,465	2.9%
Human Resources	1,019,814	19.3%	94,423	10.2%
Justice	252,723	4.8%	17,102	7.3%
Natural Resources and Environmental Protection	46,257	0.9%	457	1.0%
Public Protection and Regulation	36,183	0.7%	1,779	5.2%
Transportation	4,916	0.1%	(986)	(16.7)%
Non-budgetary Items	1,813	0.0%	(7,077)	(79.6)%
Total General Fund Expenditures	\$ 5,285,991	100.0%	\$ 280,250	5.6%

The General Fund had a 1996 budgetary undesignated fund balance of \$223,427,568. This is a decrease of \$37,580,254 when compared to the 1995 year-end budgetary undesignated fund balance of \$261,007,822.

### General Governmental Functions - GAAP Basis

General government functions on a GAAP basis are accounted for in four governmental funds - General, Special Revenue, Debt Service, and Capital Projects. Revenue for general governmental functions totaled \$10.31 billion for 1996, an increase of 3.9% over the amount recognized during 1995. The amounts and percentages of 1996 revenue derived from specific sources and the changes from 1995 are shown below (expressed in thousands) and are illustrated in Chart 2.

#### Governmental Funds Revenue - GAAP Basis

Revenue Source	Amount	Percent of Total	Increase (Decrease) from	
			1995	Percent
Taxes	\$ 6,155,566	59.7%	\$ 211,639	3.6%
Intergovernmental	3,394,888	32.9%	87,749	2.7%
Charges for Services	273,820	2.7%	51,511	23.2%
Licenses, Fees, and Permits	163,331	1.6%	2,356	1.5%
Interest and Investments	145,544	1.4%	33,420	29.8%
Other Revenues	133,064	1.3%	(442)	(0.3)%
Fines and Forfeits	40,485	0.4%	(235)	(0.6)%
Total Governmental Funds Revenue	\$ 10,306,698	100.0%	\$ 385,998	3.9%

1996 Governmental Funds Revenue was \$386.0 million over 1995. Higher Tax and Intergovernmental receipts account for 77.6% of the increase. Sales and Gross Receipts, Individual Income, Property, Severance, and Inheritance, and Estate Taxes grew by a combined \$282.1 million, but were offset by Corporate Income, License and Privilege, and Miscellaneous Taxes, which fell by a combined \$70.5 million. Federal Fund receipts from the United States and Government went up \$59.9 million. Receipts from other governments rose a combined \$3.3 million in the General, Transportation, and Other Special Revenue Fund. Capital Projects Fund grant receipts improved by \$30.9 million. Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$9.47 billion for 1996, an increase of 3.2% compared to 1995. The amounts and percentages of 1996 expenditures for various governmental functions and the changes from 1995 are shown below (expressed in thousands) and are illustrated in Chart 2.

#### Governmental Funds Expenditures - GAAP Basis

Function	Amount	Percent of Total	Increase (Decrease) from	
			1995	Percent
General Government	\$ 494,599	5.2%	\$ 76,343	18.3%
Legislative and Judicial	147,563	1.6%	15,142	11.4%
Commerce	42,704	0.5%	274	0.6%
Education and Humanities	2,962,449	31.3%	127,229	4.5%
Human Resources	3,819,907	40.3%	1,477	0.0%
Justice	282,999	3.0%	27,575	10.8%
Natural Resources and Environmental Protection	96,094	1.0%	(14,415)	(13.0)%
Public Protection and Regulation	94,124	1.0%	7,713	8.9%
Transportation	1,061,589	11.2%	81,506	8.3%
Capital Outlay	79,245	0.8%	(2,795)	(3.4)%
Debt Service	392,130	4.1%	(24,626)	(5.9)%
Total Governmental Funds Expenditures	\$ 9,473,403	100.0%	\$ 295,423	3.2%



1996 Governmental Funds Expenditures were \$295.4 million over 1995. Significant growth categories included: \$53.8 million more for highways in the Transportation Fund; an additional \$45.1 million for General Government judgments and contingent liabilities in the General Fund; a \$50.5 million rise in combined General Fund personal services costs for the Education, Arts and Humanities Cabinet and Workforce Development Cabinet.

Ending fund balances for all governmental fund types increased 12.0% from \$2.07 billion as restated for 1995, to \$2.32 billion in 1996. Of these totals, unreserved fund balances increased 6.4% from \$1.19 billion as restated at June 30, 1995, to \$1.27 billion at June 30, 1996.

#### 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 1996 is:

Debt Service (thousands)	Ratio to Total General Governmental Expenditures		Debt per Capita
General Bonded Debt	\$392,130	4.1%	\$ 802

No general obligation bonds are authorized or outstanding at June 30, 1996.

During 1996, Kentucky issued revenue bonds totaling \$365,241,935 for general governmental functions which are supported by governmental fund appropriations. Of this amount, \$179,123,277 defaced existing debt and funded related reserve accounts. The remaining \$186,118,658 funded new projects. All issues sold during 1996 received a rating of "A" or higher by the major rating services. At June 30, 1996, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$3,134,342,403.

#### Cash Management, Investment and Collateral Policy

The Commonwealth's investments are governed by KRS 42.500 and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, 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 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 and Economic Analysis.

At June 30, 1996, the Commonwealth's operating portfolio was approximately \$2.9 billion cash and securities. The composition of investments was as follows: U.S. treasury securities (33%), securities issued by agencies, corporations and instrumentalities of the United States Government (21%), repurchase agreements collateralized at 102% by the aforementioned (37%), municipal securities rated A or higher by Standard & Poor's or Moody's (0.5%) and money market securities rated A-1-P1 or higher by Standard & Poor's or Moody's (6.5%). Money market securities, including Bankers' Acceptances, Commercial Paper and Certificates of Deposit, are limited to 20% of the total portfolio and \$10 million per issuer. The annualized yield for fiscal 1996 was 5.18% and has a modified duration of approximately 1.13 years. The Commonwealth's investments are marked to market daily.

During 1996, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in the above-described securities, as well as securities issued by the Commonwealth of Kentucky. Maturities range up to 7 months for commercial paper, 21 years for Kentucky revenue bonds, and 83 months for all other securities. Investment income for 1996, excluding that from pension trust funds, was \$109,807,323, a 12.5% decrease compared to 1995.

The Commonwealth's investments are categorized into five investment pools: Short-Term, Long-Term, University, Trust and Agency, and U.S. Treasury and Agency Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease of administration and increased accountability and control. The Short-Term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Long-Term Pool

represents State Agency investments. The University Pool is dedicated to the investment of state held component unit funds. The Trust and Agency Pool consists of fiduciary fund accounts held for the benefit of others. The U.S. Treasury and Agency Pool invests in U.S. Treasury and Agency obligations. Capital construction bond proceeds are deposited into the U.S. Treasury and Agency Pool until expended for their intended purpose.

The Commonwealth engages in certain 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 derivative transactions, including: over-the-counter treasury options, the securities lending program, and fixed receiver interest rate swaps.

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 20% of the total portfolio of treasury and agency securities. Historically, this commitment has been less than 10%.

The Commonwealth has had a securities lending program since the mid-1980's. This program is structured as a paired tri-party repurchase transaction with an approved custodian bank and a primary dealer acting as principal. The state reverses its treasury and agency securities in exchange for 102% of eligible collateral pursuant to KRS 42.500, marked to market daily. Currently, the Commonwealth receives a guaranteed 9.5 basis points of the average market value of securities in the program.

The Commonwealth has also engaged in an asset-based interest rate swap to better match its assets and liabilities and to stabilize the volatility of interest income. These transactions have required the Commonwealth to pay a floating rate in exchange for a fixed rate over a specific period of time. 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, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. On July 9, 1996, the Commonwealth entered into two separate swap transactions. The swaps consisted of paying a variable rate based on the Municipal PSA Index and receiving a fixed amount based on a three-year municipal note. The maturity date on the swaps is July 9, 1999. The variable rate is reset weekly and the interest payments are netted and the appropriate party is paid on a monthly basis. The swaps were done in the nominal amount of \$50,000,000 each with Merrill Lynch and Credit Suisse Financial Products.

#### 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, 1996, the Division achieved a cash savings of \$118,000 by obtaining lower bids from improved insurance bid specifications and by seeking broader markets. Risk exposures in the amount of \$1.3 million were eliminated for properties that were either uninsured or underinsured. Since 1989, risk exposures of \$55 million have been eliminated for either uninsured or underinsured state property and buildings. The Finance and Administration Cabinet insures property, computers, vehicles, telephones, fidelity bonds, and workers' compensation claims in the amount of \$683.1 million annually for a premium of \$358,402.

Currently, the Commonwealth's three major self-insurance programs include: the Fire and Tornado Insurance Fund for property and casualty coverage; the State Employee Benefit Fund (Kentucky Kare) for health care coverage; and the State Self Insurance Fund for Workers' Compensation benefits. Other financial and catastrophic risks not assumed by these programs are transferred to insurance companies through the purchase of insurance policies by the Finance and Administration Cabinet in accordance with KRS 45A.022 for various state agencies.

The Fire and Tornado Insurance Fund consists of "premiums" charged to state agencies and universities. Current annual "premiums" of \$4.8 million insure \$4.7 billion in property assets for 6,010 facilities statewide. By statute, the Fund must have a reserve of \$5,000,000 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. For the year ended June 30, 1996, the Fund paid 192 claims in the amount of \$1,176,743. Earthquake and Flood Coverage for state facilities is available as additional insured perils in the Fund.

The State Employee Benefit Fund is a public entity risk pool which self-insures risks of providing health care benefits for approximately 33,152 subscribers including state employees, employees of local boards of education, employees of local health departments, and retirees under age 65 subscribing to the Kentucky Kaare health plans. For the year ended June 30, 1996, the state contributed \$175.00 per insured monthly or \$69.6 million annually for this coverage. As of June 30, 1996, the Commonwealth had paid \$137.0 million in current and prior year claims. Funded reserves are maintained to cover claim liabilities, which at June 30, 1996, were \$19,286,706.

The State Self Insured Workers' Compensation Trust Fund provides workers' compensation coverage for state employees. At June 30, 1996, the State program had assets of \$11.8 million and an unreserved accumulated deficit of \$33.1 million. The Fund assets increased by \$1.6 million and the unreserved accumulated deficit increased \$7.3 million from the previous year. The Fund carries reinsurance coverage for large individual or incident claims of \$5 million with limits of \$20 million. The amount of claims paid for the fiscal year was \$11.3 million. The Transportation Cabinet has a separate self-insured workers' compensation fund for its employees. As of June 30, 1996, the loss reserve requirement for the Transportation Cabinet is \$21.5 million. The fund carries reinsurance coverage for claims exceeding \$1 million with limits of \$10 million.

#### *Capital Projects Fund*

Proceeds of certain bond issues and other appropriated monies to be used for projects related to economic development and the construction, improvement, and maintenance of the Commonwealth's physical plant are accounted for in the Capital Projects Fund until such projects are completed. Completed construction and improvement projects are capitalized in the appropriate proprietary fund or General Fixed Assets Account Group at year end. All uncompleted construction in progress is capitalized in the General Fixed Assets Account Group or appropriate proprietary fund. During 1996, projects costing \$70,287,645 were completed.

#### *Proprietary Funds*

Combined operating revenues of the primary government's Enterprise Funds decreased from \$922.2 million for 1995, to \$913.8 million in 1996. Combined operating expenses of these funds increased from \$865.4 million for 1995 to \$1,014.5 million in 1996. The Kentucky Lottery Corporation passes Enterprise Fund operating revenues, with \$542.8 million, Insurance Administration has the largest operating expense, at \$530.0 million. At June 30, 1996, there are no outstanding revenue bonds in the State Parks Fund or other blended component units.

Combined operating revenues and expenses of discretely presented component units accounted for in proprietary fund types were \$218.2 million and \$214.4 million in 1996, compared to \$195.3 million and \$203.9 million in 1995. The Kentucky Housing Corporation leads such activity with operating revenues and expenses of \$76.8 million and \$66.0 million. At June 30, 1996, outstanding revenue bonds for the discretely presented component units totaled \$1.30 billion, of which \$857.8 million and \$307.6 million are accounted for in the Kentucky Housing Corporation and Kentucky Higher Education Student Loan Corporation, respectively.

Combined operating revenues and expenses for the Commonwealth's Internal Service Funds amounted to \$110.0 million and \$117.2 million, as compared to 1995 totals of \$100.0 million and \$100.3 million. The internal service operations provided include, but are not limited to, data processing, telecommunications, property management, and insurance administration.

Proprietary funds receive budgeted operating transfers of General Fund appropriations.

#### *Pension Trust Funds*

The Commonwealth administers separate retirement systems for Kentucky employees, State Police officers, public school teachers, judges, legislators and county employees. At June 30, 1996, combined total assets for these plans reached \$15.1 billion. The aggregate operating revenue of these funds was \$2.0 billion, including interest and investment income of \$1.1 billion. Total operating expenses were \$923.2 million, including retirement benefits paid of \$712.1 million.

These retirement systems are as follows: Kentucky Employees Retirement System; State Police Retirement System; County Employees Retirement System; Teachers' Retirement System, and the Judicial Form Retirement System (including both the Judicial Retirement Fund and the Legislators' Retirement Fund).

#### *University and College Funds*

The eight state-supported universities are discretely presented component units accounted for in the University and College Funds. University and College Current Funds revenue rose from \$1.01 billion in 1995 to \$1.06 billion in 1996 for an increase of 5.3%. State appropriations transferred from the General Fund to these funds went up 2.8% to \$709.5 million. Current fund expenditures and transfers increased 8.1% during 1996, to \$1.77 billion. At June 30, 1996, outstanding revenue bonds for the state supported universities totaled \$753.6 million, of which \$332.3 million is accounted for by the University of Kentucky and \$155.6 million is accounted for by the University of Louisville.

#### *General Fixed Assets*

The general fixed assets of the Commonwealth are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of the Enterprise, Internal Service, and University and College Funds. At June 30, 1996, the general fixed assets of Kentucky amounted to \$1,406,232,000. This amount represents the valuation of general fixed assets in accordance with GAAP as described in the Notes to the Financial Statements. Depreciation of general fixed assets is not recognized in the Commonwealth's accounting system.

#### **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, 1995. This is the ninth consecutive year the Commonwealth has received this prestigious award.

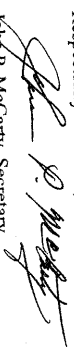
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable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



Robert P. McCarty, Secretary  
Finance and Administration Cabinet





FINANCE AND ADMINISTRATION CABINET  
**OFFICE OF THE CONTROLLER**

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December 30, 1996

The Honorable John P. McCarty  
Secretary, Finance and Administration Cabinet  
383 New Capitol Annex  
Frankfort, Kentucky


Dear Secretary McCarty:

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, 1996, 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 Generally Accepted Accounting Principles (GAAP) 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 presented fairly and fully discloses the financial position and results of financial operations of the Commonwealth for the reporting period as measured by the financial activity of the various funds. All appropriate disclosures necessary to assist readers in their understanding and evaluation of Kentucky's financial condition have been included in this report.

Respectfully submitted,

  
Edgar C. Ross, Controller

# Certificate of Achievement for Excellence in Financial Reporting

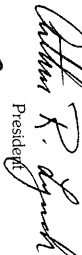
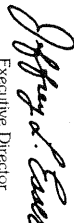
Presented to

## Commonwealth of Kentucky

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1995

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.



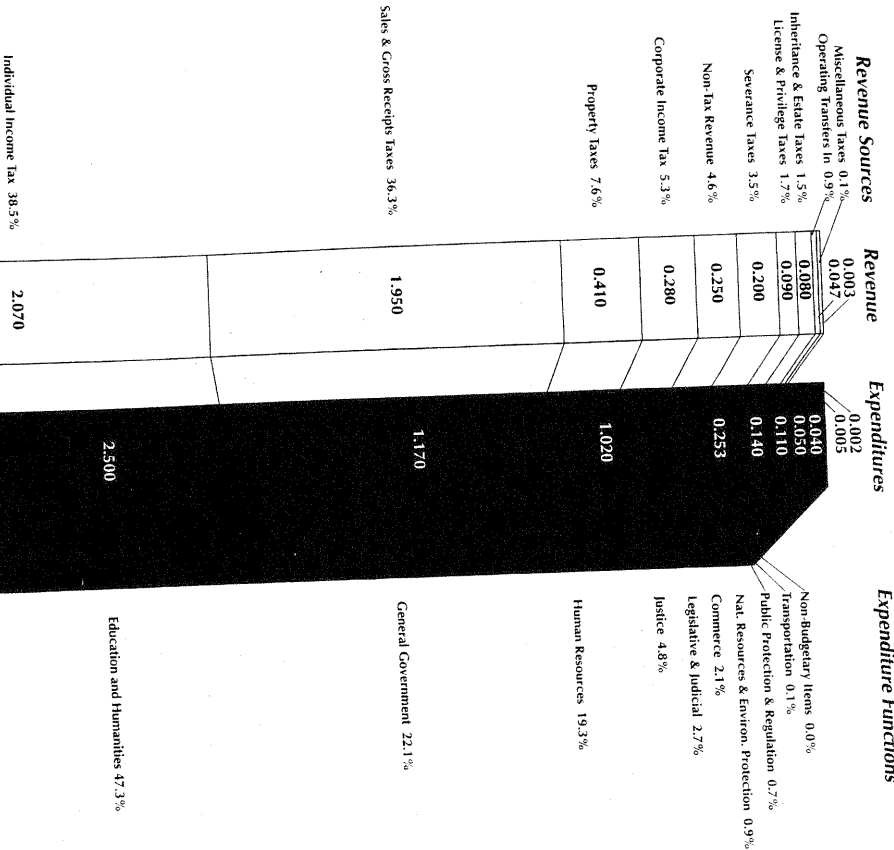
  
Arthur R. Lynch  
President  
  
Jeffrey A. Lane  
Executive Director

# Chart 1

## General Fund - Budgetary Basis

### Fiscal Year 1996

(amounts in billions)

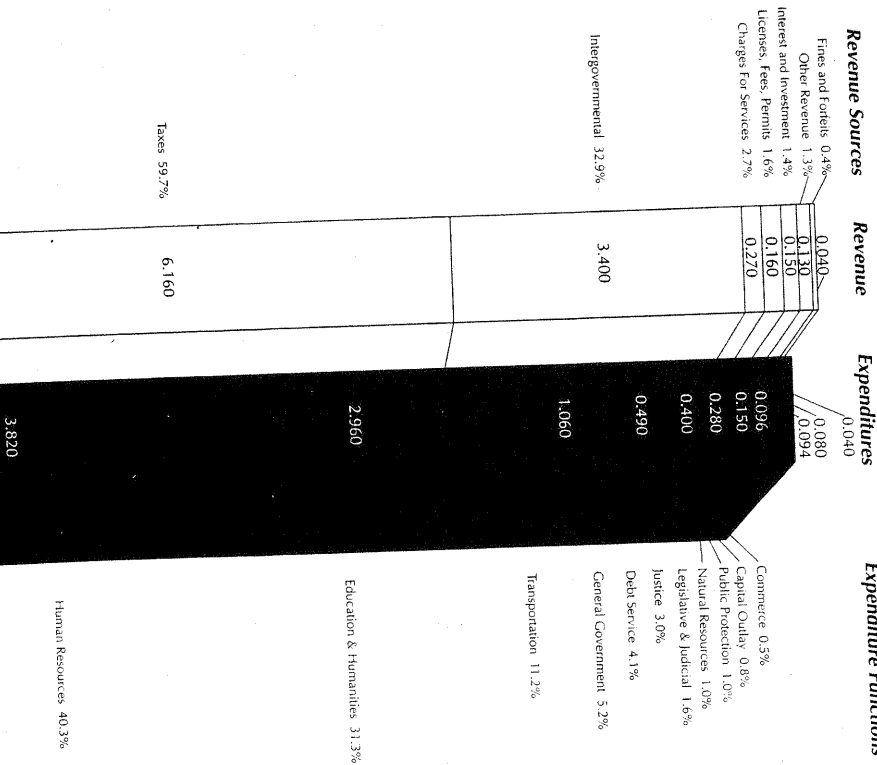


# Chart 2

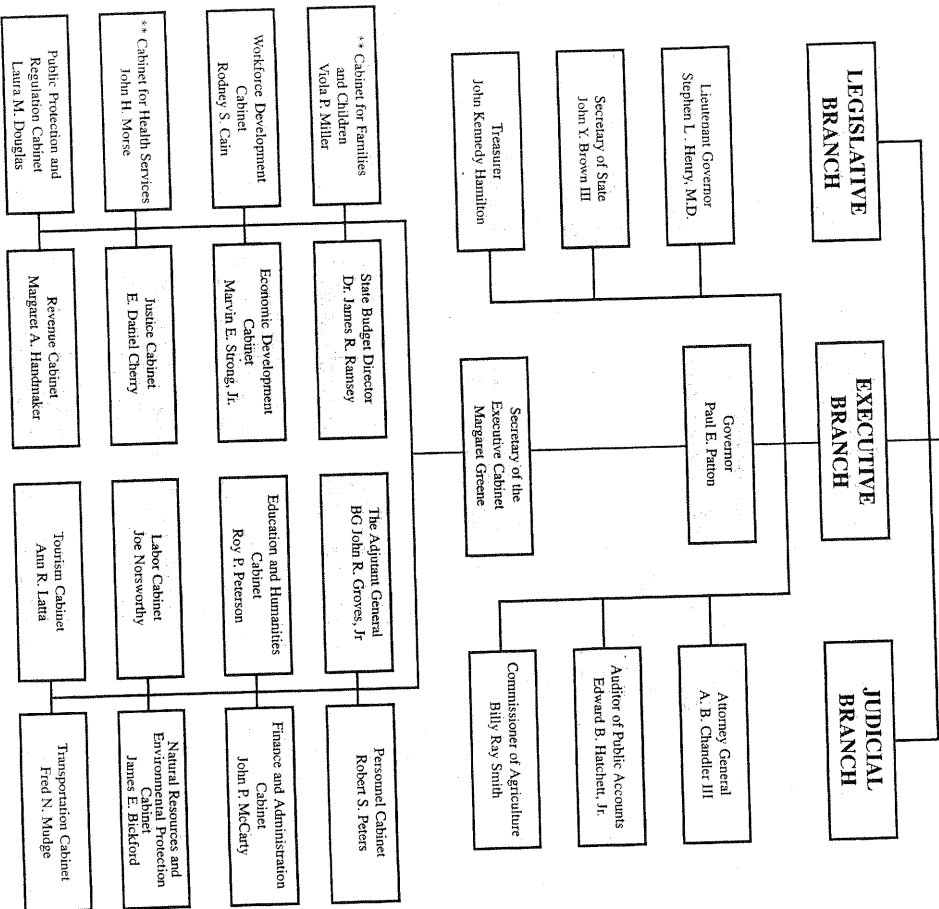
## Governmental Funds - GAAP Basis

### Fiscal Year 1996

(amounts in billions)



# ELECTORATE \* OF KENTUCKY



\* Principal Officials at June 30, 1996

\*\* Reported prior to reorganization as Cabinet for Human Resources

## FINANCIAL SECTION



EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

### Independent Auditor's Report

To the People of Kentucky  
The Honorable Paul E. Patton, Governor  
Mr. John P. McCarty, 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, 1996. 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 certain organizational units within the governmental fund types, the Kentucky Lottery Corporation, Workers' Compensation Special Fund, Petroleum Storage Tank Environmental Assurance Program, and the Transportation Cabinet's Self-Insured Workers' Compensation Trust Program within the proprietary fund types, the Pension Trust Funds and the 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 total assets of 16, 73, 93, and 99.9 percent, total revenues/additions of 13, 73, 93, and 99.9 percent, and total expenditures/expenses/deductions of 15, 70, 76, and 99.9 percent, respectively, of the related combined totals of the governmental fund types, proprietary fund types, fiduciary fund types, and discretely presented component units. We also did not audit certain fixed assets which represent 19 percent of the General Fixed Assets Account Group. In addition, we did not audit certain long-term obligation accounts which comprise 44 percent of the total liabilities in the General Long-Term Obligations Account Group. These organizational unit financial statements and fixed asset and general long-term obligation accounts 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 solely on the reports of other auditors.

To the People of Kentucky  
The Honorable Paul E. Patton, Governor  
Mr. John P. McCarty, Secretary  
Finance and Administration Cabinet  
Page 2

We conducted our audit in accordance with generally accepted government auditing standards except that a portion of the university and college discretely presented component units was audited in accordance with generally accepted auditing standards. 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 referenced above present fairly, in all material respects, the financial position of the Commonwealth of Kentucky as of June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types and discretely presented component unit proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

As disclosed in Note 17, the Commonwealth is involved in litigation concerning the exemption of certain state employees from overtime provisions of the Fair Labor Standards Act. The ultimate outcome of the litigation cannot be determined at this time. The Attorney General's office has indicated that probable payments could be significant; however, the amounts to be paid are not reasonably estimable. Therefore, except for a liability related to the initial plaintiffs, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements. As disclosed in Note 2, the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement 24 for the year ended June 30, 1996, which resulted in an increase of \$6,216,000 to the beginning fund balance in the Special Revenue Fund; the corresponding restricted asset was also recorded. As disclosed in Notes 2 and 8, the Kentucky Retirement System and Judicial Form Retirement System early implemented GASB Statement 25, and the Kentucky Retirement System early implemented GASB Statement 26, for the year ended June 30, 1996; this resulted in a net decrease in the Systems' beginning net assets held in trust for pensions and health insurance of \$45,126,000. Also, the Commonwealth early implemented GASB Statement 27 for these retirement systems. The Teachers' Retirement System is still reported in accordance with GASB Statement 5 requirements.

To the People of Kentucky  
The Honorable Paul E. Patton, Governor  
Mr. John P. McCarty, Secretary  
Finance and Administration Cabinet  
Page 3

As disclosed in Note 12, there was a significant increase in the present value of the aggregate actuarially determined claims liability for the Kentucky Workers' Compensation Insurance Program during the year ended June 30, 1996. According to the latest actuarial report dated October 2, 1996, this increase arose from projection of additional incurred but not reported claims for the years ended June 30, 1995, and prior. Also as disclosed in Note 12, the actuarially determined claims liability decreased significantly for the Petroleum Storage Tank Environmental Assurance Program during the year ended June 30, 1996. According to the latest actuarial report dated February 12, 1996, this decrease was primarily the result of a decrease in the estimated number of incidents.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules included in this report on pages 80 through 163 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 2 through 16 and 165 through 176 were not audited by us and, accordingly, we do not express an opinion thereon.

In accordance with generally accepted government auditing standards, we will also issue a report on our consideration of the Commonwealth of Kentucky's internal control structure and a report on its compliance with laws and regulations.

Respectfully submitted,



Edward B. Hatchett, Jr.

December 30, 1996

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## GENERAL PURPOSE FINANCIAL STATEMENTS

## Expressed in thousands)

THE ACCOMPANYING NO

(Expressed in Thousands)

FUND BALANCE AT JUNE 30

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/FUND EQUITY  
BUDGET AND ACTUAL (BUDGETARY BASIS) - ALL BUDGETED FUND TYPES (NOTE 4)  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	General Fund			Special Revenue			Enterprise			Internal Service			Expendable Trust		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:															
BUDGETED:	\$ 5,043,202	\$ 5,087,752	\$ 44,550	\$ 784,960	\$ 790,182	\$ 5,222									
TAXES:	19,055	18,482	(564)	92,098	93,283	1,185									
LICENSES, FEES, AND PERMITS	4,410	4,482	282	18,915	18,819	(96)									
INTERGOVERNMENTAL	2,225	3,886	1,661	75	33	(42)									
CHARGES FOR SERVICES	34,645	36,339	1,694												
FINES AND FORFEITS	25,600	30,398	4,798	28,200	33,941	5,741									
INTEREST AND OTHER INVESTMENT	132,000	147,000	15,000	3,525	1,012	(2,513)									
INCOME	8,144	3,022	(5,122)												
LOTTERY PROCEEDS	13,125	17,068	3,943												
OTHER REVENUES															
TRANSFERS IN	5,282,416	5,348,648	66,232	927,773	937,270	9,497									
TOTAL BUDGETED REVENUES															
NON-BUDGETED:															
TAXES:															
LICENSES, FEES, AND PERMITS															
INTERGOVERNMENTAL															
CHARGES FOR SERVICES															
FINES AND FORFEITS															
INTEREST AND OTHER INVESTMENT															
EMPLOYER CONTRIBUTIONS															
OTHER REVENUES															
ESCHEAT REVENUE															
TRANSFERS IN (INTERFUND)															
TRANSFERS IN (INTRA-FUND)															
TOTAL NON-BUDGETED REVENUES															
TOTAL REVENUES	5,282,416	5,384,155	101,739	1,427,887	1,088,691	339,196	7,752	5,016	2,776	90,589	86,632	3,957			
EXPENDITURES:															
GENERAL GOVERNMENT	1,460,661	1,169,598	290,463	1,427,887	1,088,691	339,196									
LEGAL AND JUDICIAL	154,167	145,137	9,030	2,240	2,240	0									
EDUCATION	126,753	108,682	18,071	29,888	27,836	2,052									
EDUCATION AND HUMANITIES	2,532,595	2,530,808	1,787	611,788	596,662	15,126									
HUMAN RESOURCES	1,044,774	1,040,814	3,960	2,526,254	2,309,912	216,342									
JUSTICE	285,454	282,723	2,731	94,091	81,026	13,065									
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	46,985	46,257	728	87,820	55,546	32,274									
PUBLIC PROTECTION AND REGULATION	37,604	36,183	1,421	72,176	64,213	8,263									
TRANSPORTATION	8,200	4,916	3,284	2,618,065	1,256,837	1,361,228									
TOTAL EXPENDITURES	5,666,793	5,584,178	382,615	7,472,338	5,432,963	2,039,375	443,581	375,925	67,656	101,977	97,636	4,341	333,958	256,504	77,454
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(384,377)	99,977	484,354		857,597										
OTHER FINANCING SOURCES (USES):															
TURNPIKE AUTHORITY				398	398										
HUMAN RESOURCES				3	3										
MOTOR POOL RECEIPTS					16,974										
TOTAL OTHER FINANCING SOURCES (USES)				341	17,315										
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(384,377)	99,977	484,354		874,912										
FUND BALANCE/FUND EQUITY AT JULY 1	404,864	404,864	(1,813)		1,419,228										
NON-BUDGETED ITEMS					(872,884)										
FUND BALANCE/FUND EQUITY AT JUNE 30	\$ 20,487	\$ 503,028	\$ 482,541		\$ 1,415,556										

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



COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/FUND EQUITY  
BUDGET AND ACTUAL (BUDGETARY BASIS) - ALL BUDGETED FUND TYPES (NOTE 4)  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Component Units		
	Budget	Actual	Variance
REVENUES:			
BUDGETED:	\$	\$	\$
OPERATING REVENUES:			
PROPRIETARY FUND SERVICES			
ENTERPRISE			
INTERNAL SERVICE			
TRUST			
FUND BALANCE/FUND EQUITY			
FUND BALANCE/FUND EQUITY AT JULY 1			
FUND BALANCE/FUND EQUITY AT JUNE 30			
NON-BUDGETED:			
LOTTERY PROCEEDS			
OTHER REVENUES			
TRANSFERS IN			
TOTAL BUDGETED REVENUES			
TAXES			
LICENSES, FEES, AND PERMITS			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES			
FINES AND FORFEITS			
INTEREST AND OTHER INVESTMENT			
INCOME			
TOTAL NON-BUDGETED REVENUES			
TOTAL REVENUES			
EXPENDITURES:			
GENERAL GOVERNMENT			
LEGISLATIVE AND JUDICIAL			
COMMERCE			
EDUCATION AND HUMANITIES			
HUMAN RESOURCES			
JUSTICE			
NATURAL RESOURCES AND			
ENVIRONMENTAL PROTECTION			
PUBLIC PROTECTION AND			
TRANSPORTATION			
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER			
(UNDER) EXPENDITURES			
OTHER FINANCING SOURCES (USES):			
TURNPIKE AUTHORITY			
HUMAN RESOURCES			
MOTOR POOL RECEIPTS			
TOTAL OTHER FINANCING SOURCES (USES)			
EXCESS OF REVENUES AND OTHER			
FINANCING SOURCES OVER (UNDER)			
EXPENDITURES AND OTHER			
FINANCING USES			
FUND BALANCE/FUND EQUITY AT JULY 1			
NON-BUDGETED ITEMS			
FUND BALANCE/FUND EQUITY AT JUNE 30			

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

COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCES  
ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS AND DISCREETLY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

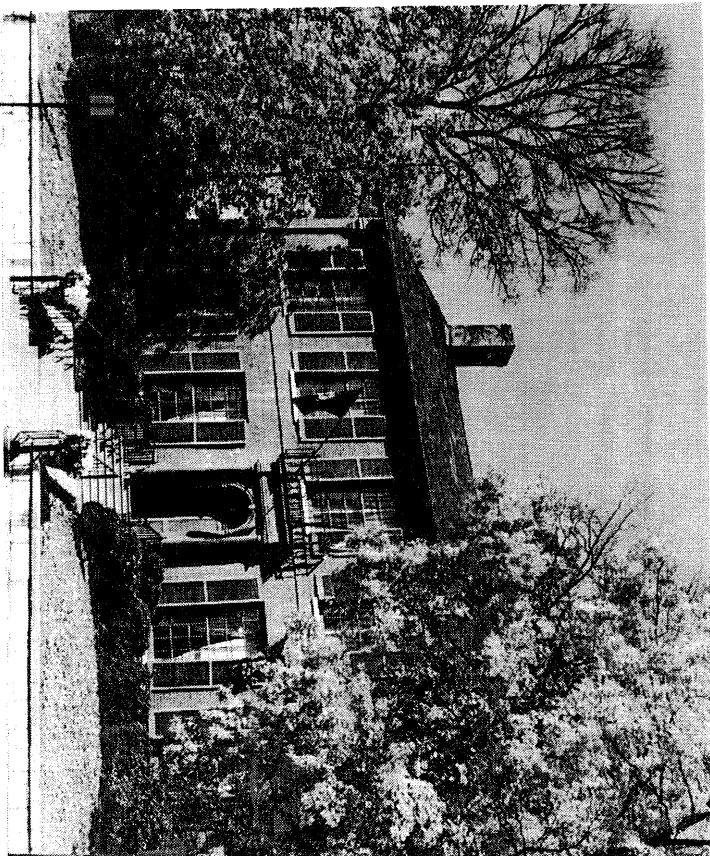
	Proprietary Fund Types		Fiduciary Fund Types		Totals		Totals	
	Enterprise	Internal Service	Pension Trust	Governmental	Primary Government (Memorandum Only)	Component Units	Reporting Entity (Memorandum Only)	
OPERATING REVENUES:								
PROPRIETARY FUND SERVICES	\$ 329,654	\$ 109,084	\$ 509,002	\$ 438,738	\$ 41,871	\$ 480,609		
CONTRIBUTIONS			\$ 509,002	\$ 509,002		\$ 509,002		
LOTTERY AND OTHER INVESTMENT INCOME	38,322		814,329	814,329		\$ 814,329		
INTEREST PROCEEDS	542,845		775,807	542,845	96	\$ 542,845		
AMORTIZATION OF PREMIUM ON LEASES						96		
OTHER REVENUES	2,783	941		3,704	47,650	\$ 51,354		
TOTAL OPERATING REVENUES	913,584	1,010,025	1,284,809	2,308,616	218,207	2,526,825		
OPERATING EXPENSES:								
PERSONAL SERVICES	73,479	36,487		109,966	39,308	149,274		
UTILITIES, RENTALS, AND OTHER SERVICES	14,415	20,764		35,179	16,881	\$ 51,960		
COMMODITIES AND SUPPLIES	34,559	24,775		59,333	2,774	\$ 62,107		
ADMINISTRATIVE EXPENSES	100	659		6,589	33,067	\$ 33,826		
GRANTS AND SUBSIDIES	10,132	5,746		61,607	77,485	90,497		
DEPRECIATION AND AMORTIZATION				388,760	388,760	388,760		
REPAIRS AND MAINTENANCE				8,418	1,555	9,973		
INTEREST						84,828		
TRAVEL	1,347	208		1,858	629	2,184		
REINSURANCE EXPENSE		888		608		\$ 1,496		
CLAIMS ADJUSTMENT	498,330	27,711		526,041	277	\$ 526,318		
CIVIL SERVICE	313,434			56,823		\$ 370,257		
PRIZE EXPENSES	62,625			313,434		\$ 376,059		
OTHER EXPENSES			220	62,845	24,735	\$ 87,594		
TOTAL OPERATING EXPENSES	1,014,524	117,247	465,594	1,597,384	214,415	1,811,799		
OPERATING INCOME (LOSS)	(100,940)	(7,222)	819,215	711,234	3,792	715,026		
INTERGOVERNMENTAL REVENUE (EXPENSES):								
INTERGOVERNMENTAL REVENUE						1,359		
GRANTS AND DONATIONS						4,693		
MEMBERSHIP REVENUE						4,593		
KENTUCKY CENTER FOR THE ARTS ENDOWMENT	(12)	(174)				4,581		
GRANT (LOSS) FROM OTHER GOVERNMENT UNITS	5,726			(180)	(19)	\$ 5,537		
INVESTMENT AND OTHER INVESTMENT INCOME	5,740	4		5,740	(19)	\$ 5,725		
CHANGE IN ACTUARIAL ESTIMATE	60,103	(331)		60,103	670	\$ 60,773		
INTEREST EXPENSE	(74)	(405)		(405)		\$ (479)		
OTHER REVENUES (EXPENSES)	6			6		\$ 12		
TOTAL NONOPERATING REVENUES (EXPENSES)	65,759	(601)		65,158	1,706	\$ 66,864		
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS	(35,000)	(7,722)	819,215	776,482	5,498	781,990		
OPERATING TRANSFERS IN								
TRANSFERS FROM PRIMARY GOVERNMENT	44,159	3,365		47,524		\$ 47,524		
TRANSFERS FROM COMPONENT UNITS					56,287	\$ 56,287		
OPERATING TRANSFERS OUT	(152,096)	(3,621)		(155,717)		\$ (155,717)		
TRANSFERS TO PRIMARY GOVERNMENT					(881)	\$ (881)		
TRANSFERS TO COMPONENT UNITS	(142,937)	(7,979)	819,215	668,299	60,394	\$ 729,202		
NET INCOME (LOSS)								
1,647		70		1,717	4,920	\$ 6,357		
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL GRANTS								
TOWN BALANCES	(141,290)	(7,999)	819,215	670,016	65,824	\$ 735,844		
INCREASE (DECREASE) IN RETAINED EARNINGS								
TOWN BALANCES	(877,680)	(231,132)	6,238,679	5,334,867	499,851	\$ 5,834,716		
RETAINED EARNINGS/FUND BALANCES								
AT JULY 1 (NOTE 2), AS RESTATED								
RETAINED EARNINGS/FUND BALANCES	\$ (1,018,970)	\$ (31,041)	\$ 7,054,884	\$ 6,004,883	\$ 565,675	\$ 6,570,558		
AT JUNE 30								

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

COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF CHANGES IN PLAN ASSETS  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Pension Benefits	Health Insurance	Totals (Memorandum Only)
<b>Additions:</b>			
Contributions:			
Employer	\$ 258,111	\$ 84,841	\$ 342,952
Member	145,068		145,068
Total contributions	403,179	84,841	488,020
Appropriation for Administrative Expense	301		301
Investment Income			
Net Appreciation (Depreciation) in Fair Value			
Net of Investments	2,089,817	34,996	2,104,813
Interest	155,276	16,600	171,876
Dividends	97,356	2,284	99,640
Income - Real Estate	20,146	616	20,762
Total Investment Income	2,342,595	54,496	2,397,091
Less: Investment Expense	24,641	2,107	26,748
Net Investment Income	2,317,954	52,389	2,370,343
Total Additions	2,721,434	137,230	2,858,664
<b>Deductions:</b>			
Benefit Payments	287,811	35,521	323,332
Refunds	16,705		16,705
Administrative Expense	8,730		8,730
Other Deductions (Net)	85,037	35,521	120,558
Total Deductions	398,303	71,042	469,345
Net Increase	2,323,131	66,188	2,389,319
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of Year	4,978,923	273,946	5,252,869
Adjustments to Net Assets	(51,691)	6,565	(45,126)
End of Year	\$ 7,253,363	\$ 382,220	\$ 7,635,583

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



For one hundred sixteen years, from 1798-1914, this mansion at the corner of High and Clinton Streets, served as the official residence of the first thirty-three Governors of Kentucky.

**COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES AND DISCREETLY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 1996**  
(Expressed in thousands)

	Proprietary Fund Types		Totals		Totals	
	Enterprise	Internal	Service	Government Memorandum Only	Primary Government Memorandum Only	Reporting Entity Memorandum Only
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 609,276	\$ 33,459	\$ 872,735	\$ 88,325	\$ 961,060	
CASH RECEIVED FROM CUSTOMERS - STATE	41,778	74,560	116,038	242,697	116,038	
COLLECTION OF PROCEEDS FROM BONDS						
PROGRAM LOANS TO SUPPLIERS FOR GOODS AND SERVICES	(370,387)	(48,482)	(418,879)	(125,817)	(545,696)	
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(77,290)	(36,066)	(113,356)	(37,101)	(150,457)	
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(288,289)	(17,035)	(305,304)	(305,304)	(305,304)	
CASH PAYMENTS FOR CLAIMS EXPENSE	(4,578)	9	(4,569)		(4,569)	
CASH PAYMENTS TO FROM OTHER SOURCES	140,530	5,135	145,665	11,105	156,770	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
PROCEEDS FROM BOND ISSUANCE						
PROCEEDS FROM SALE OF REVENUE BONDS FOR COST OF ISSUANCE						
PRINCIPAL PAYMENT ON DEBT						
DEBT RELATED EXPENSES						
SUBSIDIES	348	3,565	61,542	(2,289)	110,886	
NONOPERATING FEES	57,977	(3,548)	(198,644)	(2,289)	(180,912)	
OPERATING TRANSFERS IN FROM OTHER FUNDS	(153,086)	17	(98,733)	100,205	4,052	
OPERATING TRANSFERS OUT TO OTHER FUNDS	(96,770)					
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>						
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(5,451)	(2,144)	(7,595)	(8,690)	(16,255)	
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(2,000)	(4,164)	(6,164)	(23,509)	(33,673)	
INCREASE IN RESTRICTED ASSET CONSTRUCTION ACCOUNT				300	300	
RESTRICTED INCOME CONSTRUCTION				(3,342)	(3,390)	
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS	(48)	252	(48)	4	583	
PROCEEDS FROM SALE OF EQUIPMENT	327			27,607	28,607	
CONTRIBUTED CAPITAL						
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
PROCEEDS FROM SALE OF INVESTMENT SECURITIES	(1,114,343)	(4,941)	(1,119,284)	(1,131,089)	(2,250,373)	
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES	1,079,591		1,079,591	1,271,245	2,350,836	
INTEREST AND DIVIDENDS ON INVESTMENTS	34,826	463	35,289	41,923	77,212	
<b>NET CASH USED IN INVESTING ACTIVITIES</b>						
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>						
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	74	(4,478)	(4,404)	182,079	177,675	
CASH AND CASH EQUIVALENTS AT END OF YEAR	122,862	20,275	143,137	282,125	313,405	
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 159,524</b>	<b>\$ 14,893</b>	<b>\$ 174,417</b>	<b>\$ 380,246</b>	<b>\$ 535,383</b>	

	Proprietary Fund Types		Totals		Totals	
	Enterprise	Internal	Service	Government Memorandum Only	Primary Government Memorandum Only	Reporting Entity Memorandum Only
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>						
OPERATING INCOME (LOSS)	\$ (100,759)	\$ (7,494)	\$ (108,253)	\$ 3,792	\$ (104,461)	
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
DEPRECIATION AND AMORTIZATION	10,132	5,746	15,878	13,916	29,794	
INTEREST AND OTHER INVESTMENT INCOME	(39,028)	(442)	(39,470)	(39,470)	(39,470)	
SUBSIDIES						
INTEREST EXPENSE	60,113	(335)	59,778	7,310	67,088	
MISCELLANEOUS NONOPERATING INCOME (EXPENSES)						
CHANGE IN ASSETS AND LIABILITIES:						
(INCREASE) DECREASE IN RECEIVABLES, NET	(3,224)	20	(3,204)	10,440	7,236	
(INCREASE) DECREASE IN INTERIM RECEIVABLES	102	325	427		428	
(INCREASE) DECREASE IN INVENTORIES	(639)	(54)	(693)	88	(605)	
(INCREASE) DECREASE IN PREPAID EXPENSES	(46)	(95)	(141)		(141)	
(INCREASE) DECREASE IN OTHER ASSETS	128		128		128	
(INCREASE) DECREASE IN ACCOUNTS PAYABLE	48,793	(143)	48,650		48,650	
(INCREASE) DECREASE IN CLAIMS TO SETTLEMENT LIABILITY	1,898	(1,208)	679		679	
(INCREASE) DECREASE IN CLAIMS TO SETTLEMENT LIABILITY	183,528	8,617	172,145		172,145	
(INCREASE) DECREASE IN DEFERRED ASSESSMENTS	6,827		6,827		6,827	
(INCREASE) DECREASE IN DEFERRED ASSESSMENTS	383	308	691		691	
(INCREASE) DECREASE IN DEFERRED REVENUE	41		41		41	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 140,530</b>	<b>\$ 5,135</b>	<b>\$ 145,665</b>	<b>\$ 11,105</b>	<b>\$ 156,770</b>	

**RECONCILIATION OF CASH AND CASH EQUIVALENTS, JUNE 30, 1996**

PER COMBINED BALANCE SHEET  
RESTRICTED CASH  
LESS: UNRESTRICTED  
CASH AND CASH EQUIVALENTS FOR  
PROPRIETARY COMPONENT UNITS

Component  
Units  
\$ 627,688  
6,620  
(286,732)  
\$ 347,576

THE PROPRIETARY FUND ACQUIRED ASSETS OF \$22,223,000 THROUGH NON-CASH TRANSACTIONS. CONTRIBUTED CAPITAL TOTALLED \$19,275,000. CAPITAL LEASES TOTALLED \$3,048,000. PAYMENTS FOR PRINCIPAL AND INTEREST FOR THE YEAR WERE \$534,000 AND \$15,000, RESPECTIVELY. GRAND PRIZE INVESTMENTS AND THE RELATED PRIZE LIABILITY WERE INCREASED DURING THE YEAR BY APPROXIMATELY \$16,553,000. ACCRETION OF INTEREST.

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

COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
ALL UNIVERSITY AND COLLEGE CURRENT FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Totals June 30, 1996
REVENUES:	
TUITION AND FEES	319,913
FEDERAL GRANTS AND CONTRACTS	1,383
STATE LOCAL GRANTS AND CONTRACTS	30,888
UNIVERSITY ENDOWMENT INCOME	28,822
SALES AND SERVICES OF EDUCATION ACTIVITIES	4,512
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	39,640
OTHER REVENUES	140,834
TOTAL CURRENT REVENUES	1,058,708
EXPENDITURES AND TRANSFERS:	
EDUCATIONAL AND GENERAL:	
LIBRARY	517,654
RESEARCH	79,720
PUBLIC SERVICE	140,443
ACADEMIC SUPPORT	42,743
LIBRARIES	42,743
STUDENT SERVICES	70,650
INSTITUTIONAL SUPPORT	110,810
STUDENT FINANCIAL AID	142,829
MAINTENANCE AND OPERATION	101,448
OTHER EXPENDITURES	101,448
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	1,303,585
MANDATORY TRANSFERS FOR:	
PRINCIPAL AND INTEREST	66,824
LOAN FUND	275
UNEXPENDED PLANT FUND	1,374
RETIREMENT OF INDEBTEDNESS	129
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - RESTRICTED	(25,804)
LOAN FUND	(3,266)
ENDOWMENT AND SIMILAR FUNDS	20
UNEXPENDED PLANT FUND	1,111
RETIREMENT OF INDEBTEDNESS	31,623
RENEWAL AND REPLACEMENT	716
TOTAL EDUCATIONAL AND GENERAL	1,377,049
AUXILIARY ENTERPRISES AND HOSPITALS:	
EXPENDITURES	325,095
MANDATORY TRANSFERS FOR:	
PRINCIPAL AND INTEREST	12,882
RENEWAL AND REPLACEMENT	81
RETIREMENT OF INDEBTEDNESS	1,117
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - UNRESTRICTED	13,046
AUXILIARY ENTERPRISES AND HOSPITALS - UNRESTRICTED	
UNEXPENDED PLANT FUND	2,630
RENEWAL AND REPLACEMENT	40,644
TOTAL AUXILIARY ENTERPRISES AND HOSPITALS	395,395
TOTAL EXPENDITURES AND TRANSFERS	1,772,444
OTHER TRANSFERS FROM PRIMARY GOVERNMENT:	
TRANSFERS TO PRIMARY GOVERNMENT	709,478
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	12,116
INDIRECT COST RECOVERED	5,284
REFUNDS TO GRANTORS	(202)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	(301)
NET INCREASE (DECREASE) IN FUND BALANCE	8,359

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

COMMONWEALTH OF KENTUCKY  
COMBINED STATEMENT OF CHANGES IN FUND BALANCES  
ALL UNIVERSITY AND COLLEGE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Totals June 30, 1996
REVENUES AND OTHER ADDITIONS:	
EDUCATIONAL AND GENERAL REVENUES	514,145
AUXILIARY ENTERPRISES AND HOSPITALS REVENUES	34,145
UNIVERSITY ENDOWMENT INCOME	4,780
RESTRICTED GIFTS AND CONTRACTS	287,415
RESTRICTED GIFTS AND GRANTS	53,173
ENDOWMENT INCOME	2,539
INTEREST AND OTHER INVESTMENT INCOME	27,539
SALES AND SERVICES OF EDUCATION ACTIVITIES	118,688
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	52,878
RETIREMENT OF INDEBTEDNESS	108,479
OTHER REVENUE AND ADDITIONS	
TOTAL REVENUES AND OTHER ADDITIONS	1,524,256
EXPENDITURES AND OTHER DEDUCTIONS:	
EDUCATIONAL AND GENERAL EXPENDITURES	1,302,893
AUXILIARY ENTERPRISES AND HOSPITALS EXPENDITURES	325,095
RETIREMENT OF INDEBTEDNESS	543
ADMINISTRATIVE COLLECTION, AND UTILITY COSTS	970
LOAN CANCELLATIONS	588
PAYMENT TO BENEFICIARIES	78,583
EXPENDED FOR PLANT FACILITIES	52,913
EXPENDED FOR PLANT FACILITIES	48,564
INTEREST PAYMENTS	49,546
DISPOSAL OF PLANT FACILITIES	5,908
NOTES ISSUED	191,274
OTHER EXPENDITURES	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	2,014,713
TRANSFERS AMONG FUNDS, ADDITIONS (DEDUCTIONS):	
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - RESTRICTED	745,823
LOAN FUND	(4,484)
ENDOWMENT AND SIMILAR FUNDS	751,359
UNEXPENDED PLANT FUND	
RENEWAL AND REPLACEMENT	
TOTAL TRANSFERS AMONG FUNDS	260,902
INCREASE (DECREASE) IN FUND BALANCE	
FUND BALANCE AT JULY 1, (NOTE 2), AS RESTATED	2,677,078
FUND BALANCE AT JUNE 30	2,937,980

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

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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 in conformity with generally accepted accounting principles as prescribed by the AICPA Audit Guide, *Audits of Colleges and Universities*.

**B. Financial Reporting Entity** - For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, account groups, 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 almost entirely or exclusively to the primary government or their governing body is substantively the same as the governing body for 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 Agricultural Finance Authority and the Kentucky Grain Insurance Corporation. (See page 77 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.

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 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 sole 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.

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 which 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. The Commission was audited in conjunction with the Commonwealth's financial statements.

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.

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 him 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

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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.

**State Board of Physical Therapy (KRS 327.030)**

The board is a body created to enforce the statutes relating to the licensing and regulation of physical therapists. The board has the power to institute criminal proceedings in the name of the Commonwealth against violators of statutes pertaining to physical therapists. The board consists of five 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 State's primary government.

**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 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, 3 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)**

KETV 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. KETV also produces and transmits educational television programs. The authority consists of nine members, five being appointed by the Governor. A component unit of KETV 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)**

KEDEFPA possesses the corporate powers necessary to distinguish it as being legally separate from the Commonwealth and 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 Commonwealth Small Business Development Corporation, the Kentucky Industrial Development Authority, the Kentucky Jobs Development Authority, and the Kentucky Mortgage Insurance and Guarantee Corporation. The financial statements of the component units have been 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 Higher Education Student Loan Corporation (KRS 164A.050)**

KHESLSC is a body corporate and public created to perform essential governmental and public functions and purposes in improving and promoting the education 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.

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

The Housing Corporation is a body corporate and public 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 Infrastructure Authority (KRS 224A.030)**

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

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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 state's welfare by improving the economic stability of agriculture and protecting grain producers in the event of the 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 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 apartment facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor.

**State Colleges and Universities (KRS 164.350)**

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

**C. Fund Structure and Basis of Accounting - Primary Government** - The accompanying financial statements are structured into three fund categories and two account groups. The fund categories include governmental funds, proprietary funds and fiduciary funds. Account groups are presented for general fixed assets and general long-term obligations.

**Governmental Funds include:**

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

**Special Revenue Funds** - account for specific revenue sources, other than for expendable trusts or major capital projects, dedicated to specific operations.

**Debt Service Fund** - accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related administrative costs.

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

All of the governmental funds (where the measurement focus is on the flow of current financial resources) are accounted for on the modified accrual basis of accounting. 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. Available revenue will be received within 30 days. 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, levies (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. Expenditures are recorded at the time liabilities are incurred except: (1) inventories generally are considered expenditures at acquisition; (2) prepayments usually are accounted for as expenditures of the period of acquisition; (3) principal and interest on long-term debt are recorded when paid; and (4) compensated absences are accounted for as expenditures of the period when used. Encumbrances represented by executed and unperformed contracts, which have been approved by the Finance and Administration Cabinet, at year end are reported as reservations of fund balance for subsequent year expenditure in the Capital Projects and Transportation Funds. Encumbrances in all other funds lapse at the end of the fiscal year.

**Proprietary Funds:**

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** - account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of Kentucky and the operation 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.

**Internal Service Funds** - account 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.

**Fiduciary Funds include:**

**Expendable Trust Funds** - account for assets held by the Commonwealth as a legal trustee when both principal and interest may be expended for designated purposes.

**Pension Trust Funds** - account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems.

**Agency Funds** - account for monies held by the Commonwealth and deferred compensation plans for custodial purposes only.

Expendable Trust and Agency Funds are accounted for on the modified accrual basis of accounting and are reported in the same manner as governmental fund types. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

**Account Groups include:**

**General Fixed Assets Account Group** - accounts for fixed assets acquired or constructed for general governmental purposes other than those of the proprietary and fiduciary fund types.

**General Long-Term Obligations Account Group** - accounts for unmatured general long-term liabilities of the Commonwealth other than those of the proprietary and fiduciary fund types.

Certain obligations included in the General Long-Term Obligations Account Group for the State Property and Buildings Commission are also reflected in the statements as investments. The State Property and Buildings Commission issued \$41,380,000 Taxable University Refunding bonds. The proceeds from this issue were used to purchase certain outstanding Housing and Dining Revenue bonds of the State's universities. The income from the Housing and Dining bonds will be used to pay the debt service on the Project Revenue bonds. Savings will be used to reduce the universities' debt service requirements. See Note 15 for additional information.

**D. Component Units** - presentation of the underlying fund types of the individual component units reported in the discrete column is available from each respective component unit's separately issued financial statements.

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

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

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

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

The funds which have legally adopted annual budgets as part of the primary government include the following: General, Transportation, Federal, Agency Revenue, State Parks, Industries for the Blind, Horse Park, Insurance Administration, Computer Services, Central Stores, Telecommunications, Prison Industries, Central Printing, Property Management, and Risk Management. In addition, the State Fair Board Fund, which is shown as a discretely presented component unit, has a legally adopted budget. Capital Projects are budgeted on a project length basis.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except that the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a joint budget resolution or for expenditure for any other purpose than specified in a joint budget resolution and a budget memorandum.

However, budgetary funds except General Fund, Transportation Fund, and Capital Projects Fund, may be amended in an amount up to the actual receipts (not to exceed 5%) by an Advice of Change Order from the Secretary of the Finance and Administration Cabinet. No supplemental appropriations were required during this fiscal year.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures. All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Capital Projects and Transportation Funds, which have project length budgets. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which basis differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in Note 4.

**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 market. Short-term investments, classified as cash equivalents at June 30, 1996, are \$2,545,234,340.

**G. Investments** - This classification includes long-term investments which are stated at cost, amortized cost, or fair value. Investments of the Deferred Compensation Plan are reported at market value. See Note 5 for investment detail.

**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 which 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. The allowance for uncollectibles amounted to \$422,421,721.

**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.

**J. Inventories** - 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. 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).

**K. Fixed Assets and Depreciation-General Fixed Assets** - All fixed assets acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition. Fixed assets are valued in the General Fixed Assets Account Group at historical cost, estimated historical cost, or fair market value at time of donation. Buildings of \$617,576,000 at June 30, 1996, were valued as follows: \$351,154,000 at estimated historical cost, \$265,550,000 at historical cost and \$872,000 at fair market value at time of donation. Land of \$76,748,000 at June 30, 1996, was valued as follows: \$33,473,000 at estimated historical cost, \$30,199,000 at historical cost, and \$13,076,000 at fair market value at time of donation. The estimates of historical cost were based on appraised value as of June 30, 1986, indexed to the date of acquisition. Also, public domain (infrastructure) general fixed assets such as highways, curbs, bridges, and right-of-ways are not capitalized. No depreciation is provided on general fixed assets.

**Proprietary and Similar Fiduciary Fund Types** - Fund fixed assets acquired or constructed have been stated at historical cost, estimated historical cost, or fair market value at the time of donation. Historical cost has been estimated for approximately eighty-seven percent (87%) of the land cost and fifty-seven percent (57%) of the proprietary fund's buildings cost as of June 30, 1996. The estimate of historical cost was based on appraised value as of June 30, 1986, indexed to the date of acquisition. Land and buildings acquired after June 30, 1986, have been valued at historical cost. They are being depreciated principally on a

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straight-line basis over estimated useful lives ranging from 20 to 50 years for buildings, 3 to 25 years for machinery and equipment, and 10 to 60 years for improvements other than buildings.

It is the Commonwealth's policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB Statement No. 62.

The discretely presented component unit financial statements of the Kentucky Center for the Arts, Fiscal Year 1996, do not contain the Center's fixed assets. The Finance and Administration Cabinet, Division of Accounts, Financial Reporting Branch, has adjusted the discretely presented component units column on the

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

	Primary Government	Special Revenue	Component Units
Loans			
Investments			
Restricted gifts, grants and contracts	General	Special	Universities
Deposits with fiscal agents	11,776	8,983	
Compensating balance with depositories		30,709	
Budget Stabilization		5,601	
		1,000	
TOTAL	200,000	585,560	
	211,776	46,293	585,560

**M. Long-Term Obligations** - Long-term liabilities that will be financed from governmental funds and expendable trust funds are accounted for in the General Long-Term Obligations Account Group. 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 reported in the General Long-Term Obligations Account Group 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 13.13 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. At June 30, 1996, the estimated liability for accrued annual leave for the governmental and Primary Government proprietary funds was \$132,959,577 and \$8,569,158, respectively. Compensatory leave is granted to authorized employees on an hour-for-hour basis. At June 30, 1996, the estimated liability for compensatory leave in the governmental and Primary Government proprietary funds was \$37,789,337 and \$2,217,971, respectively.

appropriate combined statements included in the Commonwealth of Kentucky Comprehensive Annual Financial Report for the Year Ended June 30, 1996, to add dollar amounts for fixed assets, depreciation, and contributed capital associated with the Center in order to satisfy GAAP requirements regarding the State financial reporting entity.

**L. Fund Equity Reserves and Designations** - The Commonwealth's fund balance reserves represent those portions of fund balance (1) not appropriate 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.

1. 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.
2. Outstanding capital lease obligations for governmental funds and expendable trust funds are reported in the General Long-Term Obligations Account Group.
3. Judgments and contingent liabilities of governmental funds which will not be paid with current resources are reported in the General Long-Term Obligations Account Group.
4. Long-term liabilities of all proprietary and pension trust funds are accounted for in the respective funds.

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

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**N. Contributed Capital** - The Proprietary Funds receive general fund appropriations and proceeds of revenue bonds for the acquisition of specific fixed assets. The debt service for these bonds is paid by the Commonwealth's General Fund and the liability is reported in the General Long-Term Obligations Account Group. The assets acquired with the proceeds of the revenue bonds are accounted for in the proprietary funds with an offsetting entry to contributed capital.

**Primary Government - Enterprise Fund**  
(Expressed in Thousands)

Contributed capital as of June 30, 1995	\$ 65,913
Additions: Fiscal Year 1996	19,016
Amortization through June 30, 1995	\$ (19,494)
Additions: Fiscal Year 1996	(1,647)
Net contributed capital as of June 30, 1996	(21,141)

**Primary Government - Internal Service Fund**

Contributed capital as of June 30, 1995	\$ 866
Additions: Fiscal Year 1996	60
Amortization through June 30, 1995	\$ (98)
Additions: Fiscal Year 1996	(70)
Net contributed capital as of June 30, 1996	(168)

**Component Units - Proprietary Funds**

Contributed capital as of June 30, 1995	\$ 160,757
Additions: Fiscal Year 1996	179
Amortization through June 30, 1995	\$ (59,826)
Additions: Fiscal Year 1996	(4,920)
Net contributed capital as of June 30, 1996	\$ (64,746)

**O. Totals - Memorandum Only** - Total columns (memorandum only) have been added to certain statements to reflect 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**

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

**Special Revenue Fund** - The Federal Fund, within the Special Revenue Fund, was restated to implement GASB Statement 24. The net effect of this adjustment was an increase in fund balance of \$6,216,000.

The Agency Revenue Fund, within the Special Revenue Fund, was restated to include \$248,000 previously omitted, to remove \$2,141,000 reported in error, and to remove \$36,000 erroneously reported in this fund. The net effect of these adjustments was a decrease in the fund balance of \$1,929,000.

The Other Special Revenue Fund, within the Special Revenue Fund, was restated to remove amounts previously reported in error. The net effect of these adjustments was a decrease in fund balance of \$57,000.

**Capital Projects Fund** - The Capital Projects Fund was increased to include an amount previously omitted. The effect of this adjustment was an increase in fund balance of \$388,000.

**Debt Service Fund** - The Debt Service Fund was decreased to remove an amount included in error. The effect of these adjustments was a decrease in fund balance of \$160,000.

**Enterprise Funds** - The State Parks Fund, within the Enterprise Fund, was restated to include a capital lease liability of \$368,000 and to remove \$42,000 previously reported in error. The net effect of these adjustments was a net decrease in retained earnings of \$410,000.

The retained earnings of the Kentucky Care Health Insurance Plan, which is accounted for in the Insurance Administration Fund, were decreased by \$2,342,403. This adjustment was the result of an increase in deferred revenue for prior years.

**Trust and Agency Funds** - During fiscal year 1996, retirement systems adopted the provisions of GASB Statement 25. The effect of the change in accounting principles was a decrease in the beginning net assets held in trust for pension benefits for the Kentucky Employees Retirement System of \$30,987,000, County Employees Retirement System of \$17,444,000 and State Police Retirement System of \$3,613,000. The change in accounting principles resulted in an increase in beginning net assets held in trust of \$320,000 for the Judicial Retirement Plan, \$33,000 for the Legislators' Retirement Plan, and \$6,565,000 for the Kentucky Retirement Insurance Fund.

**Component Units** - The retained earnings for the State Fair Board were decreased from the amount previously reported by \$782,000. This adjustment resulted from the use of the audited financial statements of the component units and the difference in application of accounting policies.



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The retained earnings of the Kentucky Higher Education Assistance Authority were increased to reflect the reserve funds received when it assumed the operation of the Alabama Guaranteed Student Loan Program. The net effect of this transaction was an increase in retained earnings of \$11,071,000.

The fund balance for universities was decreased \$179,174,000 to correct an amount included in the prior year in error.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**A. The Special Revenue Fund** - The Agency Revenue Fund budgetary statement has an excess of expenditures over appropriations of \$5,100,000 at June 30, 1996, for Campbell, Davies, Fayette, Hardin, Jefferson, Kenton, Pike, and Warren counties, and is in accordance with State statutes. State statutes permit that "deficits may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his official term." These amounts are within the statutes and repayment will be made during the term of office of the official.

**B. The Enterprise Fund** - The Insurance Administration Fund has a deficit retained earnings of \$1,097,045,000. The deficit is the result of the inclusion of the actuarial liability for the risk pools, which will be funded in future periods.

**C. The Internal Service Fund** - The Risk Management Fund has a deficit retained earnings of \$31,198,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured worker's compensation programs, and is to be funded in future periods.

**D. Component Units** - Governmental Fund Types - Bluegrass State Skills Corporation has a deficit fund balance of \$160,000. The deficit is the result of expenditure accruals which will be funded in future periods.

Proprietary Fund Types - The Kentucky Educational Television Authority has a deficit retained earnings of \$4,532,000. The Kentucky Local Correctional Facilities Construction Authority has a deficit retained earnings of \$23,757,000, resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

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Note 4

BUDGETARY BASIS VS. GAAP

The accompanying Combined Statement of Revenues and Expenditures-Budget and Actual (Budgetary Basis)-All Budgeted Fund Types, presents comparisons of the legally adopted budget (see Note 1E) with actual data on budgetary basis. The Other Special Revenue Fund within the Special Revenue Fund type and the Kentucky Lottery Corporation within the Enterprise

Fund type are not budgeted and are shown for comparison purposes only.

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a schedule reconciling the fund balance on a cash basis at June 30, 1996, to the fund balance on a modified accrual basis follows (expressed in thousands):

Budgetary Funds	General	Special Revenue	Enterprise	Internal Service	Expendable Trust	Component Units
Financial Statements Funds	General	Special Revenue	Enterprise	Internal Service	Fiduciary	Component Units
Fund Balance/Retained Earnings June 30, 1996	\$ 503,028	\$ 1,415,556	\$ 249,840	\$ 47,098	\$ 485,612	\$ 90,938
Budgetary Basis						
Adjustments:						
Accrued Revenues	208,195	405,541	3,837	1,916	1,500	
Accrued Expenditures	(339,091)	(455,420)	(3,858)	(3,302)	(49,762)	
Accrued Transfers (Net)	(6,512)	531	(4)			
Total Accruals <sup>1</sup>	(66,413)	(49,248)	(25)	(1,386)	(48,262)	
Reclassifications and Other Adjustments:						
Inventory Balances <sup>1</sup>	11,776	30,645	4,184	4,945		
To Reclassify Financial Resources into Financial Statement Fund Types <sup>2</sup>		(567,451)	(454,616)	(13,585)		
To Record Financial Resources available as Non-Budgeted Funds <sup>3</sup>	(15,000)	386,071	(754,545)	(67,355)	14,816,641	3,508,747
Fund Equity/Other Credits June 30, 1996	\$ 463,391	\$ 1,215,473	\$ (955,162)	\$ (30,283)	\$ 15,253,991	\$ 3,599,685
GAAP Basis						

<sup>1</sup> Basis Differences

<sup>2</sup> Perspective Differences

<sup>3</sup> Entry Differences

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Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

The State 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; 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 State is also eligible to invest in reverse repurchase agreements.

**Deposits** - At year end, the carrying amount of the State's deposits for the Primary Government was \$1,185,407,934 and \$222,059,742 for the Component Units. At year end, the bank balance was \$1,267,121,584 and \$215,260,872 for the Primary Government and Component Units, respectively. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal deposit insurance or by collateral held by the State or the State's agent in the State'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

	1	2	3	Total	Carrying Amount
Cash	\$ 626,024,532	\$	\$ 61,786,923	\$ 687,811,455	\$ 613,834,764
Cash with Fiscal Agents	37,726,450		22,615,427	60,351,877	54,407,450
Imprest and Change	9,967,083			9,967,083	8,174,501
Money Market			23,378,987	23,378,987	23,379,037
Total	\$ 673,728,065	\$	\$ 107,781,317	\$ 781,509,402	\$ 699,795,752
Cash on Deposit with Federal Government				485,612,182	485,612,182
Total				\$ 1,267,121,584	\$ 1,185,407,934

CASH - COMPONENT UNITS

	1	2	3	Total	Carrying Amount
Cash	\$ 140,401,841	\$ 6,445,314	\$ 14,395,370	\$ 161,242,525	\$ 168,041,395
Money Market	11,327,165	40,112,260	47	51,439,472	51,439,472
Nonnegotiable Certificates of Deposit	2,578,875			2,578,875	2,578,875
Total	\$ 154,307,881	\$ 46,557,574	\$ 14,395,417	\$ 215,260,872	\$ 222,059,742

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**Investments** - The State 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 State are administered by the Office of Financial Management and Economic Analysis. The credit risk of those investments held in the State investment pool is all Category (1). The credit risk mix of the retirement systems, component units, and other State agencies is disclosed in the financial statement footnotes of the individual entities. The following tables categorize the Primary Government's

INVESTMENTS - PRIMARY GOVERNMENT

	1	2	3	Net Investment	Market Value
Government Securities	\$ 5,313,117,192	\$ 184,491,505	\$	\$ 5,497,608,697	\$ 5,502,085,231
Corporate Bonds	1,350,576,137			1,350,576,137	1,348,747,246
Common Stocks	7,617,868,998			7,617,868,998	8,497,602,139
Repurchase Agreements	995,195,217	891,601,400		1,886,796,617	1,886,796,617
State and Municipal Obligations	13,278,195			13,278,195	13,228,079
Commercial Paper	123,105,261			123,105,261	133,052,481
Totals	\$ 15,413,141,000	\$ 1,076,092,905	\$	\$ 16,489,233,905	\$ 17,371,122,595
Mutual Funds				142,145,830	142,145,830
Real Estate				519,396,036	521,127,808
Mortgages				109,478,243	118,447,576
Annuity Contracts				190,595,144	190,595,144
State Investment Pool				323,492,571	323,492,571
Investments Held by Broker-Dealers				273,300,492	273,300,492
Under Securities Loans				136,845	115,445
Other				18,049,199,066	18,938,882,832
Total Investments				\$ 18,049,199,066	\$ 18,938,882,832

INVESTMENTS - COMPONENT UNITS

	1	2	3	Net Investment	Market Value
Government Securities	\$ 295,412,566	\$ 192,901,043	\$ 5,395	\$ 488,318,804	\$ 487,842,494
Negotiable Certificates of Deposit	11,312,290			11,312,290	11,312,290
Corporate Bonds	32,616,722	553,330		33,170,052	33,332,756
Other	4,305,950			4,305,950	4,589,339
Common Stock	68,298,356			68,298,356	78,297,034
Repurchase Agreements	219,855,352	3,573,381		223,428,733	223,428,733
State and Municipal Obligations	105,830	409,330		515,160	548,384
Preferred Stock	868,000			868,000	868,000
Commercial Paper	13,675,991	20,496,564		34,172,555	34,172,555
Closed-End Mutual Funds	4,149,270	328,203		4,477,573	4,704,338
Totals	\$ 650,600,207	\$ 218,286,584	\$ 288,784	\$ 869,175,575	\$ 879,095,923
Endowment Funds				74,650,187	77,717,674
Open-End Mutual Funds				32,119,630	34,133,502
Guaranteed Investment Contracts				36,155,991	36,155,991
Real Estate				14,335,676	14,035,566
Trust Funds				374,868,248	371,509,529
State Investment Pool				1,401,605,258	1,412,761,544
Total Investments				\$ 1,401,605,258	\$ 1,412,761,544

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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, as interpreted by opinions of the Attorney General, authorize the Commonwealth to enter into bonds borrowed bonds pledged securities lending agreements, that is a transfer of securities with a simultaneous receipt of securities. The securities received in the transfer are the type which the State is legally authorized to hold. 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 9.5 basis points from 7/1/95 to 6/30/96. During the

**Note 6**

**GENERAL FIXED ASSETS**

A statement of changes in general fixed assets for the year ended June 30, 1996, is presented below (Expressed in Thousands):

	Land	Buildings	Machinery and Equipment	Construction in Progress	Totals
Balance June 30, 1995	\$ 71,443	\$ 546,166	\$ 507,167	\$ 196,623	\$ 1,321,399
Additions	5,819	73,119	81,694	20,761	181,393
Deletions	(514)	(1,709)	(39,045)	(55,292)	(96,560)
Balance June 30, 1996	\$ 76,748	\$ 617,576	\$ 549,816	\$ 162,092	\$ 1,406,232

year, the State earned \$1,744,745 in securities lending income. On June 30, 1996, the market value of the securities transferred was \$1,820,356,609 and the market value of the securities the Commonwealth was holding was \$1,856,980,380. 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 has 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, 1996, the portfolio included \$30,000,000 of 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.

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**Note 7**

**INTERFUND TRANSACTIONS**

The table below shows the interfund receivables and payables and interfund operating transfers for fiscal year 1996 (Expressed in Thousands):

Fund	Interfund Receivables and Payables		Transfers In/Out	
	Interfund Receivable	Interfund Payable	Fund	Operating Transfers In/Out
General	\$ 128,491	\$ 37,377	General	\$ 185,745
Special Revenue:			Special Revenue:	\$ 1,092,173
Transportation	6,146	13,107	Transportation	224
Federal	18,075	122,069	Federal	159,511
Agency Revenue	132,684	57,775	Agency Revenue	684
Other Special Revenue	3,851	45,063	Other Special Revenue	2,421,188
Debt Service	345	26,822	Debt Service	209,692
Capital Projects	3,894	794	Capital Projects	351,379
Enterprise:			Enterprise:	356,670
State Parks	114	441	State Parks	56,772
Industries for the Blind	22	1	Industries for the Blind	40,637
Horse Park	2	51	Horse Park	927
Insurance Administration	916	5,028	Insurance Administration	1,430
Internal Service:			Internal Service:	1,230
Computer Services	2,048	588	Computer Services	4,169
Central Stores	6	3	Central Stores	56
Telecommunications	1,198	421	Telecommunications	444
Prison Industries	2,970	376	Prison Industries	17
Property Management	554	34	Property Management	1,340
Risk Management	698	178	Risk Management	50,681
Fiduciary Funds:			Fiduciary Funds:	407
Unemployment Compensation	1,745	2,323	Unemployment Compensation	1,742
Special Benefits Trust	10,778	816	Special Benefits Trust	1,340
Component Units:			Component Units:	13,503
Governmental	516	51	Governmental	2,348
Proprietary	2	51,687	Proprietary	57,787
Universities and Colleges	51,687		Universities and Colleges	753,823
Total per financial statements:	\$ 367,039	\$ 367,039	Total per financial statements:	\$ 2,109,567

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Note 8

PENSION PLANS

The employer disclosure for pension trust funds is presented to comply with GASB statement 27 for the Kentucky Retirement System which implemented GASB statements 25 and 26, and for the Judicial Form Retirement System which has implemented GASB statement 25. The Kentucky Teachers Retirement System is reported in accordance with GASB statement 5 requirements.

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

The State 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 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 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 State 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 that 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 61.563(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:

Years of Service	Percent Paid by Insurance Fund	Percent Paid by Member Through Payroll Deduction
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.

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The Judicial Retirement Plan 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 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 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 prepared 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.

