

Book-Entry Only

Ratings: **Moody's: A2**  
**S&P: A+**  
**Fitch IBCA: A+**

**NEW ISSUE**

*Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law, interest on the Project No. 60 Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Bond Counsel, under present law, interest on the Project No. 61 Bonds is not includible in gross income of the owners thereof for federal income tax purposes, except for interest on any Project No. 61 Bonds for any period during which such Project No. 61 Bonds are owned by a person who is a substantial user of the facilities refinanced with the proceeds of the Project No. 61 Bonds or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended), but such interest is included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion.*

**\$47,730,000**

**COMMONWEALTH OF KENTUCKY**  
**State Property and Buildings Commission**

**\$44,110,000**

**Revenue and Revenue Refunding Bonds,  
Project No. 60**

**\$3,620,000**

**Revenue Refunding Bonds,  
Project No. 61 (AMT)**

**Dated: May 1, 1998**

**Due: October 1, as on inside cover**

The Revenue and Revenue Refunding Bonds, Project No. 60 (the "Project No. 60 Bonds") and the Revenue Refunding Bonds, Project No. 61 (the "Project No. 61 Bonds") (collectively the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each April 1 and October 1, commencing on October 1, 1998. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Bank of Louisville, as Trustee and Paying Agent.

Certain of the Bonds are subject to mandatory sinking fund and optional redemption prior to maturity at the times and in the amounts described herein.

(AMOUNTS, MATURITIES, INTEREST RATES AND PRICES ON INSIDE COVER)

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") pursuant to Resolutions adopted April 28, 1998, to (i) provide funds with which to pay the cost of constructing, acquiring, installing and equipping the Project as described herein, (ii) refinance as part of the Project certain of the Commission's outstanding bonds, as more fully described herein, (iii) refund certain notes issued on behalf of the Commission, and (iv) pay the costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about May 28, 1998, in New York, New York, through the facilities of DTC, against payment therefor.

**Merrill Lynch & Co.**

J.J.B. Hilliard, W.L. Lyons, Inc.

J.C. Bradford & Co.

Morgan Keegan & Company, Inc

First Kentucky Securities Corporation

Seasongood & Mayer

Ross, Sinclair & Associates, Inc.

Dated: May 14, 1998

A. Portions of Project No. 60 Related to the Cabinet for Economic Development

<u>Project</u>	<u>Amount</u>
City of Paducah - Tyler Mountain Water Co.	\$ 175,000
Hart County - Akebono Brake Company, Inc.	83,000
City of Berea - Takefu Matsushita Electric Co.	500,000
Carroll County - North American Stainless, L.P.	1,000,000
City of Murray - Fischer Price/Mattel Operations	400,000
Boone County - Hennegan Company	258,000
Ballard County - Westvaco Corporation	626,850
City of Danville - Matsushita Appliance Corp.	500,000
City of Versailles, Woodford County - Osram Sylvania Inc.	348,000
City of Louisville - Vencor Inc.	<u>3,000,000</u>
Total	<u>\$6,890,850</u>

B. Refunding Portion of Project No. 60

The refunding portion of Project No. 60 will be utilized by the following state agencies:

Cabinet for Economic Development	Post Secondary Education:
Cabinet for Families and Children	Eastern Kentucky University
Cabinet for Health Services	Kentucky Community and Technical
Cabinet for Workforce Development	College System
Education, Arts and Humanities Cabinet	Kentucky State University
Finance and Administration Cabinet	Morehead State University
General Government	Murray State University
Department for Local Government	Northern Kentucky University
Department for Military Affairs	University of Kentucky
Justice Cabinet	University of Louisville
Tourism Development Cabinet	Western Kentucky University
Kentucky Horse Park	
Kentucky State Fair Board	

C. Project No. 61

Project No. 61 will be utilized by the following state agency:

Cabinet for Economic Development

**SUMMARIES OF THE PRINCIPAL DOCUMENTS**

The following statements are brief summaries of certain provisions of the Resolution and the Lease. Such statements do not purport to be complete and reference is made to the Resolution and the Lease, copies of which are available for examination at the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