Contribution rates:	Kentucky Legislators' Retirement Plan		Kentucky Judicial Retirement Plan		State Police Retirement System		Kentucky Employees Retirement System	
	State Plan Members	Health Insurance	State Plan Members	Health Insurance	State Plan Members	Health Insurance	State Plan Members	Health Insurance
Annual pension costs (in thousands)	\$1,591	\$1,490	\$5,519	\$4,203	\$7,089	\$113,717	\$8,896-17,87%	\$123,396
Contributions made (in thousands)	50.60%	5.00%	31.30%	5.00%	23.05%	8.75%-18.05%	5%-7%	3,801
Actuarial valuation date	June 30, 1996	June 30, 1996	June 30, 1996	June 30, 1996	June 30, 1996	June 30, 1996	June 30, 1996	(2,306)
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	Projected unit credit	8,220
Amortization method	Interest + 1%	Interest + 1%	Interest + 1%	Interest + 1%	Interest + 1%	Interest + 1%	Interest + 1%	4,203
Asset valuation method	Unfunded past liability	Unfunded past liability	Unfunded past liability	Unfunded past liability	Unfunded past liability	Unfunded past liability	Unfunded past liability	1,278
Actuarial assumptions:	25 years	25 years	25 years	25 years	25 years	25 years	25 years	82
Investment rate of return	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	182
Projected salary increases	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	
Increase in Health Insurance Cost	6%-10%	6%-10%	6%-10%	6%-10%	6%-10%	6%-10%	6%-10%	
(Dollar amounts in thousands)								
Annual Required Contributions (ARC)	\$ 1,591	\$ 1,490	\$ 5,519	\$ 4,203	\$ 7,089	\$ 123,396	\$ 8,896-17,87%	
Interest on Net Pension Obligation (NPO)	6	6	269	269	566	3,801	5%-7%	
Adjustment to ARC	(7)	(7)	(307)	(307)	(344)	(2,306)	5%-7%	
Annual pension cost	1,590	1,590	5,481	5,481	6,743	124,889	5%-7%	
Contributions made	1,490	1,490	4,203	4,203	5,519	113,717	5%-7%	
Increase (Decrease) in NPO	100	100	1,278	1,278	1,337	11,172	5%-7%	
NPO beginning of year	82	82	3,841	3,841	4,606	46,068	5%-7%	
NPO end of year	182	182	5,119	5,119	5,975	57,240	5%-7%	

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Schedule of Funding Progress

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll (b-a)/c
Date	(a)	(b)	(b-a)			(b-a)/c
<b>Kentucky Employees' Retirement System</b>						
June 30, 1994	\$ 2,729,048,987	\$ 2,912,050,275	\$ 183,001,288	0.937	\$ 1,197,168,054	0.153
June 30, 1995	2,983,813,538	3,240,852,288	257,038,750	0.921	1,320,041,446	0.195
June 30, 1996	3,375,295,577	3,415,404,483	40,108,906	0.988	1,318,908,003	0.030
<b>State Police Retirement System</b>						
June 30, 1994	\$ 205,320,509	\$ 206,763,310	\$ 1,442,801	0.993	\$ 36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
<b>Judicial Retirement Plan</b>						
June 30, 1994	\$ 111,316,007	\$ 96,457,897	\$ (14,858,110)	1.154	\$ 15,076,520	(0.986)
June 30, 1995	97,765,420	122,947,042	25,181,622	0.795	17,481,864	1.440
June 30, 1996	133,973,167	133,359,942	(713,225)	1.005	18,963,743	(0.038)
<b>Legislators' Retirement Plan</b>						
June 30, 1994	\$ 28,169,889	\$ 29,739,766	\$ 1,569,877	0.947	\$ 3,410,000	0.460
June 30, 1995	30,895,685	36,100,573	5,204,888	0.836	3,492,500	1.490
June 30, 1996	34,942,019	36,958,664	2,016,645	0.945	3,410,000	0.591

Membership of the retirement systems, at June 30, 1996, is shown in the following table:

	Kentucky Employees Retirement System	County Employees Retirement System	State Police Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Teachers' Retirement System	Total
Retirees and beneficiaries receiving benefits	19,970	18,169	625	192	90	24,877	63,923
Terminated plan members - vested	2,484	2,339	8	22	40	2,482	7,375
Active plan members	9,222	13,739	72	230	124	56,246	23,033
Total members	50,997	72,554	1,002	444	254	83,605	180,753
Number of participating employees	82,273	106,801	1,707	444	254	83,605	275,084
	354	1,012	1	1	1	202	1,571

The Kentucky Teachers' Retirement System (KTRS) is a cost-sharing multiple employer defined benefit plan which covers substantially all persons occupying positions in the public elementary or secondary schools for which a teaching certificate is required, faculty members of five regional universities, the Commissioner of Education and professional staff, the faculty members of the School for the Deaf, School for the Blind, and the State area vocational schools. This Plan provides for retirement, disability, and death benefits.

KTRS members are required by statute to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contributions of its members by 2.215%. Therefore,

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complete five (5) years of Kentucky service or complete twenty-seven (27) years of Kentucky service. Non-university employees receive monthly payments equal to either two (2) percent (service prior to January 1, 1984) or two and one-half (2 1/2) percent (service after January 1, 1984) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. The final average salary is the average of the employee's five (5) highest annual salaries. Employees with less than twenty-seven (27) years of service may retire and receive reduced retirement benefits. Members' retirement benefits become vested when they have completed five (5) years of credited service.

The employer and employee contributions to KTRS for the year ended June 30, 1996, were \$307,111,462 (16.40% of covered payroll) and \$201,890,485 (10.75% of covered payroll), respectively.

The employer actuarial required contribution for the 1995-96 fiscal year was \$318,400,000 and the actual contribution was \$307,100,000. The \$11.3 million difference represents the 1994 legislative permanent decrease in funding of COLAs granted in the 1986-88, 1990-92, and 1992-94 bienniums.

In addition to the above employer and member pension contributions, the member and employer make contributions for post-retirement medical insurance benefits. The actuarial cost of ad hoc retire cost-of-living adjustments granted by the General Assembly is funded over a fifteen year period and is also included as a supplemental appropriation.

Three-Year Historical Trend Information Teachers' Retirement System

Fiscal Year	Net Assets for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded (Excess of) Pension Benefit Obligation
1994	\$ 5,688.1	\$ 7,321.9	75.6%	\$ 1,833.8
1995	6,786.3	8,210.0	75.2%	2,033.5
1996	7,001.6	9,178.6	76.3%	2,177.0

**Pension Benefit Obligations of the Retirement Systems** - The amount shown below as the "pension benefit obligation" is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Systems on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the Systems.

KTRS also provided postretirement health care benefits in accordance with KRS 161.675. To be eligible for medical benefits, the member must have retired either for service or disability, attained age 55 with 5 years of Kentucky service, or had 27 years of service. Eligible dependents include unmarried dependent children under the age of 19 and spouses. Currently, KTRS insurance covers 21,299 retirees and 7,205 dependents.

The postretirement health care provided by KTRS are financed on a pay-as-you-go basis. In order to fund the postretirement health care benefits, one and five-tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriations. Also, effective September 1, 1992, retirees pay from 10-19% of the single premium cost and spouses pay from 45-100% of the cost. Priority is given to members with 20 or more years of service and members age 65 or older. Any amounts not required to meet current costs shall be maintained as a reserve for future health care benefits. As of June 30, 1996, KTRS had \$27,203,177 of net assets available for future health care benefits.

The actuary for KTRS has determined that given the present level of State funding and member contributions, it will take thirty (30) years to fund the unfunded pension benefit obligation.

**Ten Year Historical Trend Information** - Ten year historical trend information (or as many years as available) showing the progress in funding the pension obligation is available in the audit reports for the individual PERs.

(Amounts expressed in millions)

	Unfunded (Excess of) Pension Benefit Obligation as a Percentage of Covered Payroll	Employer Contribution	% of Covered Payroll	Actuarial Required Contribution
1994	104.9%	\$ 289.5	16.6%	\$ 300.8
1995	111.7%	298.4	16.4%	309.7
1996	115.9%	307.1	16.4%	318.4

The pension benefit obligation was computed as a part of the actuarial valuations performed as of June 30, 1996. Significant actuarial assumptions used in the valuations include (a) a rate of return on the investment of present and future assets of 8 percent a year compounded annually, and (b) projected salary increases of 4.50 to 8.60% a year. The same assumptions used to compute the pension benefit obligation are used to compute the actuarial required contributions.

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*Pension Benefit Obligation. (Expressed in Thousands)*

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 4,018,237
Current employees:	
Accumulated employee contributions including allocated investment earnings	1,805,336
Employer-financed vested	2,378,879
Employer-financed nonvested	976,125
Total pension benefit obligation	9,178,577
Net assets available for benefits, at cost (market value \$7,884,893)	7,001,560
Unfunded (funds in excess of) pension benefit obligation	\$ 2,177,017

**Note 9**

**EMPLOYEE BENEFIT PLANS**

**A. Self-Insured Health Care**

The Commonwealth of Kentucky offers, as one of ten health insurance options to employees of the State, local boards of education, local health departments and retirees under the age of 65, a self-insured health care plan. Under health care reform, individuals, municipal governments, and qualified small business are also eligible to purchase health insurance from the State's self-insured plan. The plan is known as Kentucky Kare and is administered by third parties who are responsible for the processing of claims, cost containment, and utilization review. Presently, 33,152 persons have selected Kentucky Kare as their health care provider for the plan period January 1, 1996 through December 31, 1996. There are 20,578 single coverage plans; 6,877 family coverage plans; 3,085 enrollee plus dependent children coverage plans; and 2,612 enrollee plus one spouse or child coverage plans.

**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 Department of Personnel and an independent plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.243, 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 deferral is not available to employees until termination, retirement, death, or unforeseeable emergency.

All compensation deferred under Section 457, all property and rights purchased with that compensation, and all income attributable to that compensation, property, or rights belong solely to the employer until paid to the employee or beneficiary, subject only to the claims of the employer's general creditors. Participants' rights under the Plan are equal to those of the general creditors of the employer in an amount equal to the fair market value of the deferred account for each participant. All compensation deferred under Section 401(k) and resultant assets belong to the Plan participants.

Assets of the 457 Plan are reported in an Agency Fund within the fiduciary fund type. Assets of the 401(k) Plan are not reported in these statements and are not available to the general creditors of the employers.

Of the \$334,778,000 in the 457 Plan at June 30, 1996, \$226,596,000 was applicable to the Commonwealth while the remaining \$108,182,000 represents assets of the other jurisdictions participating in the Plan.

On February 12, 1993, an order to rehabilitate Kentucky Central Life Insurance Company (KCL), one of the carriers for the Kentucky Public Employees Deferred Compensation Authority (the Authority), was granted to the Commonwealth of Kentucky's Department of Insurance because of KCL's deteriorating financial condition. On June 1, 1993, the Jefferson Pilot Life Insurance Company acquired certain assets and assumed liabilities of Kentucky Central Life Insurance Company.

At June 30, 1996, the acquisition plan provides for further distributions from the estate of Kentucky Central Life Insurance Company. These subsequent distributions will be allocated among KCL policy holders who opted into the plan, including the Authority's group annuity fixed contract. The provisions of the plan also provide for indemnification adjustments which could reduce the account values of participating policy holders if the estate of Kentucky Central Life Insurance Company has not retained sufficient assets to pay all claims entitled to priority over the claims of policy holders. Although the Liquidator of KCL does not currently anticipate that any indemnification claims will be made, the Authority's account balance remains liable for its pro rata share of any indemnification adjustment required by the plan.

**Note 10**

**LEASE OBLIGATIONS**

The Commonwealth has entered into various leases for land, buildings, and equipment. Generally, leases contain termination clauses providing for cancellation after 30, 60, or 90 days' written

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*At June 30, 1996, capitalized leases included equipment as follows (Expressed in Thousands):*

Equipment acquired through capital leases is recorded at the lesser of fair market value or present value of future minimum lease payments.	Primary Government		Component Units	
	Proprietary Fund Types	General Fixed Assets	Proprietary Fund Types	Total
Buildings	\$	\$	\$	\$ 7,871
Equipment	8,761	8,761	2,732	14,183
Total	8,761	8,761	2,732	22,054
Less: Accumulated Amortization	(2,614)			(13,574)
Total, Net of Amortization	\$ 6,147	\$ 2,732	\$	\$ 8,480

*Future minimum rental commitments for capitalizable leases as of June 30, 1996, are as follows (Expressed in Thousands):*

	Primary Government		Component Units	
	Long-term Obligations Account Group	Enterprise Funds	Internal Service Funds	University and College Funds
1997	\$ 505	\$ 142	\$ 3,504	\$ 10,378
1998	268	113	2,270	9,696
1999	163	92	990	9,014
2000	77	10		8,666
2001	20			8,156
Thereafter	3	347	6,774	82,872
Total	1,036			128,812
Less: Amounts representing interest (2.71% to 19.75%)	111	32	458	42,974
Present value of future minimum lease payments	\$ 925	\$ 315	\$ 6,316	\$ 85,838
				\$ 21,617
				\$ 115,011
				\$ 52,466

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.

Changes in leases payable accounted for in the general long-term obligation account group for the year ended June 30, 1996, are summarized in Note 15.

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

**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.

The claims liability of \$1,975,372 reported in the Program at June 30, 1996, 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 1996 and 1995 were:

**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.



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	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 2,469,347	\$ 1,358,539
Incurred Claims	1,216,746	1,873,748
Changes in Estimates	(1,710,721)	(562,940)
Claim Payments		
Balance at Fiscal Year End	\$ 1,975,372	\$ 2,469,347

**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. Settled claims have not exceeded commercial insurance coverage for the past three fiscal years.

The actuarial determined aggregate claims liability of \$45,761,694 reported in the Program at June 30, 1996, 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 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 38,254,301	\$ 35,358,972
Claims and Claims Adjustments Incurred	14,708,992	12,727,235
Changes in Estimates	4,077,603	910,927
Claims and Claims Adjustment Payments	(11,279,202)	(10,742,833)
Balance at Fiscal Year End	\$ 45,761,694	\$ 38,254,301

**Transportation Cabinet Workers' Compensation:**

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1993, as 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. The aggregate claims liability is based on an actuarial study, dated June 30, 1996.

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 19,928,581	\$ 20,767,791
Claims and Claims Adjustments Incurred	6,252,203	3,318,319
Changes in Estimates		
Claims and Claims Adjustment Payments	(4,648,493)	(4,157,229)
Balance at Fiscal Year End	\$ 21,532,291	\$ 19,928,581

**Note 12**

**RISK POOLS**

The Commonwealth's risk pools, which are reported as enterprise funds, are the Insurance Administration Fund and the Grain Insurance Fund. The Insurance Administration Fund includes the operations of five risk pools as follows: Kentucky Karet, Workers' Compensation Insurance, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Fund is reported as part of the primary government. The Grain Insurance Fund is a risk pool reported as a discrete component unit.

**Risk Pools - Enterprise Funds**

**Kentucky Karet:** Kentucky Karet is 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 of the Kentucky Retirement Systems. This plan is administered by third parties who are responsible for the processing of claims, cost containment, and utilization review.

As of June 30, 1996, the number of employees, retirees, and former employees electing COBRA extension of benefits were as follows: State employees, retirees, and former employees of 11,705; local board of education employees of 17,931; and local health department employees of 3,516.

Monthly premiums are established by the Commonwealth. They vary by the benefit coverage and the dependent status (single, family, or single parent). The plan offers five levels of coverage: Kentucky Karet Budget High, Kentucky Karet Economy Low, Kentucky Karet Enhanced High, Kentucky Karet Standard High, and Kentucky Karet Standard Low. Preventive dental care is an optional rider to the plans.

Estimates of the liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined using the development method. This method uses past observed patterns of the time between claim incurred and payment to estimate incurred claims from available paid claims information. Liabilities are based on the estimated ultimate cost of settling the claims,

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including the effects of inflation and other societal and economic factors. Claim adjustment expense is included in the administrative fee paid to the third party administrator.

In October 1993, a refund to the Commonwealth of Kentucky of excess premiums from another insurance carrier in the amount of \$3,142,244 was erroneously deposited in the Kentucky Karet Insurance Trust Fund. In August 1996, this amount was transferred to an Agency Fund, along with accrued interest totaling \$66,331, for FY 94, and \$176,238 for FY 95, and held until proper disposition of the monies can be determined.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related claims' adjustments. The following represents changes in this liability for the Plan during the past two years:

	Fiscal Year 1996	Fiscal Year 1995
Beginning Unpaid Claims Liability	\$ 26,203,068	\$ 18,859,577
Claims Incurred	131,132,064	144,479,254
Current Year Increase (Decrease) in Prior Years	(2,107,340)	664,999
Incurred Claims Total	129,024,724	145,144,253
Claims Paid:		
Current Year	110,926,514	116,760,772
Prior	25,014,572	21,039,990
Payments Total	135,941,086	137,800,762
Ending Unpaid Claims	\$ 19,286,706	\$ 26,203,068

**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 in their employ, 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) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$1,241,062,122, as reported in the financial statements, is the present value of the aggregate actuarial determined claims liability of \$2,618,295,065, discounted at 6.5%, and the net of the estimated realizable value of reimbursements. The estimated realizable value of these reimbursements at June 30, 1996, is \$11,000,000. The claims adjusted liability of \$57,000,000, as reported in the financial statements, is the present value of the aggregate actuarial determined liability of \$116,000,000, discounted at 6.5%.

The actuarial determined liabilities described above arise from projections included in an actuarial report dated October 2, 1996, and include claims projected through December 31, 1996. Changes in the program's aggregate liabilities for claims and claims adjustment for the past two years are:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 1,874,253,961	\$ 1,879,604,735
Claims and Claims Adjustments Incurred	200,613,923	200,003,080
Changes in Estimates	793,708,099	(66,637,427)
Claims and Claims Adjustment Payments	(134,246,920)	(138,716,427)
Balance at Fiscal Year End	\$ 2,734,329,063	\$ 1,874,253,961

**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. However, pursuant to an Executive Order issued by the Governor effective April 19, 1996, the Fund was moved from the Natural Resources and Environmental Protection Cabinet to the Public Protection and Regulation Cabinet. The purpose of the Fund 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 Fund is funded by a fee paid by dealers on each gallon of gasoline and special fuels received in the State 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 which are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at \$1,000 per occurrence for owners or operators of five or less tanks, at \$5,000 for owners or operators of six to ten tanks, and at \$25,000 for owners of more than ten tanks.

The Fund 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 \$312,295,772 reported in the financial statements, is the aggregate actuarial determined claims liability and is not discounted. Changes in the fund's aggregate liabilities for claims and claims adjustment for the past two years are:

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	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 400,459,774	\$ 400,000,000
Claims and Claims Adjustments Incurred	42,529,660	36,897,354
Changes in Estimates	(101,528,000)	(25,667,676)
Claims and Claims Adjustments Payments	(17,048,586)	(10,769,904)
Balance at Fiscal Year End	\$ 324,412,848	\$ 400,459,774

**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, considers factors such as the mining experience, reclamation history, and financial condition of the applicant.

Accepted members are rated by the Commission based on the standards considered in the application process. 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, 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 cost 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 \$2,625,568 as reported in the financial statements, is the aggregate actuarial determined claims liability. The claims adjustment liability of \$813,926 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 are:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 25,000	\$ 184,000
Claims and Claims Adjustments Incurred		25,000
Changes in Estimates		(145,485)
Claims and Claims Adjustments Payments		(38,515)
Balance at Fiscal Year End	\$ 25,000	\$ 25,000

**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 State, 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 cede 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 \$25,000 reported in the Program at June 30, 1996, 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 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 277,177	\$ 79,000
Claims and Claims Adjustments Incurred		
Changes in Estimates		(79,000)
Claims and Claims Adjustments Payments		
Balance at Fiscal Year End	\$ 277,177	\$ (79,000)

The claims liability of \$277,177 reported in the Fund at June 30, 1996, is 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 1996 and 1995 were:

	Fiscal Year 1996	Fiscal Year 1995
Beginning of Fiscal Year Liability	\$ 277,177	\$ 79,000
Claims and Claims Adjustments Incurred		
Changes in Estimates		(79,000)
Claims and Claims Adjustments Payments		
Balance at Fiscal Year End	\$ 277,177	\$ (79,000)

**Note 13**

**DEFASSANCE OF LONG-TERM DEBT**

The State Property and Buildings Commission issued \$39,900,000 Revenue and Refunding Bonds, Project 57, dated August 1, 1995. The net proceeds of this issue were \$39,100,491 after discounts and issuance costs of \$799,509. \$15,000,000 of the proceeds were used to finance new projects. The remaining \$24,100,491, along with \$3,075,747 from the Debt Service Reserve Fund and \$509,396 of other available funds were placed in an escrow account with the trustee to refund the Project 27 Revenue Bonds, dated October 1, 1986 and maturing May 1, 1996 through May 1, 2009. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature November 1, 1995 through November 1, 2015 and carry interest rates of 3.600% to 6.000%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$2,847,589. The present value of the savings is \$1,555,142 at a rate of 5.956%.

The State Property and Buildings Commission issued \$7,625,000 Revenue Refunding Bonds, Project 58, dated August 1, 1995. The net proceeds of this issue were \$7,494,189 after discounts and issuance costs of \$130,811. The net proceeds were placed in an escrow account with the trustee to refund the Project 47 Revenue Bonds and Project 39 (third series) Revenue Bonds. These bonds mature February 1, 1996 through February 1, 2008. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature November 1, 1995 through November 1, 2007 and carry interest rates of 5.700% to 7.000%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$547,760. The present value of the savings is \$345,216 at a rate of 5.058%.

The State Property and Buildings Commission issued \$261,250,000 Revenue and Refunding Bonds, Project 59, dated November 1, 1995. The net proceeds of this issue were \$264,080,621 after premiums, discounts and issuance costs of \$2,830,621. \$155,184,150 of the proceeds were used to finance new projects. The remaining \$108,896,471 was placed in an escrow account with the trustee to refund Project 52, Project 51, Project 50, Project 49, Project 34 (second series), Project 48, and Project 40 Revenue Bonds. The money will be invested in certain direct obligations of the United States of America, which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held uninvested in the escrow fund, to pay the interest of the Refunded Bonds as same becomes due, the principal of the Refunded Bonds at maturity and the redemption price of the Refunded Bonds subject to redemption prior to maturity.

The Refunding Bonds mature May 1, 1996 through November 1, 2015 and carry interest rates of 4.200% to 6.750%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$1,376,312. The present value of the savings is \$1,253,048 at a rate of 5.354%.

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.



# COMMONWEALTH OF KENTUCKY Notes to Combined Financial Statements June 30, 1996

The Commission participates in the payment of debt service for qualifying districts. During the fiscal year ended June 30, 1996, the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated July 1, 1995, were issued for the Warren County School District Finance Corporation to refund a portion of a 1987 and 1989 issues. The Commission's portion of the refunding issue was \$9,046,265 maturing February 1, 1996 through August 1, 2008, and carrying interest rates from 3.50% to 5.20%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 and 1989 issues being refunded. Net savings to the Commission is \$726,085 and the present value of the savings is \$406,666 at a rate of 5.14%.

Revenue refunding bonds dated August 1, 1995, were issued for the Estill County School District Finance Corporation to refund a portion of a 1987 issue. The Commission's portion of the refunding issue was \$488,788 maturing August 1, 1996 through August 1, 2007, and carrying interest rates from 4.00% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net savings to the Commission is \$50,156 and the present value of the savings is \$38,110 at a rate of 5.0117%.

Revenue refunding bonds dated October 1, 1995, were issued for the Laurel County School District Finance Corporation to refund a portion of a 1987 issue and a portion of a 1989 issue. The Commission's portion of the refunding issue was \$412,663 maturing August 1, 1996 through August 1, 2008, and carrying interest rates from 4.40% to 4.60%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 and 1989 issues being refunded. Net savings to the Commission is \$51,131 and the present value of the savings is \$38,139 at a rate of 4.5935%.

Revenue refunding bonds dated October 1, 1995, were issued for the Powell County School District Finance Corporation to refund a 1987 issue. The Commission's portion of the refunding issue was \$1,446,151 maturing June 1, 1996 through June 1, 2007, and carrying interest rates from 4.50% to 4.60%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net savings to the Commission is \$127,125 and the present value of the savings is \$103,574 at a rate of 4.5996%.

Revenue refunding bonds dated November 1, 1995, were issued for the Henderson County School District Finance Corporation to refund a 1989 issue. The Commission's portion of the refunding issue was \$2,411,996 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 4.40% to 4.75%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net

savings to the Commission is \$155,200 and the present value of the savings is \$120,044 at a rate of 4.7083%.

Revenue refunding bonds dated November 1, 1995, were issued for the Montgomery County School District Finance Corporation to refund a portion of 1988 and 1989 issues. The Commission's portion of the refunding issue was \$2,050,000 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 4.00% to 4.95%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 and 1989 issues being refunded. Net savings to the Commission is \$175,085 and the present value of the savings is \$134,261 at a rate of 4.8140%.

Revenue refunding bonds dated December 15, 1995, were issued for the Fayette County School District Finance Corporation to refund portions of a September 1987, June 1988, August 1988, June 1989 and October 1990 issues. The Commission's portion of the refunding issue was \$14,025,599 maturing April 1, 1996 through October 1, 2010, and carrying interest rates from 4.50% to 5.25%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the issues being refunded. Net savings to the Commission is \$1,274,129 and the present value of the savings is \$781,157 at a rate of 5.1910%.

Revenue refunding bonds dated January 1, 1996, were issued for the Green County School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$1,580,648 maturing May 1, 1996 through May 1, 2009, and carrying interest rates from 4.00% to 4.90%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$137,487 and the present value of the savings is \$106,653 at a rate of 4.5500%.

Revenue refunding bonds dated February 1, 1996, were issued for the Carlisle County School District Finance Corporation to refund a portion of a 1988 issue. The Commission's portion of the refunding issue was \$628,866 maturing May 1, 1996 through May 1, 2008, and carrying interest rates from 3.70% to 4.55%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 issue being refunded. Net savings to the Commission is \$51,773 and the present value of the savings is \$41,671 at a rate of 4.3642%.

Revenue refunding bonds dated February 1, 1996, were issued for the Bullitt County School District Finance Corporation to refund a portion of a 1990 issue. The Commission's portion of the refunding issue was \$1,413,988 maturing May 1, 1996 through May 1, 2010, and carrying interest rates from 3.80% to 4.90%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1990 issue being

# COMMONWEALTH OF KENTUCKY Notes to Combined Financial Statements June 30, 1996

refunded. Net savings to the Commission is \$94,985 and the present value of the savings is \$72,404 at a rate of 4.7100%.

Revenue refunding bonds dated February 1, 1996, were issued for the Harrodsburg Independent School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$266,128 maturing April 1, 1996 through April 1, 2009, and carrying interest rates from 3.00% to 4.55%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$14,848 and the present value of the savings is \$11,654 at a rate of 4.5412%.

Revenue refunding bonds dated March 1, 1996, were issued for the Cumberland County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$706,335 maturing June 1, 1996 through December 1, 2006, and carrying interest rates from 3.50% to 4.20%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$60,256 and the present value of the savings is \$48,500 at a rate of 4.1399%.

Revenue refunding bonds dated May 15, 1996, were issued for the Jessamine County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$940,000 maturing June 1, 1997 through June 1, 2006, and carrying interest rates from 3.80% to 5.10%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$91,562 and the present value of the savings is \$87,292 at a rate of 4.8900%.

Revenue refunding bonds dated June 1, 1996, were issued for the Bullitt County School District Finance Corporation to refund a portion of a 1986 issue. The Commission's portion of the refunding issue was \$1,325,000 maturing June 1, 1997 through June 1, 2006, and carrying interest rates from 4.00% to 4.70%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1986 issue being refunded. Net savings to the Commission is \$117,413 and the present value of the savings is \$112,308 at a rate of 4.5400%.

Revenue refunding bonds dated June 1, 1996, were issued for the Paris Independent School District Finance Corporation to refund a portion of a 1989 issue. The Commission's portion of the refunding issue was \$810,000 maturing September 1, 1996 through March 1, 2010, and carrying interest rates from 4.00% to 5.25%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 issue being refunded. Net savings to the Commission is \$55,327 and the present value of the savings is \$36,444 at a rate of 5.4593%.

Revenue refunding bonds dated June 1, 1996 were issued for the Scott County School District Finance Corporation to refund a portion of a 1987 issue. The Commission's portion of the refunding issue was \$1,415,000 maturing August 1, 1996 through August 1, 2007, and carrying interest rates from 4.30% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 issue being refunded. Net savings to the Commission is \$102,023 and the present value of the savings is \$75,025 at a rate of 4.9742%.

Revenue refunding bonds dated June 1, 1996, were issued for the Logan County School District Finance Corporation to refund a portion of a 1988 issue. The Commission's portion of the refunding issue was \$1,405,000 maturing February 1, 1997 through February 1, 2008, and carrying interest rates from 4.00% to 5.00%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988 issue being refunded. Net savings to the Commission is \$102,607 and the present value of the savings is \$81,542 at a rate of 5.0149%.

## COMPONENT UNITS

Eastern Kentucky University issued \$8,615,000 Consolidated Educational Buildings Refunding Revenue Bonds, Series R, dated August 1, 1995, to refund in advance of maturity all Series M Bonds maturing on and after May 1, 1998. The net proceeds of \$8,442,143, after discounts and issuance cost of \$172,857, were deposited with an escrow agent. The net savings to the University is \$566,499 and the present value of the savings is \$439,153 at a rate of 4.96%.

## Note 14

### RELATED ORGANIZATIONS

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the State'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.

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**Note 15**

**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, 1996.

**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 State 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 daily 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.

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The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and deferred bonds, at June 30, 1996, are as follows (Expressed in Thousands):

General Long-Term Obligations Account Group	Principal Outstanding		Interest Rate	Annual Maturity To
Agency: State Property & Buildings Commission	\$	1,158,556	2.4%-9.84%	2018
Turnple Auth. of Kentucky				
		1,467,349	3.5%-9.7%	2015
Kentucky School Facilities Construction Commission				
	\$	1,266,375		
Less: Local school district participation		757,938		
Total		\$ 508,437	2.2%-8.25%	2016
		\$ 3,134,342		
Future revenue bond debt service requirements, to be paid with State funds, at June 30, 1996, are as follows (Expressed in Thou- sands):				
Year Ending June 30,	Principal	Interest	Total	
1997	\$ 161,414	\$ 172,145	\$ 333,559	
1998	175,661	167,600	343,261	
1999	187,540	157,865	345,405	
2000	198,049	146,845	344,894	
2001	187,886	146,382	334,268	
Thereafter	2,223,792	994,911	3,218,703	
	\$ 3,134,342	\$ 1,785,748	\$ 4,920,090	

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Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky Housing Corporation*	\$ 857,784	3.625%-9.875%	2028
Kentucky Infrastructure Authority*	197,200	3.9%-8.4%	2018
Kentucky Higher Education Student Loan Corporation	307,640	3.9%-9.23%	2012
Kentucky Local Correctional Facilities Construction Authority*	42,225	3.75%-5.50%	2014
Kentucky Economic Development Finance Authority	91,312	5.4%	1999
University of Kentucky	332,279	2.5%-8.45%	2024
Eastern Kentucky University	155,850	3.0%-7.7%	2016
Western Kentucky University	67,090	3.0%-6.6%	2011
Murray State University	57,054	2.6%-7.4%	2012
Morehead State University	27,160	2.4%-8.0%	2016
Kentucky State University	34,325	2.875%-7.15%	2014
Northern Kentucky University	23,115	3.0%-9.0%	2014
Total Component Unit Revenue Bonds Payable	56,715	3.0%-8.3%	2021
*Amounts do not include unamortized premiums, discounts, or deferred loss or early retirement of debt.	\$ 2,249,749		

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units, at June 30, 1996, are as follows (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
1997	\$ 113,314	\$ 121,857	\$ 235,171
1998	109,434	118,673	228,107
1999	196,991	113,106	310,097
2000	120,051	102,307	222,358
2001	110,400	96,468	206,868
Thereafter	1,599,559	803,147	2,402,706
	\$ 2,249,749	\$ 1,355,558	\$ 3,605,307

During the fiscal year ended June 30, 1996, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

\$39,900,000 (Project 57) in serial bonds maturing each November 1, 1995 through 2015 at 4.0% to 5.5%.

\$7,625,000 (Project 58) in serial bonds maturing each November 1, 1995 through 2007 at 5.7% to 7.0%, and

\$261,250,000 (Project 59) in serial bonds maturing each May and November 1, 1996 through 2015 at 4.5% and 6.75%.

**Turnpike Authority of Kentucky**

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

During the fiscal year ended June 30, 1996, the Commission issued \$308,775,000 in revenue and revenue refunding bonds as follows:

COMMONWEALTH OF KENTUCKY  
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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 no bonds during the fiscal year ended June 30, 1996.

**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.

During the fiscal year ended June 30, 1996, state supported universities issued \$22,770,000 in revenue and refunding revenue bonds as follows:

\$12,015,000, University of Kentucky, Consolidated Educational Buildings Revenue Bonds, Series O, with \$7,500,000 in serial bonds maturing each May 1, 1996 through 2006 and 2011 through May 1, 2010 at 5.0%; and \$1,850,000 due May 1, 2015 at 5.75%.

\$2,140,000, University of Kentucky, Housing and Dining System Revenue Bonds, Series P, maturing serially each June 1, 1997 through 2016 at 4.85% to 5.3%, and

\$8,615,000, Eastern Kentucky University, Consolidated Educational Buildings Refunding Revenue Bonds, Series R, maturing serially each May 1, 1996 through 2007 at 4.8% to 4.875%.

**Kentucky Housing Corporation**

The 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 of 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 mortgage loans when financing terms and conditions. The Corporation is limited to a \$1,125 billion total maximum principal value of debt outstanding.

During the fiscal year ended June 30, 1996, the Corporation issued or remarketed \$134,220,000 in Housing Revenue Bonds, as follows: \$6,365,000, 1995 Series F, a refunding issue, with \$4,120,000 in serial bonds maturing each January and July 1, 2000 through 2008, at 4.35% to 5.4%, and \$2,245,000 in term bonds due July 1, 2017, at 5.95%.

\$18,635,000, 1995 Series G, with approximately \$2,800,000 applied to refunding Prior Bonds of the Corporation. A total of \$1,030,000 in serial bonds mature each January and July 1, 1997 through 1999, at 4.2% to 4.5%, and term maturities include \$4,515,000 due January 1, 2015, at 6.125%, \$7,640,000 due January 1, 2024, at 5.625%, and \$5,450,000 due July 1, 2027, at 6.25% (not reoffered).

\$1,560,000, 1995 Series H, a refunding issue, with \$195,000 in serial bonds due July 1, 2005, at 4.9% and \$1,365,000 in term bonds due July 1, 2017, at 5.7%.

\$30,490,000, 1995 Series I, with approximately \$18,740,000 applied to refunding Prior Bonds of the Corporation. A total of \$6,335,000 in serial bonds mature each January and July 1, 1997 through 2008, at 4.0% to 5.45%, and term maturities include \$6,365,000 due July 1, 2016 at 5.8% and \$17,790,000 due July 1, 2027, at 5.85%.

\$7,000,000, 1995 Series E, a remarketed issue, with \$1,195,000 in serial bonds maturing each July 1, 1997 through 2005, at 4.0% to 5.05%, and July 1, 2008 at 5.45%. Term maturities include \$1,565,000 due July 1, 2015 at 5.8% and \$4,240,000 due July 1, 2026 at 5.85 (not reoffered). A portion of the Series I proceeds applies to refunding the remainder of 1995 Series E.

\$50,000,000, 1996 Series A, with approximately \$9,305,000 applied to refunding Prior Bonds of the Corporation. A total of \$8,645,000 in serial bonds mature each January and July 1, 1998 through 2008 at 4.40% to 5.85%, and term maturities include \$9,125,000 due July 1, 2015, at 6.25%, \$12,000,000 due July 1, 2028, at 6.375% (not reoffered), and \$20,230,000 due July 1, 2028 at 6.375%.

\$9,325,000, 1996 Series B, a refunding issue, bearing 3.65% per annum interest to the Tender Date as described below; and \$10,845,000, 1996 Series C, bearing 3.7% annum interest to the Tender Date as described below.

Serries B and C above are subject to mandatory tender on December 18, 1996, unless the Corporation designates any Business Day on or after October 1, 1996 and prior to December 18, 1996 as the Tender Date with respect to all or a portion of the Offered Bonds.

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**Kentucky Infrastructure Authority**

The Authority was created by House Bill 217, passed into law during the 1988 regular session of the Kentucky General Assembly, to assist governmental agencies in 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.

During the fiscal year ended June 30, 1996, the Authority issued \$18,350,000 in revenue bonds as follows:

\$15,455,000, Wastewater Revolving Fund Program Revenue Bonds, 1995 Series D, with \$13,155,000 in serial bonds maturing each June 1, 1996 through 2013, at 4.75% to 5.5%, and term bonds of \$2,300,000 due June 1, 2015, at 5.75%;

\$2,175,000, Solid Waste Revolving Fund Program Revenue Bonds, 1995, Series C, with \$1,735,000 in serial bonds maturing each June 1, 2003 through 2013, at 4.75% to 5.5%, and \$440,000 in term bonds due June 1, 2015, at 5.9%; and

\$920,000, Solid Waste Fund Program Revenue Bonds, 1995 Series K, Taxable, in serial bonds maturing each June 1, 1996 through 2002, at 6.2% to 6.8%.

**Kentucky Higher Education Student Loan Corporation**

The 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 debt outstanding of \$553 million.

During the fiscal year ended June 30, 1996, the Corporation issued \$15,980,000, Insured Student Loan Revenue Bonds, as follows:

\$12,230,000, 1995 Series A, maturing serially each June 1, 1997 through 1999, at 4.2% to 4.6%; December 1, 1999, at 4.6%; June 1, 2000, at 4.7%; and June 1, 2002, at 4.9%;

\$730,000, 1995 Series B, due June 1, 2003, at 5.15%; and

\$3,000,000, 1995 Series C, due June 1, 2003, at 5.45%.

All proceeds of Series A, B, and C above are to be applied to refunding Prior Bonds of the Corporation.

**Kentucky Local Correctional Facilities Construction Authority**

The 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, 1996.

**Kentucky School Facilities Construction Commission**

By act of the 1985 Extraordinary Session of the General Assembly, the Kentucky School Facilities Construction Commission (KSFCC) was created 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 KSBA, including refunding of then existing KSBA debt.

The Commission is an independent corporate agency and instrumentality of the Commonwealth established by Act of the 1985 Extraordinary Session of the General Assembly, now codified as KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of 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, 1996, KSFCC sold fifty-two (52) school building revenue and revenue refunding bond issues having aggregate state participation of \$56,466,935 maturing through June 1, 2016, at interest rates of 3.0% to 5.9%. These bonds fund construction and renovation projects in county and independent school districts throughout the Commonwealth.

Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 1996, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1996. Copies of this report are available from the Division of Accounts, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

**Kentucky Agricultural Finance Corporation**

The Kentucky Agricultural Finance Corporation is a public corporation and governmental agency of the Commonwealth estab-

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

lished 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 Authority issued no bonds during the year ended June 30, 1996.

**Kentucky Economic Development Finance Authority**

The Kentucky Economic Development Finance Authority (KEDFA) established in 1958 under KRS Chapter 154, is an independent agency of State Government which operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no revenue bonds that constitute a legal obligation of the Commonwealth during the fiscal year ended June 30, 1996.

During this same reporting period, KEDFA did issue \$17,735,860 in Industrial Revenue Bonds which do not constitute a general debt, liability, or moral obligation of the Commonwealth. Accordingly, these general purpose financial statements do not include any assets or liabilities related to the issuance of these bonds.

**NOTES PAYABLE:**

At June 30, 1996, the following entities had notes payable as follows:

**Kentucky Lottery Corporation**

On May 27, 1993, the Corporation borrowed \$9,500,000 to refinance the remaining balances of two loans, \$6,500,000 and \$3,000,000, which were originally incurred in April 1991 and October 1989, respectively. The terms of the loans require quarterly principal payments of \$500,000 with an annual interest of 3.46%. The remaining balance of \$500,000 will be paid during the year ended June 30, 1997 and has been recorded as current in the balance sheet as of June 30, 1996.

**Kentucky Center for the Arts Corporation**

The Corporation has a \$50,000, non-interest bearing note with scheduled principal payments of \$25,000 in each of the next two fiscal years.

**Universities**

The University of Kentucky Healthcare Collection Service, borrowed \$105,000 from University of Kentucky Hospital for a computer system upgrade to assist its collection process. The \$98,000

balance on this non-interest bearing note is payable in monthly installments of \$1,750 which retire principal of \$21,000 during fiscal years 1997 through 2000, and \$14,000 during fiscal year 2001.

Morehead State University reported a \$558,705 note payable to a company repayable in monthly installments of \$4,904, plus interest at prime (currently 8.75%), to December, 2005.

The College Heights Foundation, reported a \$45,317 note payable to Ogden College Foundation due in monthly installments of \$11,853, including interest at 8.625%, and secured by real estate under capital lease to Western Kentucky University. The note matures during fiscal year 1997.

Northern Kentucky University reported \$1,285,000 in notes payable for various installment purchase contracts to acquire property and equipment, to include \$379,212 during fiscal 1996. Payments, including interest, through June 30, 2001, total \$1,438,000.

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

Future debt service requirements for aggregate Notes Payable at June 30, 1996, are as follows (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
1997	\$ 1,050	\$ 118	\$ 1,168
1998	385	87	472
1999	378	64	442
2000	309	40	349
2001	106	27	133
Thereafter	264	53	317
	\$ 2,492	\$ 389	\$ 2,881

**Changes in General Long-Term Obligations**

Changes in general long-term obligations (Expressed in thousands) for the fiscal year ended June 30, 1996, are summarized as follows:

	Compensated Absences	Capital Leases	State Supported Revenue Bonds	Judgements & Contingent Liabilities	Unfunded Employer Pension Contributions	Total
Balance at June 30, 1995	\$ 157,830	\$ 1,296	\$ 3,133,332	\$ 148,014	\$ 127,483	\$ 3,567,955
Obligations Incurred	120,659	350	365,242	332,576	10,713	829,540
Obligations Retired	(107,740)	(721)	(364,232)	(33,077)		(505,770)
Balance at June 30, 1996	\$ 170,749	\$ 925	\$ 3,134,342	\$ 447,513	\$ 138,196	\$ 3,891,725

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

**Note 16**

**SEGMENT INFORMATION**

Segment financial information for the Commonwealth's Enterprise Funds for the year ended June 30, 1996, is presented below (Expressed in thousands):

	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Total
Operating Revenues	\$ 42,663	\$ 542,845	\$ 1,708	\$ 3,928	\$ 322,640	\$ 913,784
Depreciation and Amortization Expense	4,311	4,277	40	956	548	10,132
Operating Income (Loss)	(41,785)	151,552	(691)	(2,494)	(147,238)	(40,656)
Income (Loss) Before Operating Transfers and Extraordinary Item	(41,770)	153,515	(691)	(2,500)	(143,554)	(35,000)
Operating Transfers:						
In	40,637	(147,000)	862	1,430	1,230	44,159
Out	(927)				(4,169)	(152,096)
Net Income (Loss)	(2,060)	6,515	171	(1,070)	(146,493)	(142,937)
Current Contributed Capital:						
Contributions	18,733			303		19,036
Fixed Assets:						
Additions	15,770	1,818	10	227	820	18,645
Deletions	205	399	18	14	102	738
Net Working Capital	5,612	16,076	456	502	(52,582)	(29,936)
Total Assets	111,381	355,457	1,103	15,798	568,125	1,051,864
Bonds and Other Long-Term Liabilities:						
Payable from Operating Revenue and Operating Transfers in	3,067	324,727	22	158	1,467,252	1,795,226
Total Equity	102,498	23,292	1,000	15,092	(1,097,044)	(953,162)

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

CONDENSED STATEMENT  
INFORMATION

Condensed Statement Information  
for the Commonwealth's Discretely  
Presented Component Units.  
(Expressed in Thousands)

Assets	Kentucky State Fair Board	Kentucky Economic Center for the Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority
Current Assets	\$ 5,556	\$ 1,435	\$ 4,359	\$ 11,181	\$ 28,078
Property, Plant and Equipment (net)	114,908	24,266	10,838	153	1,955
Other Assets	2,074	933	5,930	190,682	35,331
Total Assets	\$ 122,538	\$ 26,634	\$ 21,127	\$ 202,016	\$ 65,364

Liabilities	Facility Management	Facility Management	Educational Television Programming	Debt Issuance	Insuring Student Loans
Current Liabilities	\$ 4,077	\$ 1,405	\$ 5,290	\$ 1,363	\$ 15,233
Other Liabilities		153	20,369	91,312	1,598
Revenue Bonds				92,675	16,831
Total Liabilities	\$ 4,077	\$ 1,558	\$ 25,659	\$ 92,675	\$ 16,831

Fund Equity	74,748	21,442			
Contributed Capital					
Retained Earnings:					
Reserve for Revenue					
Bond Retirement					
Unreserved	43,713	3,634	(4,532)	45,173	42,525
Total Equity	\$ 118,461	\$ 25,076	\$ (4,532)	\$ 64,168	\$ 6,008

Total Liabilities and Equity	\$ 122,538	\$ 26,634	\$ 21,127	\$ 202,016	\$ 65,364
Operating Revenues	\$ 25,192	\$ 3,175	\$ 3,283	\$ 11,408	\$ 10,576
Operating Expenses:					
Operating and Other Expenses	24,039	6,466	17,955	6,077	39,326
Depreciation & Amortization	4,811	1,179	3,318	268	537
Operating Income (loss)	(3,658)	(4,470)	(17,990)	5,063	(29,287)

Nonoperating Revenues (expenses)	770	2,846	(503)		385
Transfers:					
From Primary Government	707	1,541	16,320		28,688
From Component Units					1,500
To Primary Government	(371)		(16)		(494)
Net Income (Loss)	(2,552)	(83)	(2,189)	5,063	(1,208)
Depreciation on Fixed Assets	4,131	789	(2,343)		49,741
Acquired by Capital Grants	42,134	2,928	(4,532)	104,278	48,533
Retained Earnings - July 1, 1995	\$ 43,713	\$ 3,634	\$ (4,532)	\$ 109,341	\$ 48,533

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
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Assets	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
Current Assets	\$ 56,147	\$ 343	\$ 254,429	\$ 85,077	\$ 267	\$ 1,791	\$ 9,130
Property, Plant and Equipment (net)	1,218	4,251	14,276	259,093	246	2,593	9,283
Other Assets	305,617	4,594	811,443	344,170	513	4,384	18,413
Total Assets	\$ 362,982	\$ 4,594	\$ 1,080,148	\$ 344,170	\$ 513	\$ 4,384	\$ 18,413

Liabilities	Student Loans	Investment Management	Debt Issuance	Debt Issuance	Debt Issuance	Insurance/ Grain Warehousemen Bond	Debt Issuance
Current Liabilities	\$ 16,761	\$ 4,594	\$ 74,988	\$ 11,528	\$	\$ 307	\$ 1,775
Other Liabilities	299,730		816,074	184,066			40,395
Revenue Bonds			891,062	195,594		307	42,170
Total Liabilities	\$ 316,491	\$ 4,594	\$ 891,062	\$ 195,594	\$	\$ 307	\$ 42,170

Fund Equity	316,491	4,594	891,062	195,594		307	42,170
Contributed Capital							
Retained Earnings:							
Reserve for Revenue							
Bond Retirement							
Unreserved	40,457	6,034	151,001	148,576	513	4,077	42,732
Total Equity	\$ 40,457	\$ 6,034	\$ 151,001	\$ 148,576	\$ 513	\$ 4,077	\$ 42,732

Total Liabilities and Equity	\$ 362,982	\$ 4,594	\$ 1,080,148	\$ 344,170	\$ 513	\$ 4,384	\$ 18,413
Operating Revenues	\$ 32,823	\$	\$ 76,763	\$ 49,846	\$	\$ 311	\$ 4,830
Operating Expenses:							
Operating and Other Expenses	23,806	494	64,532	15,596	513	283	829
Depreciation & Amortization	1,040		1,473	324			201,403
Operating Income (loss)	(5,977)	(494)	10,758	33,926			13,012

Nonoperating Revenues (expenses)			(82)		3	28	3,792
Transfers:							
From Primary Government							1,706
From Component Units							62
To Primary Government		494		10,537			1,706
Net Income (Loss)	(1,500)		10,676	44,463	3	28	56,287
Depreciation on Fixed Assets	4,477						1,500
Acquired by Capital Grants	42,014		178,410	104,113	510	4,049	(881)
Retained Earnings - July 1, 1995	\$ 46,491	\$	\$ 189,086	\$ 148,576	\$ 513	\$ 4,077	\$ (1,500)
Retained Earnings - June 30, 1996	\$ 46,491	\$	\$ 189,086	\$ 148,576	\$ 513	\$ 4,077	\$ 565,675

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

CONDENSED STATEMENT INFORMATION

Condensed Balance Sheet  
University and College Funds  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 166,833	\$ 25,213	\$ 74,686	\$ 266,732
Investments, Net of Amortization	424,537	160,634	122,432	707,603
Receivables, Net:				
State Agencies	671		4,730	5,401
Others	124,040	41,786	38,758	204,584
Interfund Receivables	39,818	1,374	11,869	51,667
Inventories	12,876	20,967	9,980	43,823
Land	26,139		17,836	43,975
Improvements Other Than Buildings	34,578		24,892	59,470
Buildings and Improvements	731,862	361,242	635,436	1,728,540
Machinery and Equipment	309,128	81,473	160,190	550,791
Library Books	74,377	46,574	90,065	211,016
Livestock			334	334
Construction in Progress	86,481	2,773	62,177	148,658
Other Assets	2,092		22,077	26,942
<b>Total Assets</b>	<b>\$ 2,033,432</b>	<b>\$ 742,036</b>	<b>\$ 1,275,462</b>	<b>\$ 4,050,930</b>

LIABILITIES AND FUND EQUITY

<b>Liabilities:</b>				
Accounts Payable:				
State Agencies	\$ 4,265	\$ 28,067	\$ 1,037	\$ 5,302
Others	28,853		8,713	65,633
Accrued Liabilities	41,845		15,174	57,019
Interfund Payables	39,818		11,869	51,687
Capital Lease Obligations	34,101	8,454	45,283	85,838
Notes Payable	98		1,844	1,942
Bonds Payable	332,279	155,850	265,459	753,588
Amounts Held in Custody for Others	438		3,254	3,692
Deposits and Advance Payments	137	15,860	1,120	17,117
Deferred Revenue	11,947	11,271	9,553	32,771
Other Liabilities	36,233	884	1,234	38,361
<b>Total Liabilities</b>	<b>\$ 530,014</b>	<b>\$ 220,596</b>	<b>\$ 362,540</b>	<b>\$ 1,112,950</b>
<b>Fund Equity:</b>				
Investment in Fixed Assets	907,874	352,143	682,013	1,942,030
Fund Balance:				
Reserved for:				
Encumbrances	1,508	6,459	3,978	11,945
Capital Outlay	62,141	11,522	86,502	160,165
Restricted Gifts, Grants, and Contracts	373,755	88,403	123,372	585,560
Unreserved:				
Designated for Universities and Colleges	158,140	65,083	17,057	238,280
Total Fund Equity	1,503,418	521,640	912,922	2,937,980
<b>Total Liabilities and Fund Equity</b>	<b>\$ 2,033,432</b>	<b>\$ 742,036</b>	<b>\$ 1,275,462</b>	<b>\$ 4,050,930</b>

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

Condensed Statement of Changes in Fund Balances  
University and College Funds  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
<b>Total Revenues and Other Additions</b>	\$ 813,196	\$ 281,988	\$ 429,072	\$ 1,524,256
<b>Total Expenditures and Other Deductions</b>	\$ 1,091,002	\$ 376,808	\$ 606,873	\$ 2,074,713
Transfers from (to) Primary Government	353,767	158,050	239,542	751,359
Net Increase for Year	135,931	63,230	61,741	260,902
Fund Balance and Other Credits, Beginning, As Restated	\$ 1,367,487	\$ 458,410	\$ 831,181	\$ 2,657,078
Fund Balance and Other Credits, Ending	\$ 1,503,418	\$ 521,640	\$ 912,922	\$ 2,937,980

Condensed Statement of Current Funds Revenues, Expenditures and Other Changes  
University and College Funds  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
<b>Total Revenues</b>	\$ 515,236	\$ 217,945	\$ 325,527	\$ 1,058,708
<b>Expenditures:</b>				
Education and General	\$ 546,143	\$ 291,361	\$ 466,081	\$ 1,303,585
Auxiliary Enterprises and Hospitals	234,482	40,023	50,590	325,095
Total Expenditures	780,625	331,384	516,671	1,628,680
Mandatory Transfers (Net)	33,732	14,524	34,117	82,373
Total Expenditures and Mandatory Transfers	814,357	345,908	550,788	1,711,053
Other Transfers and Additions	329,235	142,774	232,908	704,917
Non-Mandatory Transfers (Net)	41,175	13,800	6,416	61,391
Additions (Deductions)	7,231	8,182	1,765	17,178
Total Other Transfers and Additions (Deductions)	377,641	164,756	241,089	783,486
Net Increase in Fund Balances	\$ (3,830)	\$ 9,193	\$ 2,996	\$ 8,359

**COMMONWEALTH OF KENTUCKY**  
Notes to Combined Financial Statements  
June 30, 1996

**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 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.

The Commonwealth is involved in litigation concerning the provisions of the Fair Labor Standards Act. The ultimate outcome of the litigation cannot presently be determined. The Attorney General's Office had indicated that probable payments could be significant; however, the total amount to be paid is not reasonably estimable. Therefore, except for liability related to the initial plaintiffs, no provision for any liability related to the initial adjudication of this and similar cases has been made in the accompanying financial statements.

**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 disallowances as a result of these audits become 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 most of these leases will be replaced by similar leases. Primary Government expenditures for rent under leases for the years ended June 30, 1996 and 1995, amounted to \$35.7 million and \$30.9 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expenses which would require adjustment to be in compliance with GASB Statement 13.

**Sick Leave** - It is the policy of the Commonwealth 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, 1996. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was \$230,079,949 and \$14,051,170, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 1996, has contractual commitments of approximately \$684,774,000 for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 33% State funds, 43% Federal funds, and the remaining 22% with proceeds from the sale of revenue bonds.

**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, 1996, and prior to December 30, 1996, and reported other subsequent events for the same period, as described below.

**State Universities**

On September 5, 1996, Western Kentucky University issued \$3,000,000 of Housing and Dining System Revenue Bonds, Series M. The proceeds will be used to reimburse the Current Unrestricted Fund for amounts paid for renovation of existing campus housing buildings. Serial bonds mature each December 1, 1996 through 2025, at 5.3%.

On December 18, 1996, the University of Louisville issued \$15,250,000 in Consolidated Educational Building Refunding Bonds, Series G. The bonds mature serially and annually each May 1, 1997 through 2007 at 4.25% to 4.75%.

**Kentucky Housing Corporation**

On August 22, 1996, the Board of Directors authorized the development of a financing plan for the replacement refunding and new issuance of Housing Revenue Bonds. The total financing of approximately \$50,000,000 is expected to be completed in October 1996. The proceeds of the transaction will be used to finance mortgage loans for persons and families of lower and moderate income.

Bonds dated June 27, 1996, include:

\$1,500,000, 1996 Series C (remarked), with term maturities of \$675,000 due July 1, 2022, at 6.25%, and \$825,000 due July 1, 2028, at 6.3%.

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Bonds dated September 1, 1996, include:

\$15,355,000, 1996 Series D, with term maturities of \$2,400,000 due July 1, 2006, at 5.05%, \$2,600,000 due July 1, 2007, at 5.2%, \$7,710,000 due July 1, 2013, at 5.8%, and \$2,585,000 due July 1, 2017, at 5.95%.

\$23,130,000, 1996 Series E, with term bonds due January 1, 2028, at 6.3%, and \$10,015,000, 1996 Series F, with term bonds due July 1, 2010, at 7.21%.

**Kentucky Higher Education Student Loan Corporation**

On September 12, 1996, the Corporation issued \$27,500,000 of Insured Student Loan Revenue Bonds to continue its student loan finance program. The \$25,000,000 1996 Series A Bonds are scheduled to mature on June 1, 2026, and bear interest rates that change weekly based on specified indices. The \$2,500,000 1996 Series B Bonds are scheduled to mature on June 1, 2003, and bear interest rates at 5.15%.

**Kentucky Educational Television**

KET has agreed to provide contractual services to the Public Broadcasting Service (PBS) for a five year period beginning subsequent to June 30, 1996. The services to be provided include production of two video series targeted at assisting individuals planning to take the revised GED exam. In consideration for these services, KET will receive approximately \$5,300,000 over the five year period according to the approved budget summary.

**Kentucky Lottery Corporation**

The Corporation is in the process of securing an agreement to borrow up to \$6,787,000 from a financial institution. The proceeds will be used to fund the renovation of real estate purchased during the year ended June 30, 1996 to be used as new corporate headquarters. It is expected that the balance under this agreement will be drawn as needed for such renovations, with repayment to begin upon occupancy which is expected during the year ending June 30, 1998.

**Kentucky Retirement Systems**

In accordance with KRS 78.534, effective August 1, 1996, all former circuit clerks or former deputy clerks who were vested in the Kentucky Employees Retirement System and who had not yet begun to receive benefits, and all circuit clerks or deputy clerks thereafter taking office will participate in the County Employees Retirement System. Therefore, the Kentucky Employees Retirement System was required to transfer for each member affected, a dollar amount equal to the member's and employer's contribution from the date made to the date transferred at the actuarially assumed interest rate of the Kentucky Employees Retirement System in effect at the time the contributions were originally made.

The actual amounts transferred in November 1996 were \$12,291,086 in member contributions and \$34,578,917 in employer contributions. At the time of the transfer, the actuarially determined liability associated with these transfers had not yet been determined.

**Workers' Compensation Funding Commission and Labor Cabinet - Special Fund**

As the result of the special session of the Kentucky General Assembly, Governor Patton signed into law on December 12, 1996, legislation that significantly changes the workers compensation system and directly impacts the Funding Commission and Special Fund.

The Funding Commission will continue to collect assessments for the payment of Special Fund claims filed through December 12, 1996. Payments for claims filed as of December 12, 1996, are expected to continue through 2018. The Funding Commission will continue to collect assessments for the payment of Special Fund claims until these claims are paid in full.

The Special Fund will continue to process payments for claims filed as of December 12, 1996. The Special Fund will not process new claims after December 12, 1996. Payment of claims filed as of December 12, 1996, is expected to continue through 2018.

**Kentucky Public Employees Deferred Compensation Authority**

The Small Business Job Protection Act of 1996 (P.L. 104-188) makes a number of favorable changes to Internal Revenue Code, Section 457. Among them is Section 1448 of the Act which amends Section 457 by removing the requirement that plan assets be available for government creditors, and adds a requirement that plan assets be held in such a way as to identify and protect employees' interest.

Section 457 now requires that the assets of a government employee-deferred compensation plan be held in a trust, custodial account or qualifying insurance contract that is held for the exclusive benefit of participants.

Existing plans (including additional contributions to such plans) have until January 1, 1999, to create a trust or otherwise comply with the new requirements.

**Kentucky School Facilities Construction Commission**

The Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 1996, and maturing as to principal through 2016 as follows:



COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

School District	Sale Date	Principal at Issue	State Share	Interest Rate
Campbell County	07/01/96	\$ 7,700,000	\$ 655,882	4.875-5.6%
Cassidy County	07/01/96	1,750,000	594,645	4.6-5.8%
Elizabethtown Independent	07/02/96	329,414	329,414	4.3-5.75%
Taylor County	07/02/96	780,000	185,180	5.125-6.0%
Meade County	07/03/96	4,350,000	535,544	5.05-6.0%
Grant County	07/04/96	350,000	277,588	4.25-5.9%
Madison County	07/08/96	5,155,000	777,145	5.65%
Middleboro Independent	07/08/96	865,000	289,923	4.2-6.1%
Cornin Independent	07/09/96	895,000	227,435	5.375-5.5%
Hardin County	07/09/96	4,665,000	1,854,272	4.0-6.0%
Pulaski County	07/09/96	1,400,000	518,732	4.2-5.9%
Estill County	07/11/96	8,790,000	785,966	5.5-5.875%
Nelson County	07/11/96	4,290,000	813,649	4.5-5.8%
Paintsville Independent	07/12/96	350,000	125,448	4.0-5.6%
Barren County	07/15/96	3,710,000	708,416	4.75-5.8%
Menifee County	07/16/96	245,000	245,000	5.3-5.55%
Butler County	07/24/96	4,460,000	3,698,546	3.75-5.4%
Bullitt County	08/14/96	2,000,000	945,194	4.5-5.6%
Hickman County	08/28/96	255,000	205,803	5.15-5.75%
Cumberland County	09/04/96	170,000	127,067	4.5-5.7%
Nicholas County	09/06/96	235,000	185,000	5.0-5.7%
Boyd County	09/09/96	185,000	100,000	4.6-5.7%
Carroll County	09/10/96	100,000	425,000	5.0-5.75%
Franklin Independent	09/11/96	165,000	1,919,381	4.375-5.0%
Magoffin County	09/12/96	260,000	217,373	4.75-5.75%
Woodford County	09/12/96	215,000	154,222	4.875-5.65%
Clark County	09/13/96	255,000	255,000	5.0-5.55%
Fairview Independent	09/13/96	120,000	378,225	5.15-5.3%
Knox County	09/13/96	423,000	30,000	4.8-5.65%
Fort Thomas Ind.	09/16/96	175,000	240,000	4.7-5.7%
Walton-Verona Ind.	09/16/96	100,000	100,000	5.0-5.375%
Leslie County	09/18/96	240,000	2,207,126	4.375-4.65%
Woodford County	09/18/96	3,295,000	1,231,197	4.2-5.4%
Leitcher County	10/23/96	7,675,000	65,758	5.1-5.4%
Floyd County	10/30/96	145,000	1,222,675	4.5-4.55%
Wolfe County	11/27/96	3,460,000	412,504	3.7-5.0%
Meigs County	12/04/96	1,385,000	218,521	4.5-5.15%
Franklin County	12/10/96	285,000	3,372,720	4.45-4.7%
Bracken County	12/12/96	4,245,000	187,000 *	NIC 5.4344% *
Blanchard County	12/12/96	515,000	466,203	4.8%
Magoffin County	12/12/96	850,000	427,400	4.2-5.0%
Nelson County	12/17/96	1,020,000		4.0-4.6%
Total		\$ 81,917,000	\$ 29,025,953	

\* Amounts are estimated, pending final participation agreements and debt service schedules.

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1996

Audited financial statements for component units may be requested at the following addresses:

Bluegrass State Skills Corporation Capital Plaza Tower 500 Metro Street Frankfort, Kentucky 40601	Kentucky Lottery Corporation Two Paragon Centre Suite 400 6040 Dutchmans Lane Louisville, Kentucky 40205-3271
Kentucky Turnpike Authority Room 267, Capitol Annex Building Frankfort, Kentucky 40601	Kentucky State Fair Board Kentucky Fair and Exposition Center P.O. Box 37130 Louisville, Kentucky 40233-7130
Kentucky Center for the Arts 5 Riverfront Plaza Louisville, Kentucky 40202-2989	Kentucky Educational Television 600 Cooper Drive Lexington, Kentucky 40502
Kentucky Economic Development Finance Authority Capital Plaza Tower 500 Metro Street Frankfort, Kentucky 40601	Kentucky Higher Education Assistance Authority 1050 U.S. 127 South, Suite 102 Frankfort, Kentucky 40601
Kentucky Higher Education Student Loan Corporation 10180 Linn Station Road P.O. Box 24266 Louisville, Kentucky 40224-0266	Kentucky Educational Savings Plan Trust 1050 U.S. 127 South, Suite 102 Frankfort, Kentucky 40601
Kentucky Housing Corporation 1231 Louisville Road Frankfort, Kentucky 40601	Kentucky Infrastructure Authority Suite 261, Capitol Annex Building Frankfort, Kentucky 40601
Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road Frankfort, Kentucky 40601	Kentucky Local Correctional Facilities Construction Authority Suite 261, Capitol Annex Building Frankfort, Kentucky 40601
Teachers Retirement System 479 Versailles Road Frankfort, Kentucky 40601	Kentucky Judicial Form Retirement System P.O. Box 791 Frankfort, Kentucky 40602
University of Louisville Belknap Campus Controller's Office Louisville, Kentucky 40292	University of Kentucky General Accounting 371 Peterson Service Building Lexington, Kentucky 40506-0005
Western Kentucky University Vice President for Finance and Administration 1 Big Red Way Bowling Green, Kentucky 42101-3576	Eastern Kentucky University Vice President for Business Affairs 521 Lancaster Avenue Richmond, Kentucky 40475-3101
Murray State University Financial Management and Planning Murray, Kentucky 42071	Morehead State University Office of Accounting and Budgetary Control 202 Howell-McDowell Administration Building Morehead, Kentucky 40351-1689
Kentucky State University Office of Administrative Affairs East Main Street Frankfort, Kentucky 40601	Northern Kentucky University Office of Business Affairs Lucas Administration Center 726 Nunn Drive Highland Heights, Kentucky 41099-8101

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**COMBINING, INDIVIDUAL FUND AND ACCOUNT GROUP  
SCHEDULES AND STATEMENTS**

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**GENERAL FUND**

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

COMMONWEALTH OF KENTUCKY  
BALANCE SHEET  
GENERAL FUND  
JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 280,954
INVESTMENTS, NET OF AMORTIZATION	159,687
RECEIVABLES, NET	444,218
INTERFUND RECEIVABLES	128,491
INVENTORIES	11,776
<b>TOTAL ASSETS</b>	<b>\$ 1,016,106</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
ACCOUNTS PAYABLE	\$ 309,744
TAX REFUNDS PAYABLE	147,502
INTERFUND PAYABLES	37,377
DEFERRED REVENUE	58,092
<b>TOTAL LIABILITIES</b>	<b>\$ 552,715</b>
<b>FUND BALANCE:</b>	
RESERVED FOR:	
STATUTORY OBLIGATIONS	79,601
BUDGET STABILIZATION	200,000
INVENTORIES	11,776
UNRESERVED:	
UNDESIGNATED	172,014
<b>TOTAL FUND BALANCE</b>	<b>\$ 463,391</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,016,106</b>

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
<b>REVENUES:</b>	
TAXES	\$ 5,104,779
LICENSES, FEES, AND PERMITS	18,492
INTERGOVERNMENTAL	4,691
CHARGES FOR SERVICES	3,942
FINES AND FORFEITS	36,335
INTEREST AND OTHER INVESTMENT INCOME	34,056
OTHER REVENUES	13,388
<b>TOTAL REVENUES</b>	<b>\$ 5,215,685</b>
<b>EXPENDITURES:</b>	
GENERAL GOVERNMENT	312,968
LEGISLATIVE AND JUDICIAL	145,239
COMMERCE	15,741
EDUCATION AND HUMANITIES	2,430,095
HUMAN RESOURCES	1,013,653
JUSTICE	245,772
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	45,267
PUBLIC PROTECTION AND REGULATION	36,352
TRANSPORTATION	4,766
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,249,865</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ 965,822</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
OPERATING TRANSFERS IN	182,748
TRANSFERS FROM COMPONENT UNITS	(342,329)
TRANSFERS TO COMPONENT UNITS	2,997
CAPITALIZED LEASES	(749,644)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (906,230)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 59,519</b>
<b>FUND BALANCE AT JULY 1</b>	<b>\$ 404,881</b>
<b>INCREASE (DECREASE) IN INVENTORIES</b>	<b>(609)</b>
<b>FUND BALANCE AT JUNE 30</b>	<b>\$ 463,391</b>

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Budget	Actual	Variance
REVENUES:			
BUDGETED:			
TAXES	\$ 5,043,202	\$ 5,087,732	\$ 44,530
LICENSES, FEES, AND PERMITS	19,055	18,491	(564)
INTERGOVERNMENTAL	4,410	4,692	282
CHARGES FOR SERVICES	2,235	3,896	1,661
FINES AND FORFEITS	34,645	36,339	1,694
INTEREST AND OTHER INVESTMENT INCOME	25,600	30,398	4,798
LOTTERY PROCEEDS	132,000	147,000	15,000
OTHER REVENUES	8,144	3,022	(5,122)
TRANSFERS IN	13,125	17,088	3,963
TOTAL BUDGETED REVENUES	5,282,416	5,348,648	66,232
NON-BUDGETED:			
OTHER REVENUES		53	53
ESCHEAT REVENUE		5,251	5,251
TRANSFERS IN (INTERFUND)		30,203	30,203
TOTAL NON-BUDGETED REVENUES		35,507	35,507
TOTAL REVENUES	5,282,416	5,384,155	101,739
EXPENDITURES:			
GENERAL GOVERNMENT:			
GOVERNOR'S OFFICE	3,426	3,426	
GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT	2,184	2,112	72
PLANNING FUND	187	180	7
UNIFIED PROSECUTORIAL SYSTEM - COMMONWEALTH ATTORNEYS	12,900	12,899	1
DEPARTMENT OF AGRICULTURE	13,625	13,624	1
OFFICE OF THE ATTORNEY GENERAL	13,336	12,305	1,031
AUDITOR OF PUBLIC ACCOUNTS	8,896	8,896	
REGISTRY OF ELECTION FINANCE	4,197	4,197	
LIEUTENANT GOVERNOR'S OFFICE	3,598	3,560	38
MILITARY AFFAIRS - GENERAL OPERATIONS	475	432	43
MILITARY AFFAIRS - DISASTER AND EMERGENCY SERVICES	9,485	8,532	953
LOCAL GOVERNMENT - VARIOUS AREA DEVELOPMENT DISTRICTS	5,443	4,609	834
LOCAL GOVERNMENT - ECONOMIC ASSISTANCE FUND	6,952	6,572	380
LOCAL GOVERNMENT - ECONOMIC DEVELOPMENT FUND	37,143	28,614	8,529
SECRETARY OF STATE - GENERAL OPERATIONS	22,416	19,450	2,966
DEPARTMENT OF THE TREASURY	1,827	1,827	
BOARD OF ELECTIONS	1,751	1,751	
PERSONNEL BOARD	3,944	3,944	
SCHOOL FACILITIES CONSTRUCTION COMMISSION	455	446	9
EXECUTIVE BRANCH ETHICS COMMISSION	61,436	55,983	5,453
COMMISSION ON HUMAN RIGHTS	207	196	11
COMMISSION ON WOMEN	1,731	1,693	38
COUNCIL ON HIGHER EDUCATION	178	178	
BUDGET RESERVE TRUST FUND	10,123	9,858	265
	200,000		200,000

	Budget	Actual	Variance
PERSONNEL CABINET			
EASTERN KENTUCKY UNIVERSITY	4,382	4,254	128
KENTUCKY STATE UNIVERSITY	55,831	55,555	276
MOREHEAD STATE UNIVERSITY	19,117	19,117	
MURRAY STATE UNIVERSITY	34,190	34,100	90
NORTHERN KENTUCKY UNIVERSITY	39,946	39,946	
UNIVERSITY OF KENTUCKY	30,554	30,554	
UNIVERSITY OF KENTUCKY COMMUNITY COLLEGE SYSTEM	253,975	253,880	95
UNIVERSITY OF LOUISVILLE	76,353	76,183	170
WESTERN KENTUCKY UNIVERSITY	142,827	142,538	289
REVENUE CABINET - GENERAL ADMINISTRATION	52,003	52,003	
REVENUE CABINET - DEPARTMENT OF TAX COMPLIANCE	21,838	21,526	312
REVENUE CABINET - DEPARTMENT OF PROPERTY TAXATION	23,430	23,364	66
REVENUE CABINET - OFFICE OF PROPERTY VALUATION	5,535	5,474	61
ADMINISTRATORS			
FINANCE AND ADMINISTRATION - OFFICE OF THE SECRETARY	17,964	17,736	228
CAPITAL FLUXA AUTHORITY	28,530	28,405	125
KENTUCKY VETERANS CENTER	59	57	2
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY	7,281	7,081	200
DEPARTMENT FOR ADMINISTRATION	28,377	28,680	(303)
DEPARTMENT FOR FACILITIES MANAGEMENT	3,318	3,318	
SPECIAL ACCOUNTS - CAPITAL CONSTRUCTION	7,900	7,018	882
EMPOWER KENTUCKY - CAPITAL CONSTRUCTION	31,809	31,609	200
EMPOWER KENTUCKY TECHNOLOGY POOL A	38,261	38,261	
COUNTY COSTS	36,261	35	36,226
ACCESS TO JUSTICE	13,946	12,579	1,367
APPROPRIATIONS NOT OTHERWISE CLASSIFIED:	1,200	1,145	55
BOARD OF CLAIMS AWARDS			
GUARDIAN AD LITEM	600	327	273
JUDGMENTS	1,450	1,450	
PRIOR YEAR CLAIMS	5,593	4,639	954
UNREDEEMED CHECKS RETURNED	639	639	
INVOICED COMMENTS	324	158	166
FRANKFORT IN LIEU OF TAXES	60	46	14
FRANKFORT CEMETERY	195	195	
COURT ORDERED REFUNDS	3	3	
COURT AND FIREMEN LIFE INSURANCE	46,400	24,805	21,595
MASTER COMMISSIONER EMPLOYERS RETIREMENT	300	50	250
MASTER COMMISSIONER SOCIAL SECURITY	200	200	
WORKERS' COMPENSATION	190	190	
TOTAL GENERAL GOVERNMENT	225	195	30
LEGISLATIVE AND JUDICIAL	1,460,061	1,189,598	270,463
GENERAL ASSEMBLY:			
REGULAR SESSIONS	14,204	9,383	4,821
LONG TERM POLICY RESEARCH CENTER	735	323	413
LEGISLATIVE RESEARCH COMMISSION	375	311	64
ADMINISTRATIVE			
EDUCATIONAL PLANNING COMMISSION	21,919	19,134	2,785
JUDICIAL RETIREMENT SYSTEM	200		200
COURT OF JUSTICE - CASE MANAGEMENT SYSTEM	4,579	4,579	
COURT OF JUSTICE - OPERATION AND ADMINISTRATION	865	865	
COURT OF JUSTICE - LOCAL FACILITY SUPPORT	95,904	95,904	
TOTAL LEGISLATIVE AND JUDICIAL	154,167	145,137	9,030

(Expressed in Thousands)

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COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES BY SOURCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

REVENUES BY SOURCE	June 30, 1996
TAXES	
SALES AND GROSS RECEIPTS	
INCOME	\$ 1,962,602
INDIVIDUAL	
CORPORATIONS	2,080,418
PROPERTY	289,508
COAL SEVERANCE	409,175
LICENSES AND PRIVILEGES	185,019
INHERITANCE AND ESTATE	92,034
MISCELLANEOUS	82,673
TOTAL TAXES	3,350
LICENSES, FEES, AND PERMITS	5,104,779
INTERGOVERNMENTAL	18,492
CHARGES FOR SERVICES	4,691
FINES AND FORFEITS	3,942
INTEREST AND OTHER INVESTMENT INCOME	36,335
OTHER REVENUES	34,059
TOTAL REVENUES BY SOURCE	13,388
	\$ 5,215,685

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

GENERAL GOVERNMENT:	June 30, 1996
CABINET FOR GENERAL GOVERNMENT:	
PERSONAL SERVICES	\$ 71,573
UTILITIES, RENTALS, AND OTHER SERVICES	8,634
COMMODITIES AND SUPPLIES	3,395
GRANTS AND SUBSIDIES	46,850
CAPITAL OUTLAY	444
TRAVEL	1,249
JUDGEMENTS AND CONTINGENT LIABILITIES	149
TOTAL CABINET FOR GENERAL GOVERNMENT	132,294
FINANCE AND ADMINISTRATION CABINET:	
PERSONAL SERVICES	20,532
UTILITIES, RENTALS, AND OTHER SERVICES	2,599
COMMODITIES AND SUPPLIES	14,983
GRANTS AND SUBSIDIES	1,147
CAPITAL OUTLAY	102
TRAVEL	138
JUDGEMENTS AND CONTINGENT LIABILITIES	7,278
REISSUE UNREDEEMED TREASURY CHECKS	140
TOTAL FINANCE AND ADMINISTRATION CABINET	46,898
REVENUE CABINET:	
PERSONAL SERVICES	51,848
UTILITIES, RENTALS, AND OTHER SERVICES	12,395
COMMODITIES AND SUPPLIES	2,372
CAPITAL OUTLAY	574
TRAVEL	1,048
JUDGEMENTS AND CONTINGENT LIABILITIES	63,718
TOTAL REVENUE CABINET	131,953
PERSONNEL CABINET:	
PERSONAL SERVICES	1,460
UTILITIES, RENTALS, AND OTHER SERVICES	319
COMMODITIES AND SUPPLIES	41
TRAVEL	3
TOTAL PERSONNEL CABINET	1,823
TOTAL GENERAL GOVERNMENT	312,968
LEGISLATIVE AND JUDICIAL:	
PERSONAL SERVICES	111,541
UTILITIES, RENTALS, AND OTHER SERVICES	23,050
COMMODITIES AND SUPPLIES	5,457
GRANTS AND SUBSIDIES	1
CAPITAL OUTLAY	2,825
TRAVEL	2,333
JUDGEMENTS AND CONTINGENT LIABILITIES	32
TOTAL LEGISLATIVE AND JUDICIAL	145,229
COMMERCE:	
ECONOMIC DEVELOPMENT CABINET	
PERSONAL SERVICES	5,658
UTILITIES, RENTALS, AND OTHER SERVICES	877
COMMODITIES AND SUPPLIES	269
GRANTS AND SUBSIDIES	1,818
TRAVEL	135
TOTAL ECONOMIC DEVELOPMENT CABINET	8,690

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
TOURISM CABINET:	
PERSONAL SERVICES	4,206
UTILITIES, RENTALS, AND OTHER SERVICES	1,276
COMMODITIES AND SUPPLIES	163
GRANTS AND SUBSIDIES	1,183
CAPITAL OUTLAY	29
TRAVEL	169
JUDGEMENTS AND CONTINGENT LIABILITIES	23
TOTAL TOURISM CABINET	7,051
TOTAL COMMERCE	15,741
EDUCATION AND HUMANITIES:	
EDUCATION AND HUMANITIES CABINET:	
PERSONAL SERVICES	48,839
UTILITIES, RENTALS, AND OTHER SERVICES	5,311
COMMODITIES AND SUPPLIES	1,562
GRANTS AND SUBSIDIES	2,275,239
CAPITAL OUTLAY	526
TRAVEL	1,517
JUDGEMENTS AND CONTINGENT LIABILITIES	2
TOTAL EDUCATION AND HUMANITIES CABINET	2,332,996
WORKFORCE DEVELOPMENT CABINET:	
PERSONAL SERVICES	65,937
UTILITIES, RENTALS, AND OTHER SERVICES	9,441
COMMODITIES AND SUPPLIES	3,890
GRANTS AND SUBSIDIES	14,638
CAPITAL OUTLAY	2,414
TRAVEL	964
JUDGEMENTS AND CONTINGENT LIABILITIES	(85)
TOTAL WORKFORCE DEVELOPMENT CABINET	97,099
TOTAL EDUCATION AND HUMANITIES	2,430,095
HUMAN RESOURCES CABINET:	
PERSONAL SERVICES	157,155
UTILITIES, RENTALS, AND OTHER SERVICES	26,525
COMMODITIES AND SUPPLIES	7,834
GRANTS AND SUBSIDIES	801,344
CAPITAL OUTLAY	1,779
TRAVEL	3,864
JUDGEMENTS AND CONTINGENT LIABILITIES	15,163
TOTAL HUMAN RESOURCES CABINET	1,013,663
JUSTICE CABINET:	
PERSONAL SERVICES	132,942
UTILITIES, RENTALS, AND OTHER SERVICES	18,618
COMMODITIES AND SUPPLIES	13,798
GRANTS AND SUBSIDIES	66,238
CAPITAL OUTLAY	643
TRAVEL	1,045
DEBT SERVICE	207
JUDGEMENTS AND CONTINGENT LIABILITIES	12,281
TOTAL JUSTICE CABINET	245,772

	June 30, 1996
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET:	
PERSONAL SERVICES	37,288
UTILITIES, RENTALS, AND OTHER SERVICES	4,895
COMMODITIES AND SUPPLIES	1,992
GRANTS AND SUBSIDIES	1,152
CAPITAL OUTLAY	510
TRAVEL	323
JUDGEMENTS AND CONTINGENT LIABILITIES	(893)
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	45,267
PUBLIC PROTECTION AND REGULATION:	
PUBLIC PROTECTION AND REGULATION CABINET:	
PERSONAL SERVICES	24,717
UTILITIES, RENTALS, AND OTHER SERVICES	2,233
COMMODITIES AND SUPPLIES	764
GRANTS AND SUBSIDIES	5,057
CAPITAL OUTLAY	510
TRAVEL	481
JUDGEMENTS AND CONTINGENT LIABILITIES	102
TOTAL PUBLIC PROTECTION AND REGULATION	34,864
LABOR CABINET:	
PERSONAL SERVICES	1,591
UTILITIES, RENTALS, AND OTHER SERVICES	98
COMMODITIES AND SUPPLIES	34
GRANTS AND SUBSIDIES	150
CAPITAL OUTLAY	4
TRAVEL	111
JUDGEMENTS AND CONTINGENT LIABILITIES	1,986
TOTAL LABOR CABINET	36,352
TOTAL PUBLIC PROTECTION AND REGULATION CABINET	
PERSONAL SERVICES	1,045
UTILITIES, RENTALS, AND OTHER SERVICES	11
COMMODITIES AND SUPPLIES	145
GRANTS AND SUBSIDIES	3,583
CAPITAL OUTLAY	12
TRAVEL	4,706
JUDGEMENTS AND CONTINGENT LIABILITIES	1,045
TOTAL TRANSPORTATION CABINET	4,249,863
TOTAL EXPENDITURES	\$ 4,249,863

# SPECIAL REVENUE FUNDS

The Special Revenue Funds account for special revenue sources dedicated to specific operations other than expendable trusts or major capital projects. Kentucky uses the following Special Revenue Funds:

**Transportation Fund** - accounts for General Fund transfers, agency revenue, federal revenue, and related expenditures of the Transportation Cabinet including the constitutional Road Fund.

**Federal Fund** - accounts for monies received from the Federal Government.

**Agency Revenue Fund** - accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity and usually appropriated by the General Assembly.

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

## COMMONWEALTH OF KENTUCKY COMBINING BALANCE SHEET SPECIAL REVENUE FUNDS JUNE 30, 1996 (Expressed in Thousands)

	Transportation	Federal	Agency Revenue	Other Special Revenue	Totals June 30, 1996
<b>ASSETS</b>					
CASH AND CASH-EQUIVALENTS	\$ 162,770	\$ 2,023	\$ 111,113	\$ 111,972	\$ 387,878
RESTRICTED CASH	1,000		5,000		6,000
INVESTMENTS, NET OF AMORTIZATION	483,018		62,960	285,796	831,774
RECEIVABLES, NET	67,763	594,647	34,421	46,986	743,817
INTERFUND RECEIVABLES	6,146	18,075	132,694	3,831	160,746
INVENTORIES	26,227	1,140	3,279	63	30,709
RESTRICTED ASSETS		89,432			89,432
<b>TOTAL ASSETS</b>	<b>\$ 746,924</b>	<b>\$ 705,317</b>	<b>\$ 349,457</b>	<b>\$ 448,020</b>	<b>\$ 2,249,718</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
ACCOUNTS PAYABLE	\$ 77,348	\$ 448,234	\$ 77,309	\$ 333	\$ 603,224
INTERFUND PAYABLES	13,107	122,069	67,775	43,063	238,014
DEFERRED REVENUE	21,421	132,826	15,272	23,588	193,007
<b>TOTAL LIABILITIES</b>	<b>\$ 111,876</b>	<b>\$ 703,229</b>	<b>\$ 150,356</b>	<b>\$ 68,784</b>	<b>\$ 1,034,245</b>
<b>FUND BALANCES</b>					
RESERVED FOR:					
ENCUMBRANCES	224,912				224,912
STATUTORY OBLIGATIONS	49,421				51,511
LOANS					8,963
INVENTORIES	26,227	1,140	8,173	63	30,709
DEPOSIT WITH FISCAL AGENTS	601		3,279		5,601
COMPENSATING BALANCE WITH DEPOSITORIES	1,000		5,000		1,000
REVENUE BOND RETIREMENT					1,000
UNRESERVED					1,000
DESIGNATED FOR HIGHWAY CONSTRUCTION					1,000
UNDESIGNATED	260,968				260,968
<b>TOTAL FUND BALANCES</b>	<b>\$ 71,919</b>	<b>\$ 948</b>	<b>\$ 182,649</b>	<b>\$ 375,273</b>	<b>\$ 630,789</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 746,924</b>	<b>\$ 705,317</b>	<b>\$ 349,457</b>	<b>\$ 448,020</b>	<b>\$ 2,249,718</b>



COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Transportation	Federal	Agency	Other	Totals
	Revenue	Revenue	Revenue	Revenue	June 30, 1996
REVENUES:					
TAXES	783,630	15	206,513	60,644	1,050,797
LICENSES, FEES AND PERMITS	94,419		50,114	291	144,839
INTERGOVERNMENTAL	1,771		14,024	7,451	3,356,680
CHARGES FOR SERVICES	3,333,434	1,238	243,332	5,959	289,455
FINES AND FORFEITS	18,536		2,357	1,751	4,150
INTEREST AND OTHER INVESTMENT INCOME	36,036	286	4,756	27,664	67,742
OTHER REVENUES	2,882	57,820	40,168	16,076	117,946
TOTAL REVENUES	936,606	3,292,893	561,274	119,836	5,010,699
EXPENDITURES:					
GENERAL GOVERNMENT		53,967	46,224	81,440	181,631
LEGISLATIVE AND JUDICIAL		189	2,004	131	2,324
COMMERCE		1,185	26,792	6	26,983
EDUCATION AND HUMANITIES		480,594	51,513	147	532,354
HUMAN RESOURCES		2,500,608	300,763	(127)	2,806,244
JUSTICE		9,388	27,639		37,227
NATURAL RESOURCES AND ENVIRONMENTAL		34,946	15,873	8	50,827
PROTECTION		4,637	53,135		57,772
PUBLIC PROTECTION AND REGULATION		262,889	27,435		1,056,823
TRANSPORTATION	766,519				766,519
TOTAL EXPENDITURES	766,519	3,346,363	555,678	81,605	4,726,165
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	170,087	44,620	5,596	38,231	286,534
OTHER FINANCING SOURCES (USES):					
OPERATING TRANSFERS IN	224	694	242,188	351,379	594,475
OPERATING TRANSFERS OUT	(159,511)	(12,906)	(147,226)	(383,035)	(702,678)
TRANSFERS TO COMPONENT UNITS			(62,486)		(62,486)
CAPITALIZED LEASES			225		225
TOTAL OTHER FINANCING SOURCES (USES)	(159,287)	(12,222)	32,721	(31,654)	(170,442)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	10,800	32,398	38,317	6,577	88,092
FUND BALANCES AT JULY 1, AS RESTATED	626,864	(30,389)	160,397	372,658	1,129,530
INCREASE (DECREASE) IN INVENTORIES	(929)	79	387	1	(462)
INCREASE (DECREASE) IN RESERVE FOR DEPOSIT WITH FISCAL AGENTS	(1,687)				(1,687)
FUND BALANCES AT JUNE 30	625,048	2,098	199,101	379,236	1,216,473

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
TRANSPORTATION FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
REVENUES:	
TAXES	783,630
LICENSES, FEES AND PERMITS	94,419
INTERGOVERNMENTAL	1,771
CHARGES FOR SERVICES	18,536
FINES AND FORFEITS	32
INTEREST AND OTHER INVESTMENT INCOME	35,036
OTHER REVENUES	2,882
TOTAL REVENUES	936,606
EXPENDITURES:	
TRANSPORTATION:	
GENERAL ADMINISTRATION AND SUPPORT	49,487
MOTOR VEHICLE REGULATION	34,742
JUSTICE - STATE POLICE	40,523
HIGHWAYS	640,132
OTHER	1,635
TOTAL EXPENDITURES	766,519
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	170,087
OTHER FINANCING SOURCES (USES):	
OPERATING TRANSFERS IN	224
OPERATING TRANSFERS OUT	(159,511)
TOTAL OTHER FINANCING SOURCES (USES)	(159,287)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	10,800
FUND BALANCE AT JULY 1	626,864
INCREASE (DECREASE) IN INVENTORIES	(929)
INCREASE (DECREASE) IN RESERVE FOR DEPOSIT WITH FISCAL AGENTS	(1,687)
FUND BALANCE AT JUNE 30	625,048

(Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:												
BUDGETED:												
TAKES												
LICENSES FEES AND PERMITS	\$ 781,960	\$ 790,182	\$ 5,222							\$ 781,960	\$ 790,182	\$ 5,222
CHARGES FOR SERVICES	92,098	93,283	1,185							92,098	93,283	1,185
FINES AND FORFEITS	18,915	18,819	(96)							18,915	18,819	(96)
INTEREST AND OTHER INVESTMENT INCOME	75	33	(42)							75	33	(42)
OTHER REVENUES	28,200	33,941	5,741							28,200	33,941	5,741
TOTAL BUDGETED REVENUES	927,773	937,270	9,497							927,773	937,270	9,497
NON-BUDGETED												
TAKES FEES AND PERMITS												
INTEREST AND OTHER INVESTMENT INCOME												
FINES AND FORFEITS		1,004	1,004									
CHARGES FOR SERVICES					15	15						
INTEREST AND OTHER INVESTMENT INCOME					2,863,032	2,863,032						
FINES AND FORFEITS					1,351	1,351						
EMPLOYER CONTRIBUTIONS					9	9						
OTHER REVENUES					293	293						
TRANSFERS IN (INTERFUND)		1,637	1,637		59,069	59,069						
TRANSFERS IN (INTERFUND)		224	224		1,751	1,751						
TRANSFERS IN (INTERFUND)		81	81		1,630	1,630						
TOTAL NON-BUDGETED REVENUE		2,946	2,946		2,926,120	2,926,120						
TOTAL REVENUES	927,773	940,216	12,443									
EXPENDITURES:												
GENERAL GOVERNMENT:												
GOVERNORS OFFICE												
GOVERNORS OFFICE FOR POLICY AND MANAGEMENT												
CAMPBELL COUNTY FEES												
DAVIES COUNTY FEES												
FAYETTE COUNTY FEES												
HARDIN COUNTY FEES												
JEFFERSON COUNTY FEES												
KENTON COUNTY FEES												
KNOX COUNTY FEES												
WESLEYAN COUNTY FEES												
UNIFIED PROSECUTORIAL SYSTEM												
COMMONWEALTH ATTORNEYS												
COUNTY ATTORNEYS												
DEPARTMENT OF AGRICULTURE												
OFFICE OF THE ATTORNEY GENERAL												
AUDITOR OF PUBLIC ACCOUNTS												
REGISTRY OF ELECTION FINANCE												
MAIL DELIVERY AND EMERGENCY SERVICES												
GENERAL OPERATIONS												
KENTUCKY RETIREMENT SYSTEMS												
LOCAL GOVERNMENT -												
VARIOUS AREA DEVELOPMENT DISTRICTS												
SECRETARY OF STATE												
DEPARTMENT OF THE TREASURY												
ACCOUNTANCY												
AUCTIONEERS												
BARBERING												
CHIROPRACTIC EXAMINERS												
DENTISTRY												
DIETICIANS AND NUTRITIONISTS												
ELECTIONS												
EXAMINERS AND FUNERAL HOME DIRECTORS												
EXAMINERS AND REGISTRATION OF												
ARCHITECTS												

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1996  
 (Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
EXAMINERS AND REGISTRATION OF LANDSCAPE ARCHITECTS				42	34	8	42	34	8	42	34	8
EXAMINERS OF PSYCHOLOGISTS				142	141	1	142	141	1	142	141	1
EXAMINERS OF PROFESSIONAL NURSING				101	74	27	101	74	27	101	74	27
EXAMINERS OF OPTOMETRISTS				578	503	75	578	503	75	578	503	75
LICENSING HEARING AID DEALERS AND FITTERS				25	25		25	25		25	25	
LICENSURE FOR NURSING HOME ADMINISTRATORS				57	57		57	57		57	57	
MEDICAL LICENSURE				1,281	1,135	146	1,281	1,135	146	1,281	1,135	146
NURSING				1,935	1,845	90	1,935	1,845	90	1,935	1,845	90
OPTICIAN DISPENSERS				21	17	4	21	17	4	21	17	4
OPTOMETRISTS				105	105		105	105		105	105	
PHYSICIAN ASSISTANTS				16	7	9	16	7	9	16	7	9
OCCUPATIONAL THERAPY				25	22	3	25	22	3	25	22	3
RESPIRATORY CARE PRACTITIONERS				66	54	12	66	54	12	66	54	12
MARRIAGE AND FAMILY THERAPISTS				30	18	12	30	18	12	30	18	12
BOARD OF GEOLOGISTS				68	47	21	68	47	21	68	47	21
PHARMACY				543	487	56	543	487	56	543	487	56
PHYSICAL THERAPISTS				191	183	8	191	183	8	191	183	8
PODIATRY				9	6	3	9	6	3	9	6	3
REGISTRATION FOR PROFESSIONAL NURSING AND SUPERVISORS				922	890	32	922	890	32	922	890	32
SPEECH PATHOLOGY AND AUDIOLOGY				44	44	0	44	44	0	44	44	0
VETERINARY EXAMINERS				75	69	6	75	69	6	75	69	6
KENTUCKY ATHLETICS COMMISSION				8	4	4	8	4	4	8	4	4
EXECUTIVE BRANCH ETHICS COMMISSION												
REAL ESTATE COMMISSION												
ADMINISTRATION				1,079	1,021	58	1,079	1,021	58	1,079	1,021	58
EDUCATION RESEARCH AND TRAINING				819	812	7	819	812	7	819	812	7
REAL ESTATE APPRAISER BOARD				293	291	2	293	291	2	293	291	2
COMMISSION ON HUMAN RIGHTS				15	13	2	15	13	2	15	13	2
COUNCIL ON HIGHER EDUCATION				51	46	5	51	46	5	51	46	5
PERSONNEL CABINET				50	45	5	50	45	5	50	45	5
DEFERRED COMPENSATION SYSTEM				1,637	1,320	317	1,637	1,320	317	1,637	1,320	317
EASTERN KENTUCKY UNIVERSITY				92,140	77,818	14,322	92,140	77,818	14,322	92,140	77,818	14,322
KENTUCKY STATE UNIVERSITY				20,287	20,207	80	20,287	20,207	80	20,287	20,207	80
MOREHEAD STATE UNIVERSITY				48,865	47,607	1,258	48,865	47,607	1,258	48,865	47,607	1,258
MURRAY STATE UNIVERSITY				41,427	40,859	568	41,427	40,859	568	41,427	40,859	568
UNIVERSITY OF KENTUCKY				50,010	46,481	3,529	50,010	46,481	3,529	50,010	46,481	3,529
UNIVERSITY OF KENTUCKY COMMUNITY COLLEGE SYSTEM				532,209	516,350	15,859	532,209	516,350	15,859	532,209	516,350	15,859
UNIVERSITY OF LOUISVILLE				93,183	43,636	49,547	93,183	43,636	49,547	93,183	43,636	49,547
WESTERN KENTUCKY UNIVERSITY				216,689	41,137	175,552	216,689	41,137	175,552	216,689	41,137	175,552
REVENUE CABINET				64,468	57,836	6,632	64,468	57,836	6,632	64,468	57,836	6,632
ADMINISTRATION				163	163		163	163		163	163	
DEPARTMENT OF TAX COMPLIANCE				1,134	1,133	1	1,134	1,133	1	1,134	1,133	1
DEPARTMENT OF PROPERTY TAXATION				1,561	1,560	1	1,561	1,560	1	1,561	1,560	1
OFFICE OF PROPERTY VALUATION				2,049	1,501	548	2,049	1,501	548	2,049	1,501	548
FINANCE AND ADMINISTRATION												
OFFICE OF THE SECRETARY				1,862	1,538	324	1,862	1,538	324	1,862	1,538	324
OFFICE OF THE COMPTROLLER				1,115	1,115	0	1,115	1,115	0	1,115	1,115	0
OFFICE OF MANAGEMENT SERVICES				629	496	133	629	496	133	629	496	133
CAPITAL PLAZA AUTHORITY				7,033	6,792	241	7,033	6,792	241	7,033	6,792	241
KENTUCKY VETERANS CENTER												
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY				11,053	10,061	992	11,053	10,061	992	11,053	10,061	992

(Expressed in Thousands)

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COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
HUMAN RESOURCES												
EXECUTIVE OFFICE OF SUPPORT SERVICES				14,589	14,214	375	9,422	6,579	2,843	24,011	20,793	3,218
DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION SERVICES				30,268	24,777	5,491	92,095	79,399	12,696	122,363	104,176	18,187
DEPARTMENT FOR HEALTH SERVICES				132,370	126,981	5,389	2,581	8,301	965	141,559	135,282	6,274
COMMISSION FOR SPECIAL NEEDS CHILDREN				4,948	4,630	318	3,060	2,331	729	3,060	2,331	729
HEALTH PURCHASING ALLIANCE												
DEPARTMENT FOR SOCIAL INSURANCE PROGRAMS				98,932	82,797	16,135	27,125	24,194	2,931	126,057	106,991	19,066
DEPARTMENT FOR MEDICAID SERVICES				189,214	164,953	24,261	8,931	2,419	6,512	198,145	167,372	30,773
BENEFITS PROGRAMS				33,597	19,782	13,815	9,215	2,302	6,913	42,812	22,064	20,748
KENTUCKY HEALTH POLICY BOARD				1,508,819	1,438,294	70,525	187,185	145,439	41,746	1,596,004	1,583,733	12,271
DEPARTMENT FOR SOCIAL SERVICES				151,177	148,676	2,501	549	107	442	549	107	442
TOTAL HUMAN RESOURCES				2,163,914	2,028,104	135,810	12,911	10,189	2,722	164,088	159,855	4,233
JUSTICE												
ADMINISTRATION				9,331	4,206	5,125	2,484	1,718	766	11,815	5,924	5,891
DEPARTMENT OF STATE POLICE				6,814	4,636	2,178	6,715	6,715	1,373	53,936	51,758	2,178
DEPARTMENT OF CRIMINAL JUSTICE TRAINING							18,766	17,393	1,373	18,766	17,393	1,373
DEPARTMENT OF CORRECTIONS				542	230	312	110	97	13	632	327	305
MANAGEMENT				1,712	431	1,281	5,808	4,118	1,690	7,520	4,609	2,911
ADULT INSTITUTIONS				824	479	345	578	536	42	1,402	1,015	387
COMMUNITY SERVICE AND LOCAL FACILITIES												
TOTAL JUSTICE				19,223	10,042	9,181	34,461	30,577	3,884	94,091	81,026	13,065
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION												
OFFICE OF THE SECRETARY				2,245	1,985	260	1,015	346	675	3,260	2,295	965
KENTUCKY RIVER AUTHORITY							1,117	807	310	1,117	807	310
KENTUCKY NATURE PRESERVES COMMISSION				80	78	2	10	227	285	10	305	295
DEPARTMENT OF LAW				13,017	10,720	2,297	512	227	285	592	305	287
DEPARTMENT FOR ENVIRONMENTAL PROTECTION				2,743	1,876	867	17,390	11,715	5,675	30,407	22,435	7,972
DEPARTMENT FOR NATURAL RESOURCES							6,435	3,227	3,208	9,178	5,103	4,075
RECLAMATION AND ENFORCEMENT												
SURFACE MINING RECLAMATION & ENFORCEMENT				14,635	12,976	1,659				30,407	22,435	7,972
WATER RECLAMATION PROJECTS				22,455	7,468	14,987	5,966	4,107	1,859	20,801	17,093	3,708
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION				55,375	35,123	20,252	32,445	20,423	12,022	87,820	55,546	32,274
PUBLIC PROTECTION AND REGULATION												
BOARD OF CLAIMS AND CRIME												
VICTIMS COMPENSATION				351	284	67	1,256	820	436	1,607	1,104	503
BACKSIDE IMPROVEMENT COMMISSION							219	107	112	219	107	112
KENTUCKY RACING COMMISSION				237	233	4	15,155	14,203	952	15,155	14,203	952
PUBLIC SERVICE COMMISSION							23	11	12	280	244	36
DEPARTMENT OF ALCOHOL BEVERAGE CONTROL				1,430	1,045	385	2,757	1,653	904	4,197	2,888	1,309
DEPARTMENT OF FINANCIAL INSTITUTIONS							515	511	4	515	511	4
OF HOUSING, BUILDING, AND CONSTRUCTION							6,550	6,550	10	6,550	6,550	10
OF INSURANCE							25,905	25,210	695	25,905	25,210	695
FOR MINES AND MINERALS				757	582	175	10,108	6,918	3,190	10,108	6,918	3,190
							850	154	696	1,607	736	871

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1996  
 (Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
LABOR CABINET												
OFFICE OF THE SECRETARY												
OCCUPATIONAL SAFETY AND HEALTH												
WORKPLACE STANDARDS				191	175	16				191	175	16
				2,985	2,534	381				2,985	2,534	381
TOTAL PUBLIC PROTECTION AND REGULATION				5,931	4,903	1,028				5,931	4,903	1,028
TRANSPORTATION												
ADMINISTRATION & SUPPORT	56,097	48,754	7,343									
REVENUE SHARING	283,884	219,528	64,156									
AIR TRANSPORTATION												
HIGHWAYS	919,050	440,199	478,851	377	182	195	18,447	16,863	1,584	74,544	65,617	8,927
RAIL TRANSPORTATION				794,196	257,936	536,260	116	55	61	283,884	219,528	64,156
VEHICLE REGULATION	23,801	21,419	2,382	6,256	5,018	1,238	45,031	11,261	33,770	1,758,431	709,596	2,327
DEBT SERVICE	155,650	155,650		436	122	314	66		66	6,322	3,016	3,306
TRANSFERS TO CAPITAL CONSTRUCTION	5,857	105	5,752	3,367	1,891	1,476		1,875	2,020	436	31,063	30,627
ROAD FUND JUDGEMENTS	19,278		19,173				3,895			155,650	155,650	
1990 ECONOMIC DEVELOPMENT BOND PROJECTS										5,857	5,857	
TOTAL TRANSPORTATION	1,463,417	891,512	571,905				282,461	70,122	212,339	282,461	19,173	263,288
EXCESS OF REVENUES OVER (UNDER)	1,505,547	833,508	572,039	804,632	265,149	539,483	350,016	100,176	249,840	1,505,547	833,508	672,039
EXPENDITURES	(577,774)	6,709	584,482		7,721	635,241	2,213,151	1,581,056	632,095	7,472,338	5,452,863	2,019,475
OTHER FINANCING SOURCES (USES)												
TURNPIKE AUTHORITY	338	338										
HUMAN RESOURCES	3	3										
MOTION PICTURE RECEIPTS												
TOTAL OTHER FINANCING SOURCES (USES)	341	341										
EXCESS OF REVENUES AND OTHER FINANCING												
SOURCES OVER (UNDER) EXPENDITURES AND												
OTHER FINANCING USES	(57,433)	7,049	(109)		7,721	539,483						
FUND BALANCE AT JULY 1	616,170	616,170			16,629	(9,825)						
NON BUDGETED ITEMS		(109)										
FUND BALANCE AT JUNE 30	\$ 38,737	\$ 623,110	\$ 584,373	\$	\$ 14,835	\$	\$	\$ 777,921	\$	\$	\$ 1,415,556	\$

# DEBT SERVICE FUND

The Debt Service Fund accounts for payment of principal, interest, and administrative fees due on general long-term debt issues of the Commonwealth, and for the accumulation of financial resources used to make such payments.

## COMMONWEALTH OF KENTUCKY BALANCE SHEET DEBT SERVICE FUND JUNE 30, 1996 (Expressed in Thousands)

	June 30, 1996
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 47,229
CASH WITH FINANCIAL INSTITUTIONS	31,974
INVESTMENTS, NET OF AMORTIZATION	266,979
RECEIVABLES, NET	101,874
INTERFUND RECEIVABLES	345
<b>TOTAL ASSETS</b>	<b>\$ 448,001</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
ACCOUNTS PAYABLE	\$ 1,536
INTERFUND PAYABLES	26,822
DEFERRED REVENUE	100,530
<b>TOTAL LIABILITIES</b>	<b>128,888</b>
<b>FUND BALANCE:</b>	
RESERVED FOR:	
REVENUE BOND RETIREMENT	272,319
UNRESERVED:	
DESIGNATED FOR DEBT SERVICE	45,794
<b>TOTAL FUND BALANCE</b>	<b>319,113</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 448,001</b>

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
REVENUES:	
CHARGES FOR SERVICES	\$ 423
INTEREST AND OTHER INVESTMENT INCOME	23,927
OTHER REVENUES	173
TOTAL REVENUES	24,523
EXPENDITURES:	
PRINCIPAL RETIREMENT	217,140
INTEREST AND FISCAL CHARGES	171,564
OTHER EXPENDITURES	3,426
TOTAL EXPENDITURES	392,130
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(367,607)
OTHER FINANCING SOURCES (USES):	
OPERATING TRANSFERS IN - GENERAL FUND	114,306
OPERATING TRANSFERS IN - CAPITAL PROJECTS FUND	25,523
OPERATING TRANSFERS IN - AGENCY REVENUE FUND	64,943
OPERATING TRANSFERS IN - OTHER SPECIAL REVENUE FUND	151,527
OPERATING TRANSFERS IN - STATE FAIR BOARD FUND	371
OPERATING TRANSFERS OUT - GENERAL FUND	(26,566)
OPERATING TRANSFERS OUT - CAPITAL PROJECTS FUND	(1,446)
PROCEEDS FROM SALE OF BONDS	
NEW ISSUES	
REFUNDING ISSUES	1,973
PAYMENTS TO REFUNDED BOND ESCROW AGENT	140,503
TOTAL OTHER FINANCING SOURCES (USES)	(142,039)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	329,092
FUND BALANCE AT JULY 1, AS RESTATED	(38,515)
FUND BALANCE AT JUNE 30	357,528
	\$ 319,113

CAPITAL PROJECTS FUND

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



COMMONWEALTH OF KENTUCKY  
BALANCE SHEET  
CAPITAL PROJECTS FUND  
JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 32,215
INVESTMENTS, NET OF AMORTIZATION	300,673
RECEIVABLES, NET	8,822
INTERFUND RECEIVABLES	3,894
<b>TOTAL ASSETS</b>	<b>\$ 345,604</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES:</b>	
ACCOUNTS PAYABLE	\$ 8,660
INTERFUND PAYABLE	794
DEFERRED REVENUE	16,240
<b>TOTAL LIABILITIES</b>	<b>25,694</b>
<b>FUND BALANCE:</b>	
RESERVED FOR:	37,267
ENCUMBRANCES	121,708
CAPITAL OUTLAY	
UNRESERVED:	
UNDESIGNATED	160,935
<b>TOTAL FUND BALANCE</b>	<b>319,910</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 345,604</b>

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
<b>REVENUES:</b>	
INTERGOVERNMENTAL	\$ 33,517
INTEREST AND OTHER INVESTMENT INCOME	19,817
OTHER REVENUE	2,457
<b>TOTAL REVENUES</b>	<b>\$ 55,791</b>
<b>EXPENDITURES:</b>	
CAPITAL OUTLAY:	
GENERAL GOVERNMENT	15,440
LEGISLATIVE AND JUDICIAL	269
COMMERCE	25,001
EDUCATION AND HUMANITIES	7,846
HUMAN RESOURCES	8,507
JUSTICE	11,220
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	4,461
PUBLIC PROTECTION AND REGULATION	386
TRANSPORTATION	6,383
<b>TOTAL EXPENDITURES</b>	<b>79,245</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(23,454)</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
OPERATING TRANSFERS IN	56,772
OPERATING TRANSFERS OUT	(46,831)
PROCEEDS FROM SALE OF BONDS - NEW ISSUES	155,234
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>165,175</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>141,721</b>
<b>FUND BALANCE AT JULY 1, AS RESTATED</b>	<b>178,189</b>
<b>FUND BALANCE AT JUNE 30</b>	<b>\$ 319,910</b>

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF CONSTRUCTION IN PROGRESS  
CAPITAL PROJECTS FUND - (BUDGETARY BASIS)  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Appropriations		Expenditures		Unexpended Balances
	To Date	Prior Years	Current Year	Total	
GENERAL GOVERNMENT					
REVENUE CABINET	\$ 3,086	\$ 1,607	\$ 909	\$ 2,516	\$ 570
CABINET OF THE GENERAL GOVERNMENT	98,130	27,967	8,219	36,186	61,944
FINANCE AND ADMINISTRATION CABINET	206,796	95,814	13,623	109,437	97,359
CABINET FOR UNIVERSITIES	2,069,128	742,905	61,407	804,312	1,264,816
TOTAL GENERAL GOVERNMENT	2,377,140	868,293	84,158	952,451	1,424,689
LEGISLATIVE AND JUDICIAL					
LEGISLATIVE CABINET	3,524	2,935	269	3,204	320
TOTAL LEGISLATIVE AND JUDICIAL	3,524	2,935	269	3,204	320
COMMERCE					
CABINET FOR ECONOMIC DEVELOPMENT	131,067	46,795	14,541	61,336	69,731
TOURISM CABINET	199,901	30,598	29,190	59,778	140,123
TOTAL COMMERCE	330,968	77,393	43,731	121,114	209,854
EDUCATION AND HUMANITIES					
EDUCATION, ARTS AND HUMANITIES CABINET	56,224	15,970	3,764	19,734	36,490
CABINET FOR WORKFORCE DEVELOPMENT	47,189	37,268	3,609	40,877	6,312
TOTAL EDUCATION AND HUMANITIES	103,413	53,238	7,373	60,611	42,802
HUMAN RESOURCES					
CABINET FOR HUMAN RESOURCES	67,174	29,163	8,212	37,375	29,799
TOTAL HUMAN RESOURCES	67,174	29,163	8,212	37,375	29,799
JUSTICE					
JUSTICE CABINET	85,776	51,500	10,444	61,944	23,832
TOTAL JUSTICE	85,776	51,500	10,444	61,944	23,832
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION					
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	43,881	7,072	4,716	11,788	32,093
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	43,881	7,072	4,716	11,788	32,093
PUBLIC PROTECTION AND REGULATION					
PUBLIC PROTECTION AND REGULATION CABINET	915	733	92	825	90
LABOR CABINET	1,464	1,057	294	1,351	113
TOTAL PUBLIC PROTECTION AND REGULATION	2,379	1,790	386	2,176	203
TRANSPORTATION					
TRANSPORTATION CABINET	34,942	17,865	6,800	24,665	10,277
TOTAL TRANSPORTATION	34,942	17,865	6,800	24,665	10,277
TOTAL PROJECTS	\$ 3,049,197	\$ 1,109,229	\$ 166,069	\$ 1,275,328	\$ 1,773,869

## ENTERPRISE FUNDS

The **Enterprise Funds** - account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of Kentucky and the operation of State agencies that provide goods or services to the general public on a user charge basis. The State enterprise operations are described below.

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

**Kentucky Lottery Corporation** - 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.

**Industries for the Blind Fund** - accounts for revenues earned and expenses incurred in the commercial operations of the Department for the Blind.

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

**Insurance Administration Fund** - accounts for insurance risk pools operated by the State. These include:

**Kentucky Care** - 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 Special Fund** - provides benefits for workers with illnesses which are not attributable to one employer.

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

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

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

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
ENTERPRISE FUNDS  
JUNE 30, 1996  
(Expressed in Thousands)

ASSETS	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1996
CASH AND CASH EQUIVALENTS	\$ 6,242	\$ 17,805	\$ 108	\$ 394	\$ 134,875	\$ 159,524
INVESTMENTS, NET OF AMORTIZATION		31,682	203	329	2,463	34,265
RECEIVABLES, NET	1,407	19,824	22	2	1,870	23,633
INTERFUND RECEIVABLES	114				916	1,044
INTEREST RECEIVABLE	3,649	3,044	204	312	4,992	4,992
PREPAID EXPENSES	16	192		13	19	221
TOTAL CURRENT ASSETS	11,428	72,547	537	1,050	145,335	230,907
OTHER ASSETS						
LONG TERM INVESTMENTS	1,555	273,194	120	15	420,219	695,103
LONG TERM RECEIVABLES		2,312				2,312
TOTAL OTHER ASSETS	1,555	275,506	120	15	420,219	697,415
FIXED ASSETS						
LAND	10,678	423	50	2,354		14,105
IMPROVEMENTS OTHER THAN BUILDINGS	40,677	396	988	13,753		54,916
BUILDINGS	81,195	41,865	223	14,107		96,290
MACHINERY AND EQUIPMENT	17,573	(37,025)	(815)	2,829	4,281	66,851
LESS ACCUMULATED DEPRECIATION	(22,859)			(19,275)	(1,690)	(132,664)
CONSTRUCTION IN PROGRESS	20,044	7,735		285		28,064
TOTAL FIXED ASSETS, NET	98,396	7,994	446	14,758	2,571	123,542
TOTAL ASSETS	\$ 111,381	\$ 355,457	\$ 1,103	\$ 15,798	\$ 568,125	\$ 1,051,864
LIABILITIES AND FUND BALANCE						
CURRENT LIABILITIES:						
ACCOUNTS PAYABLE	\$ 3,518	\$ 6,339	\$ 51	\$ 257	\$ 6,255	\$ 17,020
INTERFUND PAYABLES	441		1	51	5,028	5,521
CLAIMS LIABILITY					178,169	178,169
CLAIMS ADJUSTMENT LIABILITY	106	500		16	7,080	7,080
CAPITAL LEASE OBLIGATIONS						122
LONG-TERM DEBT	17,745	48,543	28	224	823	48,543
DEFERRED REVENUE	6	499	1		562	3,319
TOTAL CURRENT LIABILITIES	\$ 5,816	\$ 56,481	\$ 81	\$ 548	\$ 197,917	\$ 260,843
LONG TERM LIABILITIES:						
CLAIMS LIABILITY					1,397,126	1,397,126
CLAIMS ADJUSTMENT LIABILITY	190			3	62,631	62,855
CAPITAL LEASE OBLIGATIONS	1,886		22	155	457	2,120
COMPENSATED ABSENCES	981	275,684			6,818	283,483
OTHER LIABILITIES	3,667		22	158	1,467,252	1,746,183
TOTAL LONG TERM LIABILITIES	8,885	275,684	103	786	1,685,160	2,070,026
FUND EQUITY						
CONTRIBUTED CAPITAL	49,604			14,203	1	63,808
RETAINED EARNINGS	52,894	23,292	1,000	889	(1,097,045)	(1,018,970)
UNRESERVED	102,886	22,832	1,000	15,092	(1,097,040)	(852,182)
TOTAL FUND EQUITY	111,381	355,457	1,103	15,798	(386,125)	1,051,864
TOTAL LIABILITIES AND FUND EQUITY						

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1996
OPERATING REVENUES:						
CHARGES FOR SERVICES	\$ 41,809	\$	\$ 1,708	\$ 3,877	\$ 282,260	\$ 329,654
INTEREST ON INVESTMENT INCOME		540,845			38,522	582,322
LOTTERY PROCEEDS	854			51	1,858	542,845
OTHER REVENUE	42,650	542,845	1,708	3,928	322,640	913,784
TOTAL OPERATING REVENUES						
OPERATING EXPENSES:						
PERSONAL EXPENSES	37,822	9,286	1,115	3,286	21,960	73,479
UTILITIES, RENTALS AND OTHER SERVICES	9,823	1,121	196	1,012	2,163	14,415
COMMODITIES AND SUPPLIES	31,996	196	945	1,148	573	34,858
GRANTS AND SUBSIDIES	4,311	4,277	40	956	548	10,132
DEPRECIATION AND AMORTIZATION	323	509	3	10		1,347
TRAVEL	73				496,257	496,330
CLAIMS EXPENSE		314,434			5,823	319,454
PRICE EXPENSE		62,470			155	62,625
OTHER EXPENSES	84,448	391,293	2,339	6,422	529,581	1,014,543
TOTAL OPERATING EXPENSES	(41,785)	151,592	(831)	(2,444)	(207,241)	(100,799)
OPERATING INCOME (LOSS)						
NONOPERATING REVENUES (EXPENSES)	(7)			(3)		(12)
GAIN (LOSS) ON SALE OF FIXED ASSETS	40	2,011		1	3,864	5,726
INTEREST AND OTHER INVESTMENT INCOME					60,103	60,103
CHANGE IN ACTUARIAL ESTIMATE	(29)	(48)		(2)		(79)
INTEREST EXPENSE	6					6
OTHER NONOPERATING INCOME (EXPENSES)	15	1,963		(6)	63,187	65,739
TOTAL NONOPERATING REVENUES (EXPENSES)	(41,770)	153,515	(831)	(2,500)	(143,554)	(35,000)
INCOME (LOSS) BEFORE OPERATING TRANSFERS						
OPERATING TRANSFERS IN	40,657	(147,000)	882	1,430	1,230	44,159
OPERATING TRANSFERS OUT	(827)				(4,189)	(3,366)
NET INCOME (LOSS)	(2,060)	6,515	171	(1,070)	(146,433)	(142,937)
ADD DEPRECIATION ON FIXED ASSETS						
INCREASE BY CAPITAL GRANTS	829	6,515	171	892	1	1,547
INCREASE (DECREASE) IN RETAINED EARNINGS	(1,231)			(26)	(146,432)	(144,260)
RETAINED EARNINGS AT JULY 1, AS RESTATED	54,115	16,777	829	1,152	(950,553)	(877,680)
RETAINED EARNINGS AT JUNE 30	\$ 52,894	\$ 23,292	\$ 1,000	\$ 889	\$ (1,097,045)	\$ (1,018,970)

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in thousands)

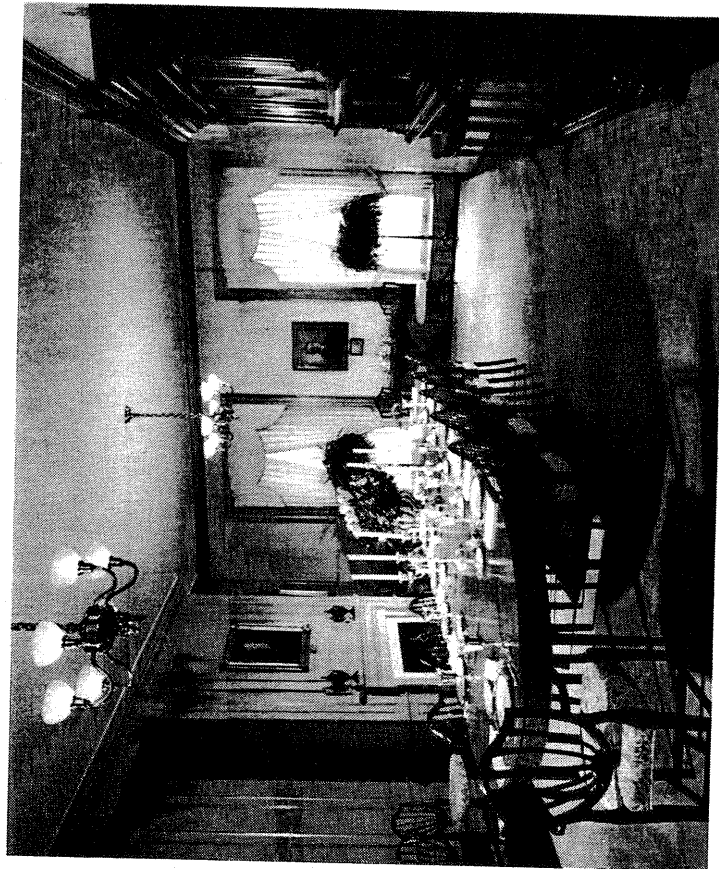
	State Parks	Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 1,170	\$ 542,845	\$ 1,363	\$ 3,791	\$ 290,107	\$ 839,276
CASH RECEIVED FROM CUSTOMERS - STATE	40,144		329	31	1,214	41,778
CASH PAYMENTS FOR SUPPLIES FOR GOODS AND SERVICES	(41,060)	(322,136)	(1,268)	(2,154)	(3,123)	(370,367)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(39,978)	(3,286)	(1,123)	(3,253)	(43,177)	(77,280)
CASH PAYMENTS FOR CLAIMS EXPENSE	854			51	(288,253)	(288,269)
CASH PAYMENTS (TO) FROM OTHER SOURCES	(39,505)	211,423	(699)	(1,534)	(5,483)	140,530
NET CASH PROVIDED BY OPERATING ACTIVITIES						
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
NONOPERATING FEES		349				349
OPERATING TRANSFERS IN FROM OTHER FUNDS	40,637		882	1,430	15,048	57,977
OPERATING TRANSFERS OUT TO OTHER FUNDS	(827)	(147,000)			(7,169)	(155,096)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES						
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(636)	(3,993)			(822)	(5,451)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS		(2,000)			(2,000)	(2,000)
INTEREST PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS		(48)				(48)
PROCEEDS FROM SALE OF EQUIPMENT	(7)	339		(9)		327
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES						
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
PURCHASE OF INVESTMENT SECURITIES		(83,526)	(90)		(1,030,727)	(1,114,343)
PROCEEDS FROM SALE OF INVESTMENT SECURITIES	12,573	24,692		101	1,042,225	1,079,591
INTEREST AND DIVIDENDS ON INVESTMENTS	13,156	1,323	(90)	101	28,503	34,826
NET CASH USED IN INVESTING ACTIVITIES						
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>\$ 15,890</b>	<b>\$ 17,889</b>	<b>\$ 108</b>	<b>\$ 394</b>	<b>\$ 124,975</b>	<b>\$ 159,524</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 6,242</b>	<b>\$ 17,889</b>	<b>\$ 108</b>	<b>\$ 394</b>	<b>\$ 124,975</b>	<b>\$ 159,524</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>						
OPERATING INCOME (LOSS)	\$ (41,759)	\$ 151,552	\$ (691)	\$ (2,494)	\$ (207,341)	\$ (100,759)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
DEPRECIATION AND AMORTIZATION	4,311	4,277	40	956	548	10,132
INTEREST AND OTHER INVESTMENT INCOME	16			(6)	(39,028)	(39,028)
MISCELLANEOUS NONOPERATING INCOME (EXPENSE)					60,103	60,113
CHANGE IN ASSETS AND LIABILITIES:						
(INCREASE) DECREASE IN RECEIVABLES, NET	(1,021)	(3,481)	(33)	(47)	1,358	(3,224)
(INCREASE) DECREASE IN INTERFUND RECEIVABLES	128		16	4	(45)	103
(INCREASE) DECREASE IN INVENTORIES	139	(779)	(10)	(12)	28	(630)
(INCREASE) DECREASE IN PREPAID EXPENSES	(3)	(50)		7		(46)
(INCREASE) DECREASE IN OTHER ASSETS	789	59,602	(14)	34	(11,618)	48,728
(INCREASE) DECREASE IN ACCOUNTS PAYABLE	(44)		(3)	(1)	1,936	1,888
(INCREASE) DECREASE IN INTERIM PAYABLE					163,528	163,528
(INCREASE) DECREASE IN CLAIMS LIABILITY					6,927	6,927
(INCREASE) DECREASE IN OTHER DEFERRED ASSETS	122	174	(5)	52	9	353
(INCREASE) DECREASE IN OTHER LIABILITIES	57			(16)		41
(INCREASE) DECREASE IN DEFERRED REVENUE	(2,214)		1	(12)	(5,559)	(7,753)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<b>\$ (39,505)</b>	<b>\$ 211,423</b>	<b>\$ (699)</b>	<b>\$ (1,534)</b>	<b>\$ (281,195)</b>	<b>\$ 140,530</b>

THROUGH CONTRIBUTED CAPITAL, STATE PARKS AND HORSE PARK ACQUIRED FIXED ASSETS COSTING \$18,730,000 AND \$303,000, RESPECTIVELY. PRIDE LIABILITY TOTALLED APPROXIMATELY \$16,550,000 FOR THE YEAR.

FOR THE LOTTERY CORPORATION, THE ACCRETION OF INTEREST ON GRAND PRIZE INVESTMENTS, WHICH ALSO INCREASED THE ESTIMATED PRIDE LIABILITY, TOTALLED APPROXIMATELY \$16,550,000 FOR THE YEAR.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	State Parks			Industries For The Blind			Horse Park			Insurance Administration			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES:															
LICENSES, FEES, AND PERMITS	\$	2	\$	\$			\$	159	\$	\$	160	\$	\$		
CHARGES FOR SERVICES		38,425			3,836			137,415			181,375			803	
FINES AND FORFEITS		5			1			797			6,512			23,095	
INTEREST AND OTHER INVESTMENT		43						40,784			40,784			250,452	
INCOME		875			48			248,785			250,452				
OTHER REVENUES															
TRANSFERS IN (INTERFUND)		667													
TRANSFERS IN (INTRA-FUND)															
TOTAL REVENUES		40,017			1,699			3,855			457,543			503,144	
EXPENSES:															
GENERAL GOVERNMENT															
OFFICE OF THE ATTORNEY GENERAL															
PERSONNEL CABINET															
COMMERCE	43,034	39,394	3,640	1,786	1,526	260	4,026	4,009	17	6,476	3,754	2,722	6,476	3,754	2,722
EDUCATION AND HUMANITIES										1,316	1,262	54	1,316	1,262	54
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION													47,060	43,403	3,657
PETROLEUM STORAGE TANK										1,786	1,526	260	1,786	1,526	260
ENVIRONMENTAL ASSURANCE FUND															
DEPARTMENT FOR SURFACE MINING															
REGULATION AND ENFORCEMENT															
PUBLIC PROTECTION AND REGULATION															
SECRETARY'S OFFICE															
DEPARTMENT OF INSURANCE															
LABOR CABINET															
KENTUCKY OCCUPATIONAL SAFETY & HEALTH REVIEW COMMISSION															
DEPARTMENT OF WORKPLACE STANDARDS															
DEPARTMENT OF WORKERS CLAIMS															
WORKERS COMPENSATION FUNDING COMMISSION															
TOTAL EXPENSES	43,034	39,394	3,640	1,786	1,526	260	4,026	4,009	17	185,150	158,477	26,673	185,150	158,477	26,673
EXCESS OF REVENUES OVER (UNDER) EXPENSES		623			173			(124)			126,547			127,219	
FUND BALANCE-FUND EQUITY AT JULY 1		87,580			591			15,976			118,018			222,165	
NON-BUDGETED ITEMS		(983)									(98,641)			(99,544)	
FUND BALANCE-FUND EQUITY AT JUNE 30	\$	\$ 87,300	\$	\$	\$ 764	\$	\$	\$ 15,852	\$	\$	\$ 145,924	\$	\$	\$ 249,840	\$



The formal State Dining Room was originally two rooms when the mansion was finished in 1798. The two chandeliers in this picture originally hung in the new State Capitol.

## INTERNAL SERVICE FUNDS

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

**Computer Services Fund** - accounts for expenses incurred and reimbursements received by the Department of Information Systems for computer and related data processing services.

**Central Stores Fund** - accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Central Stores operation.

**Telecommunications Fund** - accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Division of Telecommunications for Kentucky Emergency Warning System, telephone, and other communication services.

**Prison Industries Fund** - accounts for expenses incurred and reimbursements received by the Correction Cabinet's industrial prison operations.

**Central Printing Fund** - accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Division of Printing.

**Property Management Fund** - accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's space rental and maintenance operation.

**Risk Management Fund** - accounts for the self insurance operations of the State which include:

**Fire and Tornado Insurance Program** - accounts for monies received by the Department of Insurance from State agencies and expended for insuring State property against loss from fires, tornadoes, etc.

**State Workers' Compensation Program** - accounts for monies received by the Department of Personnel from State agencies and expended for claims for job related injuries to State employees.

**Transportation Cabinet's Self-Insured Workers' Compensation Trust Program** - provides workers' compensation insurance for the employees of the Transportation Cabinet.

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
INTERNAL SERVICE FUNDS  
JUNE 30, 1996  
(Expressed in Thousands)

ASSETS	Computer Services	Central Stores	Telecommunications	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1996
<b>CURRENT ASSETS:</b>								
CASH AND CASH EQUIVALENTS	336	318	964	985	193	1,667	10,430	14,693
RECEIVABLES, NET	109	8	1,188	214	37	1,625	1,625	2,148
INTERFUND RECEIVABLES	2,048	6	5	2,920	554	698	60	7,484
INVENTORIES	30	1,345	3	2,927	379	259		4,945
PREPAID EXPENSES	145					59	612	816
TOTAL CURRENT ASSETS	2,668	1,677	2,307	7,046	1,163	2,698	12,727	30,286
<b>OTHER ASSETS:</b>								
LONG-TERM INVESTMENTS	351	135	388	408	73	1,001	8,536	10,892
TOTAL OTHER ASSETS	351	135	388	408	73	1,001	8,536	10,892
<b>FIXED ASSETS:</b>								
LAND		40	356	768		176		984
IMPROVEMENTS OTHER THAN BUILDINGS		3	1,559	2,475		11		370
BUILDINGS	5,360	530	15,844	5,185	2,417	2,086	35	10,676
MACHINERY AND EQUIPMENT	49,934	153	(16,507)	(4,832)	(1,690)		(15)	75,824
LESS: ACCUMULATED DEPRECIATION	(44,282)	(520)	1,252	3,596	727	1,660	22	(69,189)
TOTAL FIXED ASSETS, NET	11,002	206	3,947	11,050	1,963	5,359	21,285	18,465
TOTAL ASSETS	14,021	2,018	3,947	11,050	1,963	5,359	21,285	59,643
<b>LIABILITIES AND FUND EQUITY</b>								
<b>LIABILITIES:</b>								
CURRENT LIABILITIES:								
ACCOUNTS PAYABLE	1,851	237	1,099	498	174	524	1,133	5,516
INTERFUND PAYABLES	588	3	421	376	34	178	2,034	3,634
CLAIMS LIABILITY			5		75		14,603	14,603
CAPITAL LEASE OBLIGATIONS	3,251	54	179	142	135	509	13	3,331
COMPENSATED ABSENCES	1,399		3	40	1	5	34	2,631
DEFERRED REVENUE	159							243
TOTAL CURRENT LIABILITIES	7,448	295	1,707	1,056	419	1,216	17,817	29,958
LONG-TERM LIABILITIES:								
CLAIMS LIABILITY			1		137		54,666	54,666
CAPITAL LEASE OBLIGATIONS	2,847		123	115	93	476		2,985
COMPENSATED ABSENCES	1,505	5	124	115	230	476		2,317
TOTAL LONG-TERM LIABILITIES	4,352	5	1,831	1,171	649	1,892		59,968
TOTAL LIABILITIES	11,800	300	1,831	1,171	649	1,892	72,483	89,926
<b>FUND EQUITY:</b>								
CONTRIBUTED CAPITAL				327		431		758
RETAINED EARNINGS:								
UNRESERVED	2,221	1,718	2,116	9,552	1,314	3,236	(51,190)	(31,041)
TOTAL FUND EQUITY	2,221	1,718	2,116	9,879	1,314	3,667	(51,190)	(30,282)
TOTAL LIABILITIES AND FUND EQUITY	14,021	2,018	3,947	11,050	1,963	5,359	21,285	59,643

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**INTERNAL SERVICE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 1996**  
(Expressed in Thousands)

	Computer Services	Central Stores	Telecom- munications	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1996
<b>OPERATING REVENUES:</b>								
CHARGES FOR SERVICES	\$ 35,122	\$ 9,633	\$ 8,853	\$ 10,395	\$ 4,534	\$ 15,296	\$ 25,246	\$ 109,084
OTHER REVENUE	32			416		51	442	941
TOTAL OPERATING REVENUE	<u>35,154</u>	<u>9,633</u>	<u>8,853</u>	<u>10,811</u>	<u>4,534</u>	<u>15,347</u>	<u>25,688</u>	<u>110,025</u>
<b>OPERATING EXPENSES:</b>								
PERSONAL SERVICES	18,371	487	2,557	2,392	1,960	9,350	1,370	36,487
UTILITIES, RENTALS, AND OTHER SERVICES	3,954	277	6,699	769	960	6,910	1,195	20,764
COMMODITIES AND SUPPLIES	6,642	8,683	714	5,368	1,536	1,798	34	24,775
GRANTS AND SUBSIDIES				667		1		668
DEPRECIATION AND AMORTIZATION	4,559	27	315	343	203	292	7	5,746
TRAVEL	102		10	42	2	35	17	208
REINSURANCE EXPENSE							888	888
CLAIMS EXPENSE				12			27,697	27,711
TOTAL OPERATING EXPENSES	<u>33,630</u>	<u>9,474</u>	<u>10,295</u>	<u>9,593</u>	<u>4,651</u>	<u>18,386</u>	<u>31,208</u>	<u>117,247</u>
OPERATING INCOME (LOSS)	<u>1,524</u>	<u>159</u>	<u>(1,437)</u>	<u>1,218</u>	<u>(127)</u>	<u>(3,039)</u>	<u>(5,520)</u>	<u>(7,222)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>								
GAIN (LOSS) ON SALE OF FIXED ASSETS	(24)		(1)	(5)	(70)	(74)		(174)
INTEREST AND OTHER INVESTMENT INCOME	1		(1)	2		1		4
INTEREST EXPENSE	(310)		(2)	(3)	(20)	(73)		(331)
TOTAL NONOPERATING REVENUES AND EXPENSES	<u>(333)</u>		<u>(2)</u>	<u>(3)</u>	<u>(90)</u>	<u>(73)</u>		<u>(501)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,191	159	(1,439)	1,215	(217)	(3,112)	(5,520)	(7,723)
OPERATING TRANSFERS IN	56		300			2,602	407	3,365
OPERATING TRANSFERS OUT	(446)		(17)	(654)		(13)	(2,493)	(3,621)
NET INCOME (LOSS)	803	159	(1,156)	561	(217)	(523)	(7,606)	(7,978)
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL GRANTS				43		27		70
INCREASE (DECREASE) IN RETAINED EARNINGS	803	159	(1,156)	604	(217)	(496)	(7,606)	(7,908)
RETAINED EARNINGS AT JULY 1	1,418	1,559	3,272	8,948	1,531	3,732	(43,592)	(23,132)
RETAINED EARNINGS AT JUNE 30	<u>2,221</u>	<u>1,718</u>	<u>2,116</u>	<u>9,552</u>	<u>1,314</u>	<u>3,236</u>	<u>(51,198)</u>	<u>(31,041)</u>



COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Computer Services	Central Stores	Telecom- munications	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 37	\$ 9,624	\$ 2	\$ 10,105	\$ 4,433	\$ 129	\$ 23,186	\$ 33,459
CASH RECEIVED FROM CUSTOMERS - STATE	35,346	(9,248)	8,971	480	(2,442)	15,406	(2,544)	74,280
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(19,915)	(487)	(7,090)	(8,010)	(1,963)	(8,243)	(1,111)	(48,462)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(18,961)		(2,522)	(2,425)		(9,197)	(17,023)	(32,086)
CASH PAYMENTS FOR CLAIMS EXPENSES	(2)			(10)				(17,023)
CASH PAYMENTS FOR OTHER EXPENSES	32					(23)		9
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,137	(111)	(639)	140	28	(2,928)	2,508	5,135
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>								
OPERATING TRANSFERS IN FROM OTHER FUNDS	56		300			2,882	407	3,565
OPERATING TRANSFERS OUT TO OTHER FUNDS	(444)		(17)	(382)		(2,13)	(2,482)	(3,546)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(388)		283	(382)		2,969	(2,085)	17
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>								
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(1,294)		(114)	(384)	(227)	(214)	(1)	(2,144)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(4,011)			272	(153)	4		(4,104)
PROCEEDS FROM SALE OF EQUIPMENT	(24)		(114)	(112)	(380)	(210)	(1)	(232)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(5,239)							(6,056)
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>								
PURCHASE OF INVESTMENT SECURITIES	(351)	(45)	(93)	(130)	7	(276)	(4,046)	(4,941)
INTEREST AND DIVIDENDS ON INVESTMENTS	1	(45)	(93)	15		(276)	440	463
NET CASH USED IN INVESTING ACTIVITIES	(350)			(115)			(3,605)	(4,478)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	160	(156)	(563)	(469)	(345)	(829)	(3,194)	(5,382)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	176	474	1,527	1,454	538	2,482	13,614	20,275
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 336	\$ 318	\$ 964	\$ 985	\$ 193	\$ 1,657	\$ 10,420	\$ 14,893
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>								
<b>PROVIDED BY OPERATING INCOME TO NET CASH</b>	\$ 1,524	\$ 159	\$ (1,437)	\$ 946	\$ (127)	\$ (3,039)	\$ (5,520)	\$ (7,494)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:								
DEPRECIATION AND AMORTIZATION	4,559	27	315	343	203	282	7	5,746
INTEREST ON REVENUE BOND MATURITIES	(333)		(2)	(2)		1	(440)	(335)
CHANGE IN ASSETS AND LIABILITIES:								
(INCREASE) DECREASE IN RECEIVABLES, NET	(106)	(1)	(127)	14	(32)	6	266	20
(INCREASE) DECREASE IN INTERFUND RECEIVABLES	447	(6)	249	(297)	(67)	53	(54)	325
(INCREASE) DECREASE IN INVENTORIES	59	(147)	363	(436)	8	99	(12)	(54)
(INCREASE) DECREASE IN PREPAID EXPENSES	(69)	(124)	338	(414)	14	(284)	(392)	(143)
(INCREASE) DECREASE IN ACCOUNTS PAYABLE	90	(17)	(376)	(16)	32	(178)	(744)	(1,209)
(INCREASE) DECREASE IN CLAIMS LIABILITY	112	(2)	45	9	(1)	148	8,617	8,617
(INCREASE) DECREASE IN DEFERRED REVENUE	(80)	(111)	(7)	(7)	(2)	(12)	(5)	308
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,137	\$ (111)	\$ (639)	\$ 140	\$ 28	\$ (2,928)	\$ 2,508	\$ 5,135

THROUGH CONTRIBUTED CAPITAL, PROPERTY MANAGEMENT ACQUIRED ASSETS COSTING \$60,000, THROUGH CAPITAL LEASES COMPUTER SERVICES, ACQUIRED FIXED ASSETS COSTING \$3,044,000, WITH PRINCIPAL AND INTEREST PAYMENTS OF \$533,000 AND \$15,000, RESPECTIVELY.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED INTERNAL SERVICE FUNDS  
(Expressed in Thousands)

	Budget	Actual	Variance
<b>GENERAL GOVERNMENT - COMPUTER SERVICES</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 35,039	\$
OTHER REVENUES		32	
TRANSFERS IN (INTERFUND)		56	
TOTAL REVENUES		35,127	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	34,723	34,607	116
FUND EQUITY AT JULY 1		520	
NON-BUDGETED ITEMS		13,918	
FUND EQUITY AT JUNE 30		(444)	
<b>GENERAL GOVERNMENT - CENTRAL STORES</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 9,632	\$
TOTAL REVENUES		9,632	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	10,029	9,736	293
FUND EQUITY AT JULY 1		(104)	
NON-BUDGETED ITEMS		814	
FUND EQUITY AT JUNE 30		3	
<b>GENERAL GOVERNMENT - TELECOMMUNICATIONS</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 8,857	\$
TRANSFER IN (INTERFUND)		300	
TOTAL REVENUES		9,157	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	9,706	9,625	81
FUND EQUITY AT JULY 1		(468)	
FUND EQUITY AT JUNE 30		3,405	
<b>JUSTICE - PRISON INDUSTRIES</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 10,107	\$
INTEREST AND OTHER INVESTMENT INCOME		1	
OTHER REVENUES		417	
TOTAL REVENUES		10,525	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	10,888	10,581	317
FUND EQUITY AT JULY 1		(66)	
FUND EQUITY AT JUNE 30		7,278	

	Budget	Actual	Variance
<b>GENERAL GOVERNMENT - CENTRAL PRINTING</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 4,929	\$
TOTAL REVENUES		4,929	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	5,217	4,710	507
FUND EQUITY AT JULY 1		(181)	
FUND EQUITY AT JUNE 30		1,839	
<b>GENERAL GOVERNMENT - PROPERTY MANAGEMENT</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 15,333	\$
INTERGOVERNMENTAL REVENUES		1	
OTHER REVENUES		53	
TOTAL REVENUES		15,387	
EXPENSES			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	15,588	15,511	78
FUND EQUITY AT JULY 1		(132)	
NON-BUDGETED ITEMS		4,215	
FUND EQUITY AT JUNE 30		(193)	
<b>GENERAL GOVERNMENT - RISK MANAGEMENT</b>			
REVENUES:			
LICENSES, FEES AND PERMITS	\$	\$ 274	\$
CHARGES FOR SERVICES		14,196	
INTEREST AND INVESTMENT INCOME		451	
OTHER REVENUES		4,827	
TRANSFERS IN (INTERFUND)		407	
TOTAL REVENUES		20,155	
EXPENSES			
PERSONNEL CABINET			
DEPARTMENT OF INSURANCE	15,305	12,443	2,862
TOTAL EXPENSES	490	423	67
EXCESS OF REVENUES OVER (UNDER) EXPENSES	15,815	12,865	2,949
FUND EQUITY AT JULY 1		7,289	
NON-BUDGETED ITEMS		14,484	
FUND EQUITY AT JUNE 30		(5,277)	
<b>TOTALS</b>			
REVENUES:			
LICENSES, FEES AND PERMITS	\$	\$ 274	\$
CHARGES FOR SERVICES		97,883	
INTERGOVERNMENTAL REVENUES		1	
INTEREST AND OTHER INVESTMENT INCOME		450	
OTHER REVENUES		5,329	
TRANSFERS IN		733	
TOTAL REVENUES		104,512	
EXPENSES			
GENERAL GOVERNMENT			
JUSTICE	90,589	86,632	3,957
PUBLIC PROTECTION AND REGULATION	10,898	10,581	317
TOTAL EXPENSES	490	423	67
EXCESS OF REVENUES OVER (UNDER) EXPENSES	101,877	97,836	4,041
FUND EQUITY AT JULY 1		6,876	
NON-BUDGETED ITEMS		45,953	
FUND EQUITY AT JUNE 30		(5,731)	

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## TRUST AND AGENCY FUNDS

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Kentucky utilizes four types of **Trust and Agency Funds** to account for assets held as trustee or agent for individuals, private organizations, or other governments as follows:

**Expendable Trust Funds** account for assets held by the Commonwealth as a legal trustee when both principal and interest may be expended for designated purposes. Kentucky uses the following Expendable Trust Funds:

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

*Special Benefits Fund* - accounts for other fiduciary monies to be expended only for designated operations.

**Pension Trust Funds** account for monies received for and expenses incurred by the various public employee retirement systems administered by the State. Kentucky uses the following Pension Trust Funds:

*Kentucky Employees Retirement System Fund* - accounts for revenues and expenses of the retirement system which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the system.

*State Police Retirement System Fund* - accounts for revenues and expenses of the retirement system which covers substantially all regular full-time officers of the Kentucky State Police.

*County Employees Retirement System Fund* - accounts for revenues and expenses of the retirement system that covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

*Kentucky Retirement System Insurance Fund* - accounts for accident and health insurance benefits for members of the Kentucky Employees, State Police and County Employees Retirement Systems.

*Teachers' Retirement System Fund* - accounts for revenues and expenses of the retirement system which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

*Judicial Retirement System Fund* - accounts for revenues and expenses of the retirement system that covers all District Judges, Circuit Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

*Legislators' Retirement System Fund* - accounts for revenues and expenses of the retirement system that covers all members of the General Assembly.

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

*Kentucky Public Employees Deferred Compensation System* - accounts for deferred portions of eligible Commonwealth, county, and local school district employees' salaries withheld and remitted to either of two independently administered plans created in accordance with Internal Revenue Code Section 401(k) or 457.

*Kentucky Health Purchasing Alliance* - accounts for insurance premiums collected from various state and local government units through a third party administrator.

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

*County Sinking Fund* - accounts for monies generated through the sale of bonds for specific uses by the counties.

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

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
ALL TRUST AND AGENCY FUNDS  
JUNE 30, 1996  
(Expressed in Thousands)

	Expendable Trust Funds				Agency Funds						Totals June 30, 1996
	Unemployment Compensation	Special Benefits	Pension Trust		Deferred Compensation	Kentucky Health Purchasing Alliance	Commonwealth Choice Program	County Sinking Fund	Special Deposit Trust		
ASSETS											
CASH AND CASH EQUIVALENTS	\$ 694	\$ 34,593	\$ 1,615,799		\$ 1,045	\$ 16,671	\$ 479	\$ 48	\$ 132,115	\$	1,764,294
CASH WITH FISCAL AGENTS	485,612				332,741			283			17,433
CASH ON DEPOSIT WITH FEDERAL GOVERNMENT			13,222,142		992			21	58,445		485,612
INVESTMENTS, NET OF AMORTIZATION	28,336	83,347	220,299						551		13,696,696
RECEIVABLES, NET	1,745	10,778	230						307		251,726
INTERFUND RECEIVABLES			2,821								12,830
PREPAID EXPENSES											230
BUILDINGS											
TOTAL ASSETS	\$ 516,387	\$ 139,266	\$ 15,061,291		\$ 334,778	\$ 16,671	\$ 479	\$ 352	\$ 191,418	\$	16,251,642
LIABILITIES AND FUND EQUITY											
LIABILITIES											
ACCOUNTS PAYABLE	\$ 52,311	\$ 1,144	\$ 370,277		\$ 35	\$	\$	\$	\$	\$	423,67
INTERFUND PAYABLES		2,323			334,743	16,671	479	382	816		3,139
AMOUNTS HELD IN CUSTODY FOR OTHERS	26,726	635	40						190,602		542,47
DEFERRED REVENUE											27,401
OTHER LIABILITIES	79,037	4,102	370,814		334,778	16,671	479	382	191,418		997,651
TOTAL LIABILITIES											
FUND EQUITY											
FUND BALANCE											
RESERVED FOR											
EMPLOYEE RETIREMENT SYSTEMS			14,308,257								14,308,257
RETIREE'S HEALTH INSURANCE			382,220								382,220
UNRESERVED											
UNDESIGNATED	437,250	128,164									565,414
TOTAL FUND EQUITY	437,250	128,164	14,690,477								15,253,991
TOTAL LIABILITIES AND FUND EQUITY	\$ 516,387	\$ 130,266	\$ 15,061,291		\$ 334,778	\$ 16,671	\$ 479	\$ 352	\$ 191,418	\$	16,251,642

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
PENSION TRUST FUNDS  
JUNE 30, 1996  
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System	Kentucky Retirement System Insurance	Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Totals June 30, 1996
<b>ASSETS</b>								
CURRENT ASSETS:								
CASH AND CASH EQUIVALENTS	\$ 402,025	\$ 18,928	\$ 491,817	\$ 69,592	\$ 633,446	\$ 147,011	\$ 1	\$ 1,816,799
INVESTMENTS, NET OF AMORTIZATION	3,405,124	249,217	2,720,073	316,694	6,345,915	938	38,218	13,222,142
ACCUMULATED INVESTMENT INCOME	40,455	2,863	29,137	3,274	54,057	43	232	130,956
RECEIVABLES, NET	14,298	649	34,055	7,898	32,410			89,343
PREPAID EXPENSES					2,821			2,821
BUILDINGS								
<b>TOTAL ASSETS</b>	<b>\$ 3,861,902</b>	<b>\$ 271,657</b>	<b>\$ 3,275,082</b>	<b>\$ 397,428</b>	<b>\$ 7,068,779</b>	<b>\$ 147,992</b>	<b>\$ 38,451</b>	<b>\$ 15,061,291</b>
<b>LIABILITIES AND FUND EQUITY</b>								
LIABILITIES:								
ACCOUNTS PAYABLE	\$ 204,455	\$ 13,858	\$ 123,408	\$ 15,208	\$ 13,348	\$	\$	\$ 370,277
DEFERRED REVENUE					40			40
OTHER LIABILITIES	204,455	13,858	123,408	15,208	13,895			497
<b>TOTAL LIABILITIES</b>	<b>204,455</b>	<b>13,858</b>	<b>123,408</b>	<b>15,208</b>	<b>13,895</b>			<b>370,814</b>
FUND EQUITY:								
RESERVED FOR:								
EMPLOYEE RETIREMENT BENEFITS	3,657,447	257,799	3,151,674	382,220	7,054,894	147,992	38,451	14,306,257
RETIREES' HEALTH INSURANCE	3,657,447	257,799	3,151,674	382,220	7,054,894	147,992	38,451	14,306,257
<b>TOTAL FUND EQUITY</b>	<b>3,657,447</b>	<b>257,799</b>	<b>3,151,674</b>	<b>382,220</b>	<b>7,054,894</b>	<b>147,992</b>	<b>38,451</b>	<b>14,306,257</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 3,861,902</b>	<b>\$ 271,657</b>	<b>\$ 3,275,082</b>	<b>\$ 397,428</b>	<b>\$ 7,068,779</b>	<b>\$ 147,992</b>	<b>\$ 38,451</b>	<b>\$ 15,061,291</b>

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
EXPENDABLE TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Unemployment Compensation	Special Benefits	Totals June 30, 1996
REVENUES:			
TAXES	\$ 231,053	\$ 90	\$ 231,143
LICENSES, FEES, AND PERMITS	791	791	1,582
INTERGOVERNMENTAL	15,473	1,813	17,286
CHARGES FOR SERVICES	14	2	16
INTEREST AND OTHER INVESTMENT INCOME	32,888	5,296	37,984
OTHER REVENUES	5,131	5,131	10,262
TOTAL REVENUES	279,228	13,123	292,351
EXPENDITURES:			
GENERAL GOVERNMENT		13,496	13,496
LEGISLATIVE AND JUDICIAL		42	42
COMMERCE		9	9
EDUCATION AND HUMANITIES	255,333	10,381	265,714
HUMAN RESOURCES		2,160	2,160
PUBLIC PROTECTION AND REGULATION		2	2
TOTAL EXPENDITURES	255,333	26,090	281,423
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	23,895	(12,967)	10,928
OTHER FINANCING SOURCES (USES):			
OPERATING TRANSFERS IN	1,742	50,691	52,433
OPERATING TRANSFERS OUT	(1,340)	(13,503)	(14,843)
TOTAL OTHER FINANCING SOURCES (USES)	402	37,178	37,580
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	24,297	24,211	48,508
FUND BALANCE AT JULY 1	413,053	101,953	515,006
FUND BALANCE AT JUNE 30	\$ 437,350	\$ 126,164	\$ 563,514

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND EQUITY  
PENSION TRUST FUND - KENTUCKY TEACHERS' RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Teachers' Retirement System
OPERATING REVENUES:	
CONTRIBUTIONS	\$ 509,002
INTEREST AND OTHER INVESTMENT INCOME	778,807
TOTAL OPERATING REVENUES	1,287,809
OPERATING EXPENSES:	
ADMINISTRATIVE EXPENSES	6,589
DEPRECIATION AND AMORTIZATION	61,607
BENEFITS	388,760
REFUND OF CONTRIBUTIONS	8,418
OTHER EXPENSES	220
TOTAL OPERATING EXPENSES	465,394
NET INCOME (LOSS)	819,215
FUND EQUITY AT JULY 1	6,235,679
FUND EQUITY AT JUNE 30	\$ 7,054,894

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CHANGES IN PLAN ASSETS  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System	Kentucky Retirement System Insurance	Judicial Retirement System	Legislators' Retirement System	Totals June 30, 1996
<b>Additions:</b>							
Contributions:							
Employer	\$ 113,717	\$ 7,089	\$ 131,612	\$ 84,811	\$ 4,203	\$ 1,490	\$ 342,932
Member	68,933	2,457	72,558		958	161	145,068
Total contributions	182,650	9,546	204,170	84,811	5,162	1,651	488,020
					227	74	301
Appropriations for Administrative Expense							
Investment Income							
Net Appreciation (Depreciation) in Fair Value	1,043,006	80,696	889,766	34,996	37,362	8,937	2,104,813
Interest	86,293	5,803	58,250	16,800	3,914	1,006	171,876
Dividends	46,942	3,531	44,759	2,284	1,718	406	98,640
Income - Real Estate	10,484	713	8,949	616			20,752
Total Investment Income	1,186,725	90,743	1,011,734	54,496	42,984	10,359	2,297,081
Less: Investment Expense	12,830	886	10,628	2,107	105	10	28,748
Net Investment Income	1,173,895	89,857	1,000,906	52,389	42,889	10,349	2,270,343
Total Additions	1,356,545	99,421	1,205,076	137,230	48,278	12,114	2,958,664
<b>Deductions:</b>							
Benefit Payments	158,407	13,711	109,081	35,521	5,333	1,279	323,392
Refunds	7,485	31	8,945		237	7	16,705
Administrative Expense	2,284	44	3,217		121	64	5,730
Other Deductions (Net)	42,623	4,606	37,622		37	169	85,057
Total Deductions	210,799	18,392	158,865	35,521	5,728	1,519	430,824
Net Increase	1,145,746	81,029	1,046,211	101,709	42,550	10,595	2,427,840
<b>Net Assets Held in Trust for Pension Benefits</b>							
Beginning of Year	2,542,688	180,383	2,122,907	273,946	105,122	27,823	5,232,869
Adjustments to Net Assets	(30,987)	(3,613)	(17,444)	6,855	320	33	(43,139)
End of Year	\$ 3,557,447	\$ 287,799	\$ 3,151,674	\$ 382,220	\$ 147,792	\$ 38,451	\$ 7,035,383

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**ALL AGENCY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 1996**  
(Essayed in Thousands)

	Balance		Balance	
	July 1, 1995	July 1, 1995	June 30, 1996	June 30, 1996
<b>KENTUCKY PUBLIC EMPLOYEES DEFERRED COMPENSATION SYSTEM</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 781	\$ 348	\$ 84	\$ 1,045
CONTRIBUTIONS RECEIVABLE	301,732	217	50,343	982
INVESTMENTS	300,288	81,352	50,427	332,741
TOTAL ASSETS	<u>\$ 603,299</u>	<u>\$ 115,917</u>	<u>\$ 101,654</u>	<u>\$ 364,768</u>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE	\$ 36	\$ 35	\$ 36	\$ 35
AMOUNTS HELD IN CUSTODY FOR OTHERS	300,292	81,400	49,908	334,743
TOTAL LIABILITIES	<u>\$ 300,288</u>	<u>\$ 81,435</u>	<u>\$ 49,944</u>	<u>\$ 334,778</u>
<b>KENTUCKY HEALTH PURCHASING ALLIANCE</b>				
<b>ASSETS</b>				
CASH WITH FISCAL AGENTS	\$ 230,609	\$ 213,938	\$ 213,938	\$ 16,671
AMOUNTS HELD IN CUSTODY FOR OTHERS	230,609	213,938	213,938	16,671
TOTAL ASSETS	<u>\$ 461,218</u>	<u>\$ 427,876</u>	<u>\$ 427,876</u>	<u>\$ 33,342</u>
<b>COMMONWEALTH CHOICE PROGRAM</b>				
<b>ASSETS</b>				
CASH WITH FISCAL AGENTS	\$ 210	\$ 6,175	\$ 5,906	\$ 479
AMOUNTS HELD IN CUSTODY FOR OTHERS	210	6,175	5,906	479
TOTAL ASSETS	<u>\$ 420</u>	<u>\$ 12,350</u>	<u>\$ 11,812</u>	<u>\$ 958</u>
<b>COUNTY SINKING FUND</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 94	\$ 482	\$ 498	\$ 48
CASH WITH FISCAL AGENTS	413	283	413	283
INVESTMENTS	19	21	112	21
TOTAL ASSETS	<u>\$ 626</u>	<u>\$ 786</u>	<u>\$ 624</u>	<u>\$ 352</u>
<b>LIABILITIES</b>				
AMOUNTS HELD IN CUSTODY FOR OTHERS	\$ 526	\$ 624	\$ 798	\$ 352
TOTAL LIABILITIES	<u>\$ 526</u>	<u>\$ 624</u>	<u>\$ 798</u>	<u>\$ 352</u>

	Balance		Balance	
	July 1, 1995	July 1, 1995	June 30, 1996	June 30, 1996
<b>SPECIAL DEPOSIT TRUST FUND</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 106,754	\$ 1,643,078	\$ 1,617,717	\$ 132,115
CONTRIBUTIONS RECEIVABLE	1,002	531	1,002	551
INVESTMENTS	45,846	78,307	65,900	58,445
DUE FROM OTHER FUNDS	152	307	152	307
TOTAL ASSETS	<u>\$ 153,754</u>	<u>\$ 1,722,435</u>	<u>\$ 1,694,771</u>	<u>\$ 191,418</u>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE	\$ 5	\$ 816	\$ 5	\$ 816
AMOUNTS HELD IN CUSTODY FOR OTHERS	153,749	1,425,537	1,388,634	180,602
TOTAL LIABILITIES	<u>\$ 153,754</u>	<u>\$ 1,426,353</u>	<u>\$ 1,388,639</u>	<u>\$ 181,418</u>
<b>ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 107,629	\$ 1,643,878	\$ 1,618,299	\$ 133,208
CASH WITH FISCAL AGENTS	623	237,067	220,257	17,433
CONTRIBUTIONS RECEIVABLE	1,002	551	1,002	551
INVESTMENTS	775	217	1,002	992
DUE FROM OTHER FUNDS	347,597	159,872	116,282	391,207
TOTAL ASSETS	<u>\$ 457,778</u>	<u>\$ 2,041,892</u>	<u>\$ 1,955,972</u>	<u>\$ 543,698</u>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE	\$ 36	\$ 35	\$ 36	\$ 35
AMOUNTS HELD IN CUSTODY FOR OTHERS	457,732	1,746,345	1,659,235	542,847
TOTAL LIABILITIES	<u>\$ 457,768</u>	<u>\$ 1,746,380</u>	<u>\$ 1,659,271</u>	<u>\$ 542,882</u>



COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 1996  
 (Expressed in Thousands)

	Unemployment Compensation		
	Budget	Actual	Variance
REVENUES:			
EMPLOYER CONTRIBUTIONS	\$	\$ 231,889	\$
INTERGOVERNMENTAL		17,815	
CHARGES FOR SERVICES		14	
INTEREST AND OTHER INVESTMENT INCOME		40,241	
OTHER REVENUES		2,211	
TRANSFERS IN (INTERFUND)		1,741	
TOTAL REVENUES		293,911	
EXPENDITURES:			
WORKFORCE DEVELOPMENT			
DEPARTMENT FOR EMPLOYMENT SERVICES			
UNEMPLOYMENT INSURANCE BENEFITS	333,958	296,504	77,454
TOTAL WORKFORCE DEVELOPMENT	333,958	296,504	77,454
TOTAL EXPENDITURES	333,958	296,504	77,454
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		37,407	
FUND BALANCE AT JULY 1		448,205	
FUND BALANCE AT JUNE 30	\$	\$ 485,612	\$

## GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group accounts for the Commonwealth's fixed assets, except those related to the proprietary funds, trust funds, and university and college funds.

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE  
JUNE 30, 1996  
(Expressed in Thousands)

GENERAL FIXED ASSETS:		June 30, 1996
LAND	\$	76,748
BUILDINGS		617,576
MACHINERY AND EQUIPMENT		549,816
CONSTRUCTION IN PROGRESS		162,092
TOTAL GENERAL FIXED ASSETS	\$	1,406,232
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
GENERAL FUND REVENUES	\$	129,353
SPECIAL REVENUE FUNDS REVENUE		387,828
DONATIONS		16,154
OTHER		29,278
CAPITAL PROJECTS FUND:		
STATE APPROPRIATIONS		48,422
REVENUE BONDS		354,723
FEDERAL GRANTS		27,729
OTHER		6,349
FIXED ASSETS ACQUIRED PRIOR TO JULY 1, 1984 (A)		406,396
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	\$	1,406,232

(A) FIXED ASSETS WITH AN UNDETERMINED FUNDING SOURCE ACQUIRED PRIOR TO JULY 1, 1984

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY  
JUNE 30, 1996  
(Expressed in Thousands)

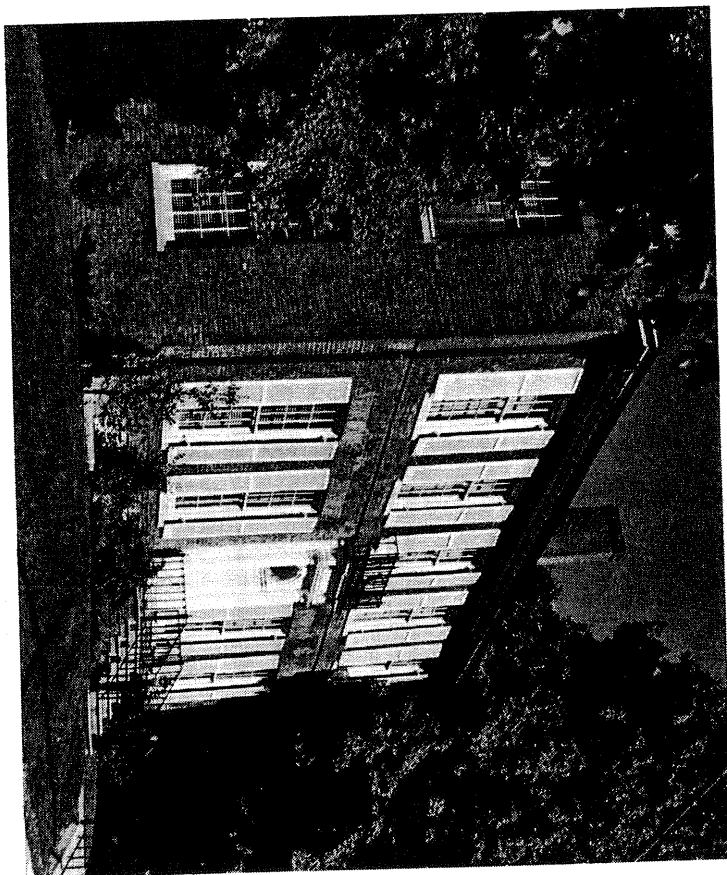
FUNCTION AND ACTIVITY	Land		Buildings		Machinery and Equipment		Totals	
	\$		\$		\$		\$	June 30, 1996
GENERAL GOVERNMENT:								
CABINET FOR GENERAL GOVERNMENT (A)	5,906		31,330		16,463		53,699	
FINANCE & ADMINISTRATION	7,814		121,695		7,386		136,895	
REVENUE CABINET					11,080		11,080	
PERSONNEL CABINET (A)					889		889	
TOTAL GENERAL GOVERNMENT	13,720		153,025		35,818		202,563	
LEGISLATIVE & JUDICIAL	55				26,335		26,390	
COMMERCE:								
ECONOMIC DEVELOPMENT CABINET	14,686		18,907		925		34,118	
TOURISM CABINET	23,129		5,163		18,939		47,230	
TOTAL COMMERCE	37,815		24,070		19,863		81,748	
EDUCATION & HUMANITIES:								
EDUCATION & HUMANITIES CABINET	398		23,466		30,780		54,644	
WORKFORCE DEVELOPMENT CABINET (A)	4,095		92,370		79,974		176,439	
TOTAL EDUCATION & HUMANITIES	4,493		116,836		110,754		231,073	
HUMAN RESOURCES (A)	4,132		89,131		50,563		143,826	
JUSTICE	3,213		178,612		64,011		245,836	
NATURAL RESOURCES & ENVIRONMENTAL PROTECTION	8,096		925		33,323		42,344	
PUBLIC PROTECTION & REGULATION:								
LABOR CABINET	47		220		6,882		7,149	
TOTAL PUBLIC PROTECTION & REGULATION	47		220		6,882		7,149	
TRANSPORTATION	47		220		6,882		7,149	
TOTAL GENERAL FIXED ASSETS ALLOCATED TO FUNCTIONS	5,187		56,157		199,717		260,061	
CONSTRUCTION IN PROGRESS	76,748		617,576		549,816		1,244,140	
TOTAL GENERAL FIXED ASSETS			162,092				162,092	
	\$	76,748	\$	779,668	\$	549,816	\$	1,406,232

(A) FIXED ASSETS TOTALING \$4,730,000 WERE PREVIOUSLY REPORTED WITHIN THE GENERAL GOVERNMENT CABINET, AND THE HUMAN RESOURCES CABINET IN THE AMOUNTS OF \$862,000, AND \$3,868,000, RESPECTIVELY. THESE AMOUNTS ARE NOW REPORTED IN THE FOLLOWING CABINETS:

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY  
 FOR THE YEAR ENDED JUNE 30, 1996  
 (Expressed in Thousands)

	General			General		
	Fixed Assets June 30, 1995	Additions	Retirements	Fixed Assets June 30, 1996		
GENERAL GOVERNMENT:						
CABINET FOR GENERAL GOVERNMENT (A)	\$ 49,554	\$ 4,866	\$ 720	\$ 53,699		
FINANCE & ADMINISTRATION	133,385	1,607	307	134,685		
REVENUE CABINET	9,942	1,482	354	11,069		
PERSONNEL CABINET (A)	862	54	27	889		
TOTAL GENERAL GOVERNMENT	193,643	8,018	1,408	202,253		
LEGISLATIVE & JUDICIAL	24,915	2,442	957	26,399		
COMMERCE:						
ECONOMIC DEVELOPMENT CABINET	24,594	9,531	107	34,118		
TOURISM CABINET	44,995	3,125	891	47,229		
TOTAL COMMERCE	69,589	12,757	998	81,348		
EDUCATION & HUMANITIES:						
EDUCATION & HUMANITIES CABINET	53,531	1,904	891	54,544		
WORKFORCE DEVELOPMENT CABINET (A)	146,972	32,609	3,152	176,429		
TOTAL EDUCATION & HUMANITIES	200,503	34,513	4,043	231,072		
HUMAN RESOURCES (A)	140,596	5,249	2,019	143,826		
JUSTICE	209,190	38,976	2,330	245,836		
NATURAL RESOURCES & ENVIRONMENTAL PROTECTION	29,116	14,540	1,312	42,344		
PUBLIC PROTECTION & REGULATION:						
PUBLIC PROTECTION & REGULATION CABINET	7,149	782	762	7,169		
LABOR CABINET	3,303	411	184	3,530		
TOTAL PUBLIC PROTECTION & REGULATION	10,452	1,193	926	10,699		
TRANSPORTATION	244,362	42,964	27,285	260,041		
TOTAL GENERAL FIXED ASSETS ALLOCATED TO FUNCTIONS	1,124,776	160,532	41,288	1,244,140		
CONSTRUCTION IN PROGRESS	196,623	20,761	55,292	162,092		
TOTAL GENERAL FIXED ASSETS	\$ 1,321,399	\$ 181,393	\$ 96,580	\$ 1,406,212		

(A) FIXED ASSETS TOTALING \$4,730,000 WERE PREVIOUSLY REPORTED WITHIN THE GENERAL GOVERNMENT CABINET, AND THE HUMAN RESOURCES CABINET IN THE AMOUNTS OF \$862,000, AND \$3,868,000, RESPECTIVELY. THESE AMOUNTS ARE NOW REPORTED IN THE FOLLOWING CABINETS: PERSONNEL, \$862,000 AND WORKFORCE DEVELOPMENT, \$3,868,000.



After the 1950's renovation, the exterior color of the "Old Governor's Mansion" was white. It wasn't until the eighties that the color changed to dark green, a color more sensitive to the historic nature of the mansion.

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## COMPONENT UNITS

Component Units Funds account for the financial activities of the Commonwealth of Kentucky's component units, which have been determined to be legally separate from the State's primary government and for which the primary government is financially accountable. The Component Units are presented in three separate categories: Governmental Funds, Proprietary Funds and University and College Funds.

### Governmental Funds

**Bluegrass State Skills Corporation** - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

### Proprietary Funds

#### Enterprise Funds

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

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

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

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

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

**Kentucky Higher Education Student Loan Corporation** - empowered by KRS Chapter 164A to finance state and federally insured loans to students attending eligible postsecondary institutions, through direct loans to students and the purchase of student notes from lenders.

**Kentucky Educational Savings Plan Trust** - established by KRS 164A.310 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 Housing Corporation** - 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, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonable equivalent terms and conditions.

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

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

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

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

The **University and College Funds** account for all transactions relating to the eight State-supported universities within Kentucky, including the community colleges that are part of the University of Kentucky system. These institutions maintain their own financial records which are not a part of the central accounting system operated by the Finance and Administration Cabinet. The following universities and colleges are included:

Eastern Kentucky University  
Kentucky State University  
Morehead State University  
Murray State University  
Northern Kentucky University  
University of Kentucky  
(including community colleges)  
University of Louisville  
Western Kentucky University

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
COMPONENT UNITS  
JUNE 30, 1996  
(Expressed in Thousands)

	Governmental Fund Types	Proprietary Fund Types	University and College Funds	Totals June 30, 1996
<b>ASSETS</b>				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS	\$	\$	\$	\$
RESTRICTED CASH		389,986	285,772	675,758
RECEIVABLES NET		70,135	209,985	280,120
INTERGOVERNMENTAL RECEIVABLES	516	2	51,687	52,205
INVESTMENTS		15,506	15,506	15,506
INVENTORIES		354	24,230	24,584
PREPAID EXPENSES		1,681	238,292	239,973
OTHER ASSETS		2,589	790,928	1,249,225
TOTAL CURRENT ASSETS	516	497,793	1,340,835	2,389,144
OTHER ASSETS:				
LONG-TERM INVESTMENTS		189,174	707,603	896,777
LONG-TERM RECEIVABLES		1,38,003		1,38,003
DEFERRED CHARGES		19,729		19,729
RESTRICTED ASSETS		92,570		92,570
TOTAL OTHER ASSETS		1,627,476	707,603	2,335,079
FIXED ASSETS:				
IMPROVEMENTS OTHER THAN BUILDINGS		14,771	64,942	79,713
BUILDINGS		212,087	59,470	271,557
MACHINERY AND EQUIPMENT	7	1,283,570	1,580,791	2,864,361
LESS ACCUMULATED DEPRECIATION		(107,276)	(560,791)	(668,067)
CONSTRUCTION IN PROGRESS		4,089	148,659	152,747
TOTAL FIXED ASSETS NET	7	1,617,614	2,692,401	4,317,632
TOTAL ASSETS	\$ 523	\$ 2,252,883	\$ 4,050,930	\$ 6,830,336
<b>LIABILITIES AND FUND EQUITY</b>				
LIABILITIES:				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	\$ 683	\$ 56,879	\$ 70,038	\$ 127,500
ACCRUED LIABILITIES		51	51,887	51,938
INTERFUND PAYABLES		1,248		1,248
NOTES PAYABLE		25		25
BONDS PAYABLE		55,965		55,965
COMPAENSATED ABSENCES		1,980	32,771	34,751
DEPRECIATED REVENUE		12,760	3,892	16,652
AMOUNT HELD IN CUSTODY FOR OTHERS		4,584	17,117	21,701
DEBENTURE PAYMENTS			38,951	38,951
OTHER LIABILITIES		3,809		3,809
TOTAL CURRENT LIABILITIES	683	137,221	271,682	409,586
LONG-TERM LIABILITIES				
CAPITAL LEASE OBLIGATIONS		20,369	65,818	86,187
NOTES PAYABLE		25	1,942	1,967
BONDS PAYABLE		1,431,577	753,286	2,184,863
COMPAENSATED ABSENCES		1,118		1,118
OTHER LONG-TERM LIABILITIES		608		608
TOTAL LONG-TERM LIABILITIES		1,453,687	811,064	2,264,751
TOTAL LIABILITIES	683	1,590,908	1,112,950	2,704,651
FUND EQUITY:				
UNRESERVED FUND EQUITY:				
UNRESERVED CAPITAL CREDITS:				
INVESTMENT IN FIXED ASSETS		96,190	1,942,030	1,942,030
RETAINED EARNINGS:				
RESERVED FOR:				
REVENUE BOND RETIREMENT		427,732		427,732
UNRESERVED:		137,943		137,943
RESERVED FOR:				
ENCUMBRANCES			11,945	11,945
CAPITAL OUTLAY			160,165	160,165
RESTRICTED GIFTS, GRANTS, AND CONTRACTS			585,580	585,580
UNRESERVED FOR UNIVERSITIES AND COLLEGES			238,280	238,280
UNRESERVED:				
UNRESERVED:				
UNRESERVED:				
TOTAL FUND EQUITY	(160)	661,955	2,937,980	3,599,885
TOTAL LIABILITIES AND FUND EQUITY	\$ 523	\$ 2,252,883	\$ 4,050,930	\$ 6,830,336

COMMONWEALTH OF KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
COMPONENT UNIT - GOVERNMENTAL FUND TYPE - BLUEGRASS STATE SKILLS CORPORATION  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	June 30, 1996
<b>REVENUES:</b>	
TAXES	
LICENSES, FEES, AND PERMITS	
INTERGOVERNMENTAL	
CHARGES FOR SERVICES	
FINES AND FORFEITS	
INTEREST AND OTHER INVESTMENT INCOME	
OTHER REVENUE	
TOTAL REVENUES	233
<b>EXPENDITURES:</b>	
PERSONAL SERVICES	33
UTILITIES, RENTALS, AND OTHER SERVICES	2
COMMODITIES AND SUPPLIES	2,071
GRANTS AND SUBSIDIES	7
CAPITAL OUTLAY	10
TRAVEL	2,356
TOTAL EXPENDITURES	(2,356)
EXCESS OF REVENUES OVER EXPENDITURES	2348
OTHER FINANCING SOURCES (USES):	
OPERATING TRANSFERS IN	
OPERATING TRANSFERS OUT	
TRANSFERS FROM COMPONENT UNITS	
TRANSFERS TO COMPONENT UNITS	
CAPITALIZED LEASES	
OTHER SOURCES (USES)	
TOTAL OTHER FINANCING SOURCES (USES)	2,348
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(6)
FUND BALANCE AT JULY 1	(152)
INCREASE (DECREASE) IN INVENTORIES	
FUND BALANCE AT JUNE 30	(150)

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
JUNE 30, 1996  
(Expressed in Thousands)

ASSETS												
CURRENT ASSETS:												
CASH AND CASH EQUIVALENTS												
RESTRICTED CASH												
RECEIVABLES, NET												
INTERFUND RECEIVABLES												
INTEREST RECEIVABLE												
INVENTORIES												
PREPAID EXPENSES												
OTHER ASSETS												
TOTAL CURRENT ASSETS												
OTHER ASSETS:												
LONG TERM INVESTMENTS												
LONG TERM RECEIVABLES												
DEFERRED CHARGES												
RESTRICTED ASSETS												
TOTAL OTHER ASSETS												
FIXED ASSETS:												
LAND												
BUILDINGS												
MACHINERY AND EQUIPMENT												
LESS ACCUMULATED DEPRECIATION												
CONSTRUCTION IN PROGRESS												
TOTAL FIXED ASSETS, NET												
TOTAL ASSETS												
LIABILITIES AND FUND EQUITY												
LIABILITIES:												
CURRENT LIABILITIES:												
ACCOUNTS PAYABLE												
INTERFUND PAYABLES												
CAPITAL LEASE OBLIGATIONS												
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TOTAL LIABILITIES AND FUND EQUITY												

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CURRENT LIABILITIES:												
ACCOUNTS PAYABLE												
INTERFUND PAYABLES												
CAPITAL LEASE OBLIGATIONS												
NOTES PAYABLE												
BONDS PAYABLE												
COMPENSATED ABSENCES												
DEFERRED REVENUE												
AMOUNT HELD IN CUSTODY FOR OTHERS												
OTHER LIABILITIES												
TOTAL CURRENT LIABILITIES												
LONG-TERM LIABILITIES:												
CAPITAL LEASE OBL												

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	Kentucky State Fair Board	Kentucky Center for the Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	Totals
OPERATING REVENUES:						
CHARGES FOR SERVICES	\$ 22,544	\$ 3,175	\$ 1,175	\$ 1,248	\$ 1,663	\$ 28,705
GRANTS AND OTHER INVESTMENT INCOME			68	10,127	2,013	12,213
AMORTIZATION OF PREMIUM ON LEASES						
OTHER REVENUE	2,648					2,648
TOTAL OPERATING REVENUES	25,192	3,175	2,040	11,408	6,900	48,715
OPERATING EXPENSES:						
PERSONAL SERVICES	13,628	4,380	8,371	753	5,039	32,171
UTILITIES, RENTALS AND OTHER SERVICES	9,272	466	2,118	451	2,451	14,358
COMMODITIES AND SUPPLIES	1,062	362	255		359	1,748
GRANTS AND SUBSIDIES		74			29,194	29,268
DEPRECIATION AND AMORTIZATION	4,811	1,179	3,318	268	337	9,813
INTEREST				4,801		4,801
TRAVEL				11		11
OTHER EXPENSE	77	56	145		78	356
TOTAL OPERATING EXPENSES	28,850	7,445	12,056	61	2,165	48,527
OPERATING INCOME (LOSS)	(3,658)	(4,270)	(17,990)	5,063	(39,862)	(55,617)
NONOPERATING REVENUES (EXPENSES):						
GRANTS FROM FEDERAL GOVERNMENT		1,359				1,359
GRANTS FROM STATE GOVERNMENT		243				243
MEMBERSHIP DUES TO THE ARTS ENDOWMENT		549				549
KENTUCKY CENTER FOR THE ARTS ENDOWMENT						
GAIN (LOSS) ON SALE OF FIXED ASSETS		4	(23)			(19)
INTEREST AND OTHER INVESTMENT INCOME	130	92				222
OTHER REVENUE (EXPENSES)						
TOTAL NONOPERATING REVENUE (EXPENSES)	130	92	(23)			199
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEM	(3,528)	(4,178)	(18,013)	5,063	(39,862)	(55,418)
TRANSFERS FROM PRIMARY GOVERNMENT						
TRANSFERS FROM COMPONENT UNITS						
TRANSFERS TO PRIMARY GOVERNMENT						
TRANSFERS TO COMPONENT UNITS						
INCOME (LOSS)	(3,528)	(4,178)	(18,013)	5,063	(39,862)	(55,418)
ADD DEPRECIATION ON FIXED ASSETS	4,131	789	(2,189)	5,063	(1,208)	6,586
ACQUIRED BY CAPITAL GRANTS	1,579	706	(2,340)	104,278	49,741	105,964
INCREASE (DECREASE) IN RETAINED EARNINGS	42,184	2,228	(2,340)	104,278	49,741	187,091
RETAINED EARNINGS AT JULY 1, AS RESTATED						
RETAINED EARNINGS AT JUNE 30	\$ 43,713	\$ 3,634	\$ (4,532)	\$ 109,341	\$ 48,533	\$ 196,689

	Kentucky Higher Education Student Loan Corporation	Kentucky Educational Savings Plan	Kentucky Housing Corporation	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Authority	Totals
OPERATING REVENUES:								
CHARGES FOR SERVICES	\$ 30,867	\$ 7,477	\$ 69,286	\$ 15,378	\$ 395	\$ 65	\$ 4,129	\$ 128,590
GRANTS AND OTHER INVESTMENT INCOME								
AMORTIZATION OF PREMIUM ON LEASES								
OTHER REVENUE	1,956		78,763	49,846		311	4,830	130,706
TOTAL OPERATING REVENUES	32,823		148,049	65,224	395	376	9,959	257,297
OPERATING EXPENSES:								
PERSONAL SERVICES	8,441	331	5,512	15,920	277	45		24,726
UTILITIES, RENTALS AND OTHER SERVICES	26,846	494	66,005	33,926		283	891	107,675
COMMODITIES AND SUPPLIES	5,977	(494)	10,728			28	3,939	20,176
GRANTS AND SUBSIDIES								
DEPRECIATION AND AMORTIZATION								
INTEREST								
TRAVEL								
OTHER EXPENSE								
TOTAL OPERATING EXPENSES	36,264	(163)	76,240	15,920	277	45	9,830	138,429
OPERATING INCOME (LOSS)	(3,441)	(163)	71,809	49,304	118	231	1,129	118,868
NONOPERATING REVENUES (EXPENSES):								
GRANTS FROM FEDERAL GOVERNMENT								
GRANTS FROM STATE GOVERNMENT								
MEMBERSHIP DUES TO THE ARTS ENDOWMENT								
KENTUCKY CENTER FOR THE ARTS ENDOWMENT								
GAIN (LOSS) ON SALE OF FIXED ASSETS								
INTEREST AND OTHER INVESTMENT INCOME								
OTHER REVENUE (EXPENSES)								
TOTAL NONOPERATING REVENUE (EXPENSES)								
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEM	(3,441)	(163)	71,809	49,304	118	231	1,129	118,868
TRANSFERS FROM PRIMARY GOVERNMENT								
TRANSFERS FROM COMPONENT UNITS								
TRANSFERS TO PRIMARY GOVERNMENT								
TRANSFERS TO COMPONENT UNITS								
INCOME (LOSS)	(3,441)	(163)	71,809	49,304	118	231	1,129	118,868
ADD DEPRECIATION ON FIXED ASSETS	4,477		10,676	44,463	3	28	2,226	60,873
ACQUIRED BY CAPITAL GRANTS	42,014		178,410	104,113	510	4,049	(25,983)	203,113
INCREASE (DECREASE) IN RETAINED EARNINGS	44,491		189,096	148,576	513	4,077	(23,757)	565,675
RETAINED EARNINGS AT JULY 1, AS RESTATED								
RETAINED EARNINGS AT JUNE 30	\$ 44,491	\$ 189,096	\$ 148,576	\$ 513	\$ 4,077	\$ (23,757)	\$ 565,675	\$ 1,300,175

**COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 1996**  
(Expressed in Thousands)

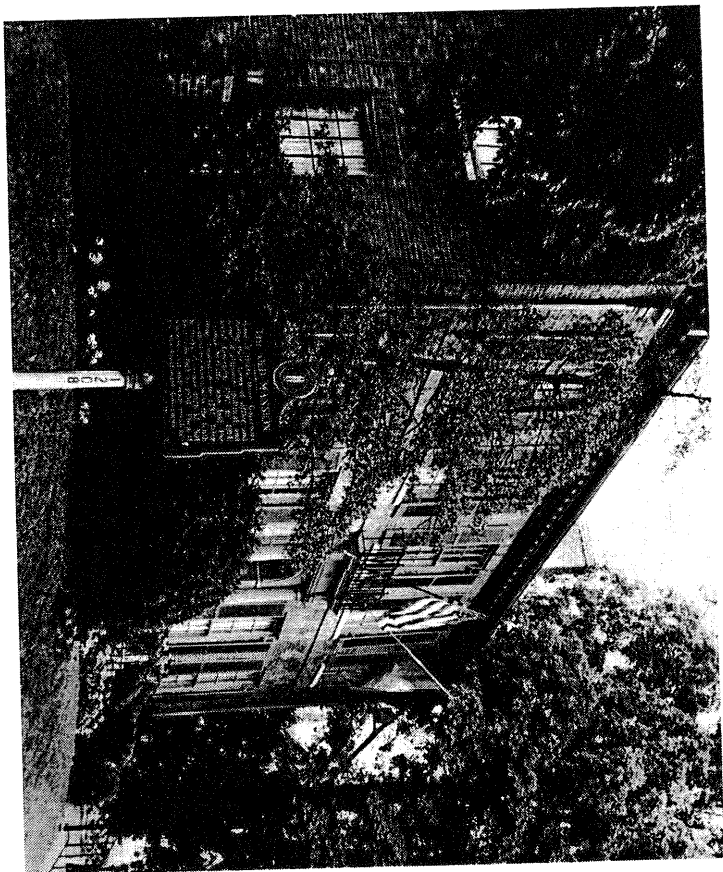
	Kentucky State Fair Board	Kentucky Department For The Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	Kentucky Higher Education Student Loan Corporation	Kentucky Educational Savings Plan Trust	Kentucky Housing Corporation	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Facilities Construction Authority	Totals June 30, 1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>													
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 25,891	\$ 3,174	\$ 3,832	\$ 1,265	\$ 38,607	\$ 2,154	\$ 965	\$ 7,243	\$ 395	\$	\$ 66	\$ 4,633	\$ 88,325
COLLECTION OF PROGRAM LOANS				23,831	1,545	62,323	12,444	13,444		13,444			262,652
PROGRAM LOANS ISSUED	(12,789)	(3,285)	(9,467)	(6,421)	(1,541)	(48,562)	(736)	(89,608)	(8,900)		(6)	(829)	(156,999)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(10,944)	(3,042)	(8,495)	(532)	(68,417)	(21,735)		(7,837)	(12,234)				(125,817)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS				(730)	(5,091)	(2,473)		(6,303)					(37,101)
CASH PAYMENTS (TO) FROM OTHER SOURCES													
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,178	(3,153)	(14,130)	17,390	(6,237)	13,709	229	27,893	(638)		60	3,804	11,105
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>													
PROCEEDS FROM BOND ISSUANCE													
PROCEEDS FROM SALE OF REVENUE BONDS FOR COST OF ISSUANCE													
PRINCIPAL PAYMENT ON DEBT	1,047	2,823	18,567	(5,029)		15,980		127,654	18,550				182,184
DEBT RELATED EXPENSES		1,541	(275)			(28,820)		(50,777)	(8,900)				(88,497)
OPERATING TRANSFERS OUT TO OTHER FUNDS							494	(49,268)	43,525				(6,942)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,047	4,384	18,292	(5,029)		(12,840)		27,893	40,941				49,343
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>													
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	1,047	4,384	18,292	(5,029)		15,980		127,654	18,550				182,184
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(6,182)	(900)	(380)	(29)		(28,820)		(50,777)	(8,900)				(88,497)
INCREASE IN RESTRICTED ASSET - CONSTRUCTION ACCOUNT	(23,509)		(1,381)					(49,268)	(12,234)				(66,531)
RESTRICTED INCOME - CONSTRUCTION	300		(1,181)						43,525				43,525
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS													
PROCEEDS FROM SALE OF EQUIPMENT	27,607	4			5								27,607
CONTRIBUTED CAPITAL	(2,155)	(896)	(2,912)	(29)		(494)		27,893	40,941				100,905
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,155)	(896)	(2,912)	(29)		(494)		27,893	40,941				100,905
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES:</b>													
PURCHASE OF INVESTMENT SECURITIES	(1,246)	(513)	(5,031)	(107,772)		(550,765)	(2,023)	(405,201)	(28,794)				(1,131,089)
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES				80,471		582,235	462	548,087	37,695				1,271,245
INTEREST AND DIVIDENDS ON INVESTMENTS	130	91	796	3,116	1,884	4,458	219	13,001	16,324				41,923
NET CASH USED IN INVESTING ACTIVITIES	(1,115)	(422)	(4,235)	(22,181)		(7,228)		155,887	25,226				182,073
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(45)	(107)	(2,985)	(9,851)	(16,918)	34,594	(639)	210,676	65,529	(195)	1,311	447	282,125
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,857	943	5,451	11,882	24,674	11,942	899	3,819	6,924	446	383	7,621	78,841
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,812	\$ 836	\$ 2,466	\$ 2,031	\$ 7,756	\$ 48,536	\$ 270	\$ 214,495	\$ 72,453	\$ 251	\$ 1,734	\$ 8,316	\$ 360,966
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>													
OPERATING INCOME (LOSS)	\$ (3,668)	\$ (4,470)	\$ (17,990)	\$ 5,063	\$ (29,287)	\$ 5,977	\$ (494)	\$ 10,758	\$ 33,926	\$	\$ 28	\$ 3,939	\$ 3,792
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:													
DEPRECIATION AND AMORTIZATION	4,811	1,179	3,318	268	537	1,040	(244)	1,473	324			(34)	12,916
INTEREST AND OTHER INVESTMENT INCOME				(5,314)	(1,913)			13,469	(15,716)		(239)		(9,956)
SUBSIDIES					415			1,619	13,816				(32,988)
MISCELLANEOUS NONOPERATING INCOME (EXPENSE)				4,785									13,816
CHANGE IN ASSETS AND LIABILITIES:													7,310
(INCREASE) DECREASE IN RECEIVABLES NET	(310)	(29)	(289)	12,367	(9,501)	9,078		(738)			(37)	(101)	10,440
(INCREASE) DECREASE IN INVENTORIES	(66)	(32)	114			(2)		22					88
(INCREASE) DECREASE IN OTHER ASSETS			(127)		6	(4,201)					277		(4,180)
(INCREASE) DECREASE IN ACCOUNTS PAYABLE	394	225	234	230	2,239	1,800		1,393					6,882
(INCREASE) DECREASE IN OTHER LIABILITIES			119	(9)	707	7	967	31					839
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,009				560			(134)			30		1,465
	\$ 2,178	\$ (3,153)	\$ (14,130)	\$ 17,390	\$ (6,237)	\$ 13,709	\$ 229	\$ 27,893	\$ (638)	\$	\$ 60	\$ 3,804	\$ 11,105

THROUGH CONTRIBUTED CAPITAL, STATE FAIR BOARD ACQUIRED FIXED ASSETS COSTING \$179,000.



COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 1996  
 (Expressed in Thousands)

	Budget	Actual	Variance
<b>COMMERCE STATE FAIR BOARD</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	23,139	\$
OTHER REVENUES		200	
TRANSFERS IN (INTERFUND)		14	
TRANSFERS IN (INITIAL FUND)		642	
TOTAL REVENUES		23,995	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES		21,544	1
FUND EQUITY AT JULY 1		2,451	
NON-BUDGETED ITEMS		90,832	
FUND EQUITY AT JUNE 30	\$	(2,345)	\$
		90,539	



Today the "Old Governor's Mansion" serves as the official residence of the Lt. Governor and his/her family. After the last major renovation of the 1950s, Lt. Governor Harry Lee Waterfield and his family became the first to occupy the newly renovated mansion.

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
COMPONENT UNITS - ALL UNIVERSITY AND COLLEGE FUNDS  
JUNE 30, 1996  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	Total June 30, 1996
<b>ASSETS</b>									
CASH AND CASH EQUIVALENTS	\$ 166,633	\$ 25,213	\$ 24,047	\$ 11,661	\$ 12,418	\$ 8,345	\$ 6,688	\$ 11,327	\$ 266,732
INVESTMENTS, NET OF AMORTIZATION	424,537	160,634	30,109	37,268	9,010	17,918	15,843	12,284	707,603
RECEIVABLES, NET	671		3,110	353	197	253	787		5,401
OTHERS	124,040	41,786	10,145	9,088	6,099	6,942	3,225	3,259	204,584
INTERFUND RECEIVABLES	39,516		123	3,991	2,836	3,161	1,786		51,697
INVENTORIES	12,576	1,374	3,029	1,553	2,233	1,263	1,062	760	24,230
LAND	26,139	20,967	3,103	1,508	7,066	8,624	2,597	787	64,942
IMPROVEMENTS OTHER THAN BUILDINGS	24,133		9,786	3,885		92,886	111,726	58,724	1,728,540
BUILDINGS AND IMPROVEMENTS	73,528	361,242	148,671	30,167	24,633	24,534	14,836	14,836	550,791
MACHINERY AND EQUIPMENT	309,126	81,473	46,722	17,668	9,691	17,210	16,131	5,627	211,016
LIBRARY BOOKS	74,377	46,574	316	25,669	5,903	9,912	388	19,262	334
CONSTRUCTION IN PROGRESS	86,481	2,773	843	5,484	1,283	11,713	1,672	72	148,668
OTHER ASSETS	2,092		1,853						26,942
<b>TOTAL ASSETS</b>	<b>\$ 2,033,432</b>	<b>\$ 742,036</b>	<b>\$ 305,199</b>	<b>\$ 236,636</b>	<b>\$ 187,263</b>	<b>\$ 205,141</b>	<b>\$ 164,235</b>	<b>\$ 136,938</b>	<b>\$ 4,050,930</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>LIABILITIES:</b>									
ACCOUNTS PAYABLE:									
STATE AGENCIES	\$ 4,265	\$ 28,067	\$ 15	\$ 67	\$ 900	\$ 43	\$ 12	\$ 1,089	\$ 5,302
OTHERS	28,633		2,102	918	1,167	1,791	1,639		69,633
ACCRUED LIABILITIES	4,483		1,248	2,614	2,966	3,472	2,852	2,021	63,639
INTERFUND PAYABLES	14,488			3,981	2,836	3,161	1,786		51,697
NOTES RECEIVABLE	39,818		123	7,686	15,377	4,717	15,285		57,689
NOTES PAYABLE	34,101	8,454			15,359		1,285		85,838
BONDS PAYABLE	98			57,054	34,325	27,160	56,715	23,115	753,588
AMOUNTS HELD IN CUSTODY FOR OTHERS	332,279	155,850	67,090	879	766	150	908	83	3,692
DEPOSITS AND ADVANCE PAYMENTS	438	15,660	468		63	260	150		17,117
DEFERRED REVENUE	137	11,271	647	2,998	517	835	2,773	228	32,771
OTHER LIABILITIES	11,947	11,271	2,202		1,015	29	190		38,361
<b>TOTAL LIABILITIES</b>	<b>\$ 530,014</b>	<b>\$ 220,396</b>	<b>\$ 73,502</b>	<b>\$ 76,219</b>	<b>\$ 60,691</b>	<b>\$ 41,619</b>	<b>\$ 83,573</b>	<b>\$ 26,536</b>	<b>\$ 1,112,950</b>
<b>FUND EQUITY:</b>									
INVESTMENT IN FIXED ASSETS	907,874	352,143	166,301	123,187	102,726	127,037	81,358	81,404	1,942,030
FUND RESERVE									
RESERVED FOR:									
ENCUMBRANCES	1,508	6,459	1,760	1,600		413	205		11,945
CAPITAL OUTLAY	62,141	11,522	17,212	18,202	11,834	9,771	9,028	20,455	160,165
RESTRICTED GIFTS, GRANTS, AND CONTRACTS	373,795	88,433	45,796	21,367	11,944	26,301	9,421	8,543	585,560
UNRESERVED:									
DESIGNATED FOR UNIVERSITIES AND COLLEGES	188,140	63,083	228	18,061	68	163,822	700	110,402	238,280
<b>TOTAL FUND EQUITY</b>	<b>\$ 1,503,418</b>	<b>\$ 521,640</b>	<b>\$ 231,697</b>	<b>\$ 180,417</b>	<b>\$ 126,572</b>	<b>\$ 163,522</b>	<b>\$ 100,712</b>	<b>\$ 110,402</b>	<b>\$ 2,937,980</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 2,033,432</b>	<b>\$ 742,036</b>	<b>\$ 305,199</b>	<b>\$ 236,636</b>	<b>\$ 187,263</b>	<b>\$ 205,141</b>	<b>\$ 164,235</b>	<b>\$ 136,938</b>	<b>\$ 4,050,930</b>

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND OTHER CHANGES  
COMPONENT UNITS - ALL UNIVERSITY AND COLLEGE CURRENT FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 1996
REVENUES:									
TUITION AND FEES	\$ 124,397	\$ 59,755	\$ 31,059	\$ 28,929	\$ 18,759	\$ 20,606	\$ 30,273	\$ 6,125	\$ 319,913
FEDERAL GRANTS AND CONTRACTS	32,763	26,308	10,253	14,216	21,702	7,383	4,651	10,033	135,255
STATE GRANTS AND CONTRACTS	9,302	3,326	6,745	2,951	3,463	2,307	2,415	319	30,888
STATE CENTS, GRANTS AND CONTRACTS	14,540	6,613	712	2,019	1,782	537	619	319	28,622
ENDOWMENT INCOME	3,351	293	4,184	4,981	885	1,874	887	4,840	4,512
SALES AND SERVICES OF EDUCATION ACTIVITIES	2,757	25,231	15,898	13,134	8,199	12,675	5,675	3,757	352,634
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	288,380	94,419	3,854	3,865	2,123	3,428	1,987	991	140,834
OTHER REVENUES	30,167			70,095	56,923	48,856	46,707	21,255	1,058,708
TOTAL CURRENT REVENUES	515,238	217,945	81,691	70,095	56,923	48,856	46,707	21,255	
EXPENDITURES AND TRANSFERS:									
EDUCATIONAL AND GENERAL:									
INSTRUCTION	213,716	123,492	46,628	44,013	25,384	29,196	25,699	9,546	517,654
RESEARCH	49,608	22,776	4,556	2,327	313	1,183	284	2,773	79,920
LIBRARY SERVICE	70,025	45,535	12,431	8,437	3,945	3,758	2,051	3,034	140,443
ACADEMIC SUPPORT	32,002	2,925	20,314	4,295	3,605	4,269	4,510	1,943	92,294
LIBRARIES	23,912	9,549	3,460	4,318	2,148	2,326	3,135	2,955	70,650
STUDENT SERVICES	23,912	22,477	7,061	9,315	6,138	6,138	9,320	4,830	110,610
INSTITUTIONAL SUPPORT	23,912	22,477	10,134	10,827	6,773	6,855	7,426	3,742	142,629
STUDENT FINANCIAL AID	55,017	17,679	13,443	11,823	23,577	4,798	6,071	3,425	101,570
MAINTENANCE AND OPERATION	40,796	17,855	10,581	9,586	4,798	8,458			453
OTHER EXPENDITURES	451			12					
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	546,143	291,361	115,575	104,953	76,661	72,323	64,261	32,308	1,303,585
MANDATORY TRANSFERS FOR:									
PRINCIPAL AND INTEREST	27,624	13,022	5,290	4,262	4,812	3,706	4,967	3,141	66,524
UNEXPENDED PLANT FUND	147	56	10	27	1	2	32		275
RETIPEMENT OF INDEBTEDNESS	1,374						120		1,494
NON-MANDATORY TRANSFERS FOR:									
CURRENT FUND - UNRESTRICTED	(23,007)		(1)	(1,260)		(1,390)		(146)	(25,804)
CURRENT FUND - RESTRICTED	(3,286)								(3,286)
LOAN FUND	20								20
ENDOWMENT AND SIMILAR FUNDS	12,978	11,149	502	1,203	1,431	2,121	1,844	601	31,829
UNEXPENDED PLANT FUND	100	716						1,125	1,925
RETIPEMENT OF INDEBTEDNESS									
RENEWAL AND REPLACEMENT	562,123	316,304	121,376	108,186	82,905	76,903	71,224	37,029	1,377,049
TOTAL EDUCATIONAL AND GENERAL									
AUXILIARY ENTERPRISES AND HOSPITALS:									
EXPENDITURES	234,482	40,023	14,186	10,955	6,834	11,726	4,262	3,187	325,095
MANDATORY TRANSFERS FOR:									
PRINCIPAL AND INTEREST	4,587	1,446	1,340	2,026	2,256	595	332	107	12,582
RENEWAL AND REPLACEMENT					64		1,117		81
NON-MANDATORY TRANSFERS FOR:									
CURRENT FUND - UNRESTRICTED	12,989	1,395				77			13,046
CURRENT FUND - RESTRICTED	727					168			2,830
UNEXPENDED PLANT FUND	283,409	43,404	15,826	12,421	9,154	12,566	5,728	3,187	396,395
RENEWAL AND REPLACEMENT	855,532	359,708	136,902	121,606	92,059	89,469	76,862	40,216	1,772,444
TOTAL AUXILIARY ENTERPRISES AND HOSPITALS									
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):									
TRANSFERS TO PRIMARY GOVERNMENT	333,463	143,602	55,677	53,003	34,100	39,946	30,554	19,133	709,478
TRANSFERS TO OTHER GOVERNMENT	(4,228)	4,410	(10)	79	(20)	(1)	(1)	(107)	(4,228)
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	7,231	3,772	(89)	764	(89)	244	203	281	5,222
INDIRECT COST RECOVERED		(828)			(70)	597	(10)		(311)
REFUNDS TO GRANTORS									
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)									
NET INCREASE (DECREASE) IN FUND BALANCE	\$ (3,830)	\$ 9,153	\$ 170	\$ 2,252	\$ (1,126)	\$ 896	\$ 498	\$ 346	\$ 8,339

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CHANGES IN FUND BALANCES  
COMPONENT UNITS - ALL UNIVERSITY AND COLLEGE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1996  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 1996
REVENUES AND OTHER ADDITIONS:									
EDUCATIONAL AND GENERAL REVENUES	169,860	148,466	40,964	37,765	21,777	24,681	33,370	17,672	514,145
AUXILIARY ENTERPRISES AND HOSPITALS REVENUES	269,380	25,732	15,675	13,134	8,199	12,160	5,870	3,757	352,907
INDIRECT COST RECOVERED		3,772		20,963		244			4,780
RESTRICTED GRANTS AND CONTRACTS	156,149	38,943	26,471	2,454	26,951	10,432	7,567	539	287,415
RESTRICTED GRANTS AND CONTRACTS	38,260	6,863	3,036			1,473	1,087		53,433
INVESTMENT INCOME	4,539	6,282	1,707		802	2,304	580	559	27,252
INTEREST AND OTHER INVESTMENT INCOME	13,324	21,952	5,842	1,714	7,651	10,777	4,820	1,613	47,252
EXPENDED FOR PLANT FACILITIES	55,178	21,759	5,204	10,054	8,582	10,777	3,429	1,731	118,688
RETIREMENT OF INDEBTEDNESS	20,053	22,436	723	3,145	6,918	10,159	114		52,878
OTHER REVENUES AND ADDITIONS	67,463			943					108,479
TOTAL REVENUES AND OTHER ADDITIONS	613,196	281,998	100,133	90,336	80,660	75,425	56,637	25,681	1,324,256
EXPENDITURES AND OTHER DEDUCTIONS:									
EDUCATIONAL AND GENERAL EXPENDITURES	546,143	291,361	114,835	104,941	76,661	72,323	64,261	32,208	1,302,833
AUXILIARY ENTERPRISES AND HOSPITALS EXPENDITURES	234,482	40,023	14,186	10,595	6,834	11,726	4,282	3,187	325,095
REFUND TO GRANTORS	14		103			14	16		147
ADMINISTRATIVE COLLECTION AND LITIGATION COSTS	131		83			57	69		543
LOAN CONSTRUCTION	128	309	167	166	10	60	43	21	970
DEPRECIATION	1,035		558		88				358
EXPENDED FOR PLANT FACILITIES	40,865	16,259	2,210	5,821	6,348	4,897	2,266	477	78,353
INTEREST ON DEBT	20,895	7,759	4,470	3,222	8,592	8,995	3,278	1,731	63,931
RETIREMENT OF INDEBTEDNESS	19,406	5,121	4,374	2,982	2,908	1,585	4,782	1,415	46,594
DISPOSAL OF PLANT FACILITIES	27,140	10,718	2,404	5,929	5,443	2,726	445	122	49,546
NOTES ISSUED									15,908
OTHER EXPENDITURES	142,608	1,258	2,755	1,424	335	2,705	169	20	151,274
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	1,001,032	376,808	146,145	135,036	107,208	99,088	80,057	39,539	2,014,713
TRANSFERS AMONG FUNDS, ADDITIONS (DEDUCTIONS):									
NON-MANDATORY TRANSFERS FROM GOVERNMENT	358,048	158,066	56,469	56,679	34,100	41,086	31,577	19,788	755,823
TRANSFERS TO PRIMARY GOVERNMENT	(4,281)	(16)	(10)	(33)	(20)	(35)	(4)	(65)	(4,461)
TOTAL TRANSFERS AMONG FUNDS	353,767	158,050	56,459	56,646	34,080	41,051	31,573	19,723	751,362
INCREASE (DECREASE) IN FUND BALANCE	135,931	63,230	10,447	11,946	7,552	17,398	8,153	6,265	260,802
FUND BALANCE AT JULY 1, AS RESTATED	1,367,467	458,410	220,850	158,471	119,040	145,124	92,559	104,137	2,677,078
FUND BALANCE AT JUNE 30	1,503,418	521,640	231,297	180,417	126,592	163,522	100,712	110,402	2,937,880

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

SOURCE	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Taxes	\$ 1,506,522	\$ 1,608,957	\$ 1,750,337	\$ 1,793,125	\$ 1,931,992	\$ 2,259,989	\$ 2,442,419	\$ 2,559,066	\$ 2,739,653	\$ 2,873,176
Sales & Gross Receipts	909,434	1,003,287	1,149,519	1,228,462	1,342,691	1,642,691	1,616,263	1,670,960	1,964,960	2,050,418
Individual Income	267,299	285,704	310,793	279,494	319,338	339,590	353,711	370,200	386,399	409,175
Corporation Income	245,825	270,087	281,886	303,347	323,378	353,711	370,200	386,399	409,175	430,778
Property	88,956	85,420	94,066	101,174	110,046	111,415	117,471	114,052	107,578	130,778
License & Privilege	186,008	186,667	182,966	196,945	188,924	185,020	181,340	177,826	185,019	185,019
Severance	49,245	48,785	53,752	67,013	68,597	77,241	71,040	76,173	79,331	82,673
Inheritance & Estate	71,563	51,618	104,839	111,662	118,327	116,692	123,636	120,036	117,077	104,819
Miscellaneous	3,324,582	3,910,135	3,929,188	4,081,222	4,703,293	4,990,547	5,222,041	5,540,011	5,943,927	6,155,565
Total Taxes	1,613,119	1,624,227	1,814,810	2,158,400	2,530,376	2,687,598	2,657,935	2,822,309	3,307,139	3,394,888
Intergovernmental Revenue	1,416,682	1,418,119	1,481,795	1,728,827	1,671,144	1,601,798	1,671,510	1,601,798	1,601,798	1,601,798
Charges for Services	203,147	203,426	148,195	119,750	126,840	138,877	161,510	134,161	160,975	163,331
License, Fees & Permits	137,233	91,729	114,074	40,530	41,106	39,229	39,972	38,553	40,720	40,485
Fines & Forfeitures	37,090	36,164	33,792	115,831	108,962	115,519	107,210	90,831	112,124	145,544
Interest & Investments	107,512	111,309	93,473	115,831	108,962	115,519	107,210	90,831	112,124	145,544
Other Income	114,177	82,380	76,944	90,050	136,338	80,241	123,951	3,207,922	3,976,773	4,151,132
Total Non-Tax Income	2,016,141	2,139,132	2,091,705	2,353,796	2,738,790	3,002,040	3,467,658	3,207,922	3,920,700	4,151,132
Total Revenue	\$ 3,529,663	\$ 3,763,972	\$ 3,846,535	\$ 4,512,196	\$ 5,269,166	\$ 5,589,636	\$ 6,124,577	\$ 6,050,281	\$ 6,628,353	\$ 7,545,020

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

FUNCTIONS	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
General Government	\$ 426,236	\$ 285,298	\$ 374,234	\$ 338,573	\$ 300,869	\$ 238,086	\$ 444,301	\$ 452,533	\$ 418,256	\$ 494,559
Legislative & Judicial	81,726	83,075	93,813	103,564	111,920	118,345	120,036	125,575	132,421	147,563
Commerce	28,602	30,051	42,043	48,225	40,485	41,512	37,279	37,656	42,430	42,704
Education & Humanities	1,479,674	1,631,988	1,689,905	1,935,653	2,302,807	2,511,764	2,678,179	2,663,797	2,835,220	2,862,449
Energy	11,043	11,097	19,714	0	0	0	0	0	0	0
Human Resources	1,396,916	1,640,146	1,732,736	2,010,819	2,495,859	2,916,988	3,128,059	3,077,162	3,318,430	3,819,907
Justice	75,214	78,228	89,452	79,958	98,068	101,291	229,972	222,221	255,424	282,899
Natural Resources and Environmental Protection	52,313	54,373	59,217	64,349	98,517	56,919	63,481	105,920	110,509	96,094
Corrections	90,925	100,933	111,557	128,093	150,637	159,260	0	0	0	0
Public Protection and Regulation	57,024	64,414	64,445	68,341	72,138	73,888	83,322	79,816	86,411	94,124
Transportation	770,806	929,712	727,519	734,592	813,803	976,826	874,160	843,456	980,083	1,061,589
Capital Outlay	106,231	116,415	75,912	89,042	125,600	201,665	149,910	79,707	82,040	79,245
Debt Service	263,466	221,712	240,029	275,743	334,487	413,450	284,323	357,122	416,756	392,130
Totals	\$ 4,840,196	\$ 5,257,002	\$ 5,282,258	\$ 5,876,952	\$ 6,945,390	\$ 7,808,004	\$ 8,014,622	\$ 8,088,025	\$ 8,177,980	\$ 9,473,403

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report  
NOTE: In 1990 the Energy Function was distributed among other functions. In 1993 the Corrections Function was combined into the Justice Function.

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 State Government operates.

STATISTICAL SECTION

# DESCRIPTION OF TAX SOURCES - ALL GOVERNMENT-TAL FUND TYPES

JUNE 30, 1996

**SALES AND USE TAX** - 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. During fiscal 1996, the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

**COAL SEVERANCE TAX** - 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 statute was revised to include the taxation of coal processing and add a deduction from the gross value for the cost of transportation. A 1986 amendment provides that coal producing and coal impact counties are to receive a minimum of 10% of coal severance and processing taxes for FY 1986-87 and 12% for subsequent years. The 1992 General Assembly increased this amount to 15% for FY 1992-93, 18% for 93-94, 25% for 94-95, and 50% for 95-96. (NOTE: HB 2 enacted by the 1994 Special Session of the General Assembly revised the allocations to 21% for 94-95 and 25% for 95-96.)

**MOTOR FUELS TAX** - 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.

**MOTOR VEHICLE USAGE TAX** - Motor vehicles were originally taxed under the 3 percent gross receipt tax that was repealed in 1936. After repeal, a special 3 percent tax on motor vehicles was enacted. This tax is based on the "retail price" of the motor vehicles as defined by statute. The tax was increased to 5 percent in April 1968, and to 6 percent on July 1, 1990. The tax is paid to the county clerk when a vehicle is first registered in the owner's name. The proceeds derived from the tax are deposited to the Road Fund for use in the construction and maintenance of Kentucky's roads and bridges.

**MOTOR VEHICLE REGISTRATION FEE** - 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. In 1973, all motor vehicle registration functions were transferred from the Department of Revenue to the Department of Transportation and the apportioned registration of commercial vehicles began. Current rates for heavier trucks range from \$24 (6,001-10,000 lbs.) to \$840 (73,281-82,000 lbs.) with extended weightings required for still heavier vehicles.

**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, 1993, for tax years beginning after that date, modified for Kentucky differences between federal and Kentucky tax laws. Primary differences include the tax treatment of pension income and interest on federal obligations. The rates applied to net income 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 present tax credit of \$20 went into effect in 1961 and the current standard deduction of \$650 was adopted in 1976. A low income tax credit of 5% to 100% for single persons or married couples with adjusted gross income of \$25,000 or less was enacted in 1990. A child and dependent care credit equal to 20% of the Federal credit is also allowed.

**CORPORATION INCOME TAX** - The corporate income tax was enacted to first apply to calendar year 1936 income. The rate was 4% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to

5% of the first \$25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4% of the first \$25,000 and 5.8% on the excess. Tax rates beginning on January 1, 1980, are: 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 (KETTA) into law. KETTA 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 depreciations compared to recovery of 71% of cost using the Accelerated Cost Recovery System (ACRS) as adjusted for under prior Kentucky Law. KETTA 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%. Effective for tax years beginning after December 31, 1993, net income is computed using the Internal Revenue Code in effect on December 31, 1993.

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 1st day of the 1st taxable year beginning after December 31, 1993. The transition amount must be added to or subtracted from gross income in the 1st 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 after December 31, 1995, net income is computed using the Internal Revenue Code in effect on December 31, 1995.

## COMMONWEALTH OF KENTUCKY

**PROPERTY TAX** - The most marked changes in taxation during the past 42 years have occurred in the property tax. 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. 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 48.3% from 31.5 cents per \$100 in 1978 to 16.3 cents per \$100 in 1996.

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** - The inheritance tax began in Kentucky in 1906 and provided that all property of persons residing in the State and property within the State owned by non-residents shall be subject to a tax of \$5 on each \$100 of the fair cash value at the times of their deaths. The original exemption was \$500. In 1916, 1948, 1976, 1978, and 1985, various changes in the then existing legacy brackets and exemptions were legislated into law. Effective for dates of death on or after August 1, 1985, the surviving spouse's exemption for inheritance tax increased from the previous \$50,000 to the total inheritable interest, and the tax rates for others range from 2% to 16% depending on the heir's classification and distributive share. An additional exemption of personal property (up to \$7,500) is available upon application to the district court by the surviving children (when there is no surviving spouse), regardless of whether the decedent died testate or intestate.

House Bill 2, enacted during the 1995 Second Extraordinary Session of the General Assembly, phases out the inheritance tax over a four year period and is applicable to individuals dying after June 30, 1995 but is limited to Class A beneficiaries which includes parents, children (natural, adopted and step), grandchildren, brothers, sisters,

## COMMONWEALTH OF KENTUCKY

half-brothers and half-sisters. Class A was expanded under the bill to include brothers, sisters, half-brothers and half-sisters. These beneficiaries were originally in Class B. Other Class B and C beneficiaries were not affected by the bill. The inheritance tax for Class A beneficiaries will be completely phased out for deaths occurring after June 30, 1998. During the phase-out period, a Class A beneficiary is entitled to an exemption which is the greater of the exemption permitted under pre-July 1, 1995 law or a percentage of the inheritable interest. The following percentages apply: 25% for deaths from July 1, 1995 to July 1, 1996; 50% for deaths from July 1, 1996 to July 1, 1997; 75% for deaths from July 1, 1997 to July 1, 1998; and 100% for deaths on or after July 1, 1998.

The Kentucky estate tax is an amount by which the state death tax credit allowable under the federal estate tax law exceeds the total inheritance tax paid.

**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 tax on hospitals, other providers of specified health care services, and persons providing outpatient prescription drugs. 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.

(Note: HB 397 enacted by the 1996 General Assembly created and amended various sections of KRS Chapter 142 to phase out the health care provider tax on physician services. The current 2% rate will be reduced to 1.5% on August 1, 1996, through June 30, 1997; 1% from July 1, 1997, through June 30, 1998; and 0.5% from July 1, 1998, through June 30, 1999. The tax on physician services will be entirely removed as of July 1, 1999.)

**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 will be due on March 15, 1997.

COMMONWEALTH OF KENTUCKY  
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
FOR CALENDAR YEARS 1986 - 1995  
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Actual
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1986	\$ 54,424,249	\$ 57,591,796	\$ 87,946,889	\$ 87,946,889	\$ 142,371,138	\$ 145,538,687	97.8%
1987	57,406,207	61,265,936	98,039,467	98,039,467	155,445,674	159,305,403	97.6%
1988	61,308,019	65,320,574	101,100,506	101,100,506	162,408,525	166,421,080	97.6%
1989	63,730,690	72,466,699	117,635,547	117,635,547	181,366,237	190,102,246	95.4%
1990	69,798,898	80,228,607	124,398,999	124,398,999	194,197,897	204,627,606	94.9%
1991	74,628,422	84,862,792	132,552,592	132,552,592	207,179,014	217,555,344	95.3%
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	245,512,811	97.7%
1995	94,517,540	100,550,574	161,911,973	161,911,973	256,429,513	262,462,547	97.7%

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 1986 - 1995  
(Expressed in Thousands Except for Percentages)

For the Year Ended June 30	Total		Current Tax		Percent of Levy		Delinquent Tax		Total Tax		Percent of Total Tax Collections to Tax Levy
	Tax Levy		Collections		Collected		Collections		Collections		
1986	\$	254,751	\$	244,974	92.5%	\$	9,544	\$	254,518	96.1%	
1987		264,271		239,541	90.6%		11,768		251,309	95.1%	
1988		290,148		258,673	89.2%		11,229		269,912	93.0%	
1989		292,001		270,216	92.5%		11,673		281,889	96.5%	
1990		317,574		295,729	93.1%		7,617		303,346	95.5%	
1991		342,116		313,503	91.6%		9,871		323,374	94.5%	
1992		355,821		329,783	92.7%		8,765		338,548	95.1%	
1993		372,168		345,089	92.7%		9,669		354,758	95.3%	
1994		397,350		357,996	92.4%		12,204		370,200	95.6%	
1995		412,789		377,710	91.5%		17,615		395,325	95.8%	

SOURCE:

Kentucky Revenue Cabinet

NOTE:

Property taxes are assessed as of January 1 of each year in one of two ways: 1) By the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year.

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
1987	3,683	\$ 155,445,674	\$ 2,068,313	1.3%	562
1988	3,680	162,408,525	2,205,049	1.4%	599
1989	3,677	181,366,237	2,243,965	1.2%	610
1990	3,687	194,197,867	2,292,249	1.2%	622
1991	3,715	207,179,014	2,790,549	1.3%	751
1992	3,752	218,369,166	2,819,240	1.3%	751
1993	3,793	224,019,198	3,144,038	1.4%	829
1994	3,828	242,795,547	3,098,553	1.3%	809
1995	3,860	256,429,513	3,133,332	1.2%	812
1996	3,906	Projected	3,134,342	1.2%	802

SOURCE: University of Louisville Center for Urban and Economic Research; Kentucky Revenue Cabinet; Office for Financial Management and Economic Analysis; bond reporting systems.

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		Ratio
	Long-Term Debt Service	Total Expenditures	
1987	\$ 210,835	\$ 4,840,186	4.4%
1988	217,848	5,257,062	4.1%
1989	220,626	5,282,636	4.4%
1990	260,347	5,876,952	4.4%
1991	334,487	6,945,390	4.8%
1992	413,450	7,808,004	5.3%
1993	294,323	8,014,622	3.9%
1994	357,122	8,058,025	4.4%
1995	416,756	9,177,980	4.5%
1996	392,130	9,473,403	4.1%

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		Unrestricted Current Funds Revenues and Additions		Unrestricted Current Funds Expenditures and Transfers		Net Revenue Available for Debt Service Requirements	Debt Service Requirements	Coverage		
	Beginning Balance										
1987	\$	105,421	\$	887,338	\$	873,461	\$	119,298	\$	41,801	2.85
1988		121,257		970,955		954,275		137,937		50,693	2.72
1989		137,998		1,047,740		1,062,988		122,650		57,345	2.14
1990		122,650		1,125,850		1,115,630		137,866		57,802	2.30
1991		132,486		1,258,409		1,262,373		138,592		64,195	2.16
1992		139,539		1,377,263		1,372,630		144,192		73,763	1.95
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

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



COMMONWEALTH OF KENTUCKY  
DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 1986-1995

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
1986	3,687,805	11,732	9.3%
1987	3,683,330	12,439	8.8%
1988	3,680,002	13,171	7.9%
1989	3,677,316	14,197	6.2%
1990	3,666,891	15,088	5.9%
1991	3,715,080	15,742	7.9%
1992	3,792,385	16,732	6.9%
1993	3,793,389	17,167	6.2%
1994	3,827,891	17,991	5.4%
1995	3,869,219	18,849	5.4%

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

NOTE: \* Actual population per 1990 census count

COMMONWEALTH OF KENTUCKY  
CONSTRUCTION AND BANK DEPOSITS  
FOR CALENDAR YEARS 1986-1995  
(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 \$	Amount \$	Percent
1986	8,611	540,620	13,503	641,647	26,518,536	
1987	8,694	630,533	13,223	746,010	27,990,271	
1988	8,318	662,821	13,363	786,711	29,908,656	
1989	8,254	626,716	12,656	773,383	31,741,423	
1990	7,823	655,650	11,810	771,010	33,487,743	
1991	7,908	582,450	11,961	784,106	34,076,526	
1992	8,437	677,181	14,689	1,023,882	35,112,000	
1993	8,992	797,366	15,907	1,122,871	37,352,000	
1994	10,024	801,728	16,554	1,370,011	37,893,000	
1995	10,025	1,247,662	18,027	1,266,108		

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

COMMONWEALTH OF KENTUCKY  
SOURCES OF PERSONAL INCOME  
FOR CALENDAR YEARS 1986-1995

Source	1986		1987		1988		1989		1990	
	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent
Farm	632,353	2.1%	735,990	2.3%	713,948	2.1%	1,076,812	2.5%	983,324	2.5%
Agriculture Services, Forestry, Fisheries and Others	164,373	0.5%	210,781	0.6%	229,291	0.7%	230,208	0.6%	253,690	0.7%
Mining	1,752,368	5.8%	1,780,039	5.5%	1,634,586	4.7%	1,528,233	4.1%	1,664,895	4.3%
Manufacturing	7,082,081	23.4%	7,512,647	23.0%	8,025,779	23.2%	8,479,432	23.0%	8,981,066	23.0%
Construction	1,791,888	5.9%	2,001,496	6.1%	2,064,897	6.0%	2,182,266	5.9%	2,204,497	5.6%
Wholesale and Retail Trade	4,850,477	16.1%	5,088,353	15.6%	5,341,108	15.5%	5,610,288	15.2%	5,964,296	15.0%
Finance, Insurance and Real Estate	1,182,013	3.9%	1,369,646	4.2%	1,440,129	4.2%	1,594,831	4.3%	1,698,462	4.4%
Transportation and Public Utilities	2,243,056	7.4%	2,420,132	7.4%	2,518,546	7.3%	2,646,599	7.2%	2,803,721	7.2%
Services	5,370,607	17.8%	6,000,787	18.4%	6,708,195	19.4%	7,365,353	20.0%	7,913,661	20.3%
Government and Government Enterprises	5,138,990	17.0%	5,504,335	16.9%	5,860,654	17.0%	6,174,672	16.7%	6,651,557	17.0%

SOURCE: U.S. Bureau of Economic Analysis, Regional Economic Information System, September, 1996.  
NOTE: Percentages may not add to 100% due to rounding.

Source	1991		1992		1993		1994		1995	
	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent	Amount \$	Percent
Agriculture Services, Forestry, Fisheries and Others	286,552	0.7%	298,933	0.7%	310,046	0.7%	335,598	0.7%	364,643	0.7%
Mining	1,517,486	3.8%	1,506,236	3.4%	1,442,612	3.1%	1,501,815	3.1%	1,452,567	2.8%
Manufacturing	8,936,301	22.1%	9,716,007	22.0%	10,215,095	22.2%	10,988,043	22.6%	11,662,087	22.7%
Construction	2,163,924	5.4%	2,424,438	5.5%	2,602,333	5.7%	2,660,020	5.5%	2,872,394	5.6%
Wholesale and Retail Trade	6,121,904	15.1%	6,561,320	14.9%	6,888,184	15.0%	7,365,236	15.2%	7,874,647	15.5%
Finance, Insurance and Real Estate	1,758,611	4.3%	1,994,147	4.5%	2,255,366	4.9%	2,287,176	4.7%	2,425,366	4.7%
Transportation and Public Utilities	2,977,776	7.4%	3,180,383	7.2%	3,321,207	7.2%	3,552,821	7.3%	3,780,671	7.4%
Services	8,444,935	20.9%	9,320,430	21.1%	9,882,244	21.5%	10,514,925	21.7%	11,452,240	22.3%
Government and Government Enterprises	7,213,820	17.8%	7,877,737	17.9%	7,991,280	17.4%	8,255,183	17.0%	8,641,526	16.8%

COMMONWEALTH OF KENTUCKY  
LARGEST MANUFACTURERS  
(Ranked by Number of Employees - 800 or more)  
1996

Company	Number of Plants	Number of Employees	Company	Number of Plants	Number of Employees
General Electric Company	7	13,020	American Standard Incorporated	2	1,390
Ford Motor Company	2	8,100	Duro Bag Manufacturing Company	2	1,374
Fruit of the Loom, Incorporated	4	7,250	Louisville Bidding Company	2	1,340
Toyota Motor Corporation	1	6,300	Fisher Price	1	1,300
Johnson Controls, Incorporated	12	4,126	Ashtand Oil, Incorporated	3	1,217
Lexmark International, Incorporated	1	3,800	Celanese	4	1,198
Emerson Electric Company	10	3,682	Nine West Group Incorporated	4	1,184
James Plastic and Engineering Corporation	6	2,494	Corning Inc./Dow Chemical	3	1,175
Philp Morris Companies, Incorporated	1	2,282	Square D Company	1	1,144
R.R. Donnelly and Sons Company	2	2,185	N.S. Group, Incorporated	2	1,133
Eaton Corporation	3	2,039	Garrett Company, Incorporated	1	1,100
General Motors Corporation	3	2,000	COMALCO	1	1,100
Sumitomo Electric Ind./Sumitomo Wiring	3	2,000	Mid-South Industries, Incorporated	2	1,100
U.S. Naval Sea Systems Command	1	1,960	Phelps Dodge Corporation	2	1,100
Courtauld PLC	2	1,852	Henry Vogt Machine Company	1	1,075
Alcan Aluminum Corporation	4	1,803	Seaboard Farms	1	1,058
Kentucky Apparel and Laundry Co. Inc.	10	1,801	American Bank, Incorporated	4	1,046
Conagra, Incorporated	1	1,800	Continental Metal Specialty Incorporated	2	1,033
Amco Incorporated	1	1,760	Rand McNally and Company	2	1,000
Martin Marietta Corporation	4	1,735	The Apparel Group	1	1,000
Flynn Enterprises Incorporated	4	1,675	Matsumita Electric Industries	1	970
Brown Forman Corporation	4	1,675	E Systems	1	970
Calhoun Bros., Incorporated	2	1,660	Paini Beach Company	2	957
Publishers Printing Company	2	1,660	Dana Corporation	4	900
General Tire Incorporated	1	1,580	Hatch Limited	1	900
American Greetings Corporation	2	1,580	Tri-County Manufacturing Assembly Inc.	1	900
Jockey International, Incorporated	4	1,483	United Catalysts, Incorporated	1	880
Reynolds Metals Company	5	1,449	Southern Company	2	837
Carnant Incorporated	6	1,392	Wilmette Industries	5	800
Leggett and Platt, Incorporated	6	1,392	Kendall Company	2	800
			Tecumseh Products Company	1	800

SOURCE: 1996 Kentucky Directory of Manufacturers, published by the Department of Economic Development

COMMONWEALTH OF KENTUCKY  
ENTITY RISK POOLS  
CLAIMS DEVELOPMENT INFORMATION  
FOR THE LAST EIGHT YEARS  
(Expressed in Thousands)

Kentucky Rate	Fiscal and Policy Year Ended						
	1989	1990	1991	1992	1993	1994	1995
Earned Premiums	\$ 57,750	\$ 92,522	\$ 111,010	\$ 136,636	\$ 155,334	\$ 133,365	\$ 139,525
Earned Investment Income	1,339	2,966	3,448	3,289	3,322	3,990	6,295
Total	59,089	95,488	114,458	139,925	158,656	137,355	145,820
Administrative Expense	3,035	4,663	5,193	5,591	5,887	5,833	5,579
Incurred Claims as Originally Estimated	46,870	78,871	95,210	117,570	128,942	143,133	144,479
Claims Paid (Cumulative) as of:							
End of Fiscal Year	31,920	62,673	76,254	96,279	110,178	123,980	116,761
One Year Later	46,607	77,542	95,556	113,587	126,314	144,858	141,537
Two Years Later	48,051	78,565	95,976	116,819	126,476	145,097	
Three Years Later	48,051	78,565	95,976	116,819	126,476		
Four Years Later	48,051	78,565	95,976				
Five Years Later	48,051	78,565					
Six Years Later	48,051	78,565					
Seven Years Later	48,051						
Re-estimation of Incurred Claims							
End of Fiscal Year	46,870	78,871	94,646	117,570	129,639	143,133	144,479
One Year Later	46,870	78,871	96,132	113,739	129,086	145,044	143,371
Two Years Later	48,051	78,565	95,976	116,819	127,486	145,082	
Three Years Later	48,051	78,565	95,976	116,819			
Four Years Later	48,051	78,565					
Five Years Later	48,051	78,565					
Six Years Later	48,051						
Seven Years Later	48,051						
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation as of the End of the Most Recent Fiscal Year	1,161	(306)	766	(751)	(1,456)	1,928	(1,109)

SOURCE: Per Compilations Report

COMMONWEALTH OF KENTUCKY  
SCHEDULE OF MISCELLANEOUS STATISTICS  
JUNE 30, 1996

	Legislative, Executive, Judicial	1792
Adoption of Kentucky Constitution	39,650	
Form of Government	72,988	
Land Area (square miles)		
Miles of Highways, Roads and Streets		
Police Protection:		
Statewide Jurisdiction	16	
Number of Kentucky State Police Posts	946	
Number of Sworn Officers	6	
Number of Other Statewide Agencies	640	
County Jurisdictions	120	
Number of Sheriffs	1,104	
Number of Deputies	11	
Number of County Departments	609	
Number of County Officers	237	
Local Jurisdictions	3,481	
Number of Departments	11	
Number of Sworn Officers	180	
College and Universities		
Number of Departments		
Number of Sworn Officers		
Higher Education:		
State Supported Universities and Community Colleges	22	
Number of Campuses	5,206	
Number of Full-Time Instructional Faculty	150,499	
Number of Students, Fall 1995	22	
Private Colleges and Universities	1,209	
Number of Campuses	24,756	
Number of Full-Time Instructional Faculty		
Number of Students, Fall 1995		
State Supported Recreation:	15	
Number of Resort Parks	24	
Number of Recreation Parks	10	
Number of Historic Sites	44,000	
Area of State Parks (acres)	1,174,800	
Number of 1995 Overnight Visitors	33,855	
Permanent Full-Time Executive Branch Employees		
SOURCES: Kentucky Revised Statutes		
Kentucky Transportation Cabinet		
Kentucky State Police		
Kentucky Council on Higher Education		
Kentucky Department of Parks		
Kentucky Department of Personnel		

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## EXHIBIT C

### FORM OF BOND COUNSEL OPINION

July 10, 1997

Kentucky Asset/Liability Commission  
Frankfort, Kentucky

Re: \$200,400,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue  
Anticipation Notes, 1997 Series A

We have examined a certified copy of the transcript of proceedings of the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer") relating to the authorization, sale and issuance of its General Fund Tax and Revenue Anticipation Notes, 1997 Series A, in the aggregate principal amount of \$200,400,000 (the "1997 Series A Notes"), dated July 10, 1997.

The 1997 Series A Notes have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly House Bill 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky, Sections 1 through 11, inclusive (the "Act"), a Resolution adopted by the Issuer on June 18, 1997 (the "1997 Series A Resolution"), and a Trust Indenture dated as of July 1, 1997 between the Issuer and Bank One, Kentucky, NA, Lexington, Kentucky, as trustee (the "Trustee") (the "Indenture").

We have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the 1997 Series A Notes, including a specimen 1997 Series A Note, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Commonwealth and the Issuer as to certain factual matters.

Based upon the foregoing, it is our opinion, under the law existing on the date of this opinion, that:

1. The Issuer is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the 1997 Series A Notes.

2. The Indenture and the 1997 Series A Resolution have been duly authorized, executed and delivered by the Issuer and are valid and binding obligations of the Issuer enforceable in accordance with their respective terms.

3. The 1997 Series A Notes have been duly authorized and issued by the Issuer and are valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

4. The 1997 Series A Notes are payable as to principal, premium, if any, and interest from and are secured by a pledge of and a first lien on the Revenues, as defined in the Act, the funds and accounts established by the Indenture (other than the Rebate Fund as defined therein) and the proceeds of the 1997 Series A Notes.

5. The 1997 Series A Notes are special and limited obligations of the Issuer payable solely and only as provided for by the Act and the Indenture.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the 1997 Series A Notes is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the 1997 Series A Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the 1997 Series A Notes.

7. The interest on the 1997 Series A Notes is exempt from income taxation and the 1997 Series A Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the 1997 Series A Resolution, the 1997 Series A Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

PECK, SHAFFER & WILLIAMS, L.L.P.