# PROJECT NO. 60 BONDS

## Maturity Schedule

Maturity October 1	Principal Amount	Interest Rate	Yield	Maturity October 1	Principal Amount	Interest Rate	Yield
1998	\$ 680,000	3.700%	3.700%	2008	\$1,720,000	4.750%	4.780%
1999	3,760,000	4.500	4.090	2008	6,000,000	5.500	4.780
2000	260,000	4.100	4.100	2009	1,630,000	4.875	4.875
2001	275,000	4.200	4.200	2009	6,500,000	5.500	4.875
2002	825,000	4.300	4.300	2010	1,570,000	4.900	4.950
2003	820,000	4.375	4.375	2010	7,000,000	5.500	4.950
2004	280,000	4.400	4.450	2011	2,635,000	5.000	5.030
2005	295,000	4.500	4.550	2011	6,395,000	5.500	5.030
2006	315,000	4.600	4.650	2012	415,000	5.000	5.100
2007	330,000	4.700	4.700				

\$2,405,000 5.10% Term Bond due October 1, 2017 Yield 5.20%

(plus accrued interest)

# PROJECT NO. 61 BONDS

## Maturity Schedule

Maturity October 1	Principal Amount	Interest Rate	Yield
1998	\$320,000	4.000%	3.900%
1999	305,000	4.000	4.100
2000	320,000	4.200	4.250
2001	330,000	4.300	4.350
2002	345,000	4.400	4.450
2003	365,000	4.500	4.550
2004	380,000	4.600	4.650
2005	400,000	4.700	4.750
2006	415,000	4.750	4.800
2007	440,000	4.800	4.850

(plus accrued interest)

**COMMONWEALTH OF KENTUCKY  
STATE PROPERTY AND BUILDINGS COMMISSION**

Members

---

PAUL E. PATTON,  
Governor  
(Chairman of the Commission)

STEPHEN L. HENRY  
Lieutenant Governor

MARVIN E. STRONG, JR.  
Secretary of the  
Cabinet for Economic Development

A. B. CHANDLER III  
Attorney General

JOHN P. McCARTY  
Secretary  
Finance and Administration Cabinet  
(Executive Director of the Commission)

SARAH JANE SCHAAF  
Secretary  
Revenue Cabinet

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GORDON L. MULLIS, JR.  
Executive Director  
Office of Financial Management and Economic Analysis  
(Secretary to the Commission)

This Official Statement does not constitute an offer to sell the Bonds to any person, or the solicitation of an offer from any person to buy the Bonds, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Bonds 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 Bonds 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 Bonds unless the entire Official Statement is delivered in connection therewith.

**The Commission**        The State Property and Buildings Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE STATE PROPERTY AND BUILDINGS COMMISSION" (Page 13).

**The Offering**         The Commission is offering its \$44,110,000 Revenue and Revenue Refunding Bonds, Project No. 60 (the "Project No. 60 Bonds") and its \$3,620,000 Revenue Refunding Bonds, Project No. 61 (the "Project No. 61 Bonds") (collectively the "Bonds").

**Authority**            The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission authorizing the issuance of the Bonds and approving the lease (the "Lease") dated as of May 1, 1998, between the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"), as lessee.

**Use of Proceeds**     The Bonds are being issued to provide funds with which to (i) pay the cost of funding the Project, as described in this Official Statement, (ii) refund as part of the Project certain of the Commission's outstanding bonds, (iii) refund certain notes issued on behalf of the Commission, and (iv) pay the cost of issuing the Bonds.

**Security**             The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the Cabinet to the Commission under the Lease. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease" (Page 22). The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE CABINET, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

**Features of Bonds**    The Bonds are being offered in the authorized denominations of \$5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 1998. Principal of, redemption

premium, if any, and interest on the Bonds will be paid directly to DTC by Bank of Louisville, as Trustee and Paying Agent (the "Trustee").

The Bonds are issuable only as fully registered Bonds, without coupons. The Bonds maturing on or after October 1, 2009, are subject to optional redemption on or after October 1, 2008, at a redemption price of 101%, declining thereafter, all as further described in this Official Statement. See "THE BONDS - Redemption Provisions" (Page 7). It is expected that delivery of the Bonds will be made on or about May 28, 1998, 1998, in New York, New York, against payment therefor.

#### **Tax Status**

Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Chapman and Cutler, Bond Counsel, under present law, interest on the Project No. 60 Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Subject to compliance by the Commission, the Lessee and others with certain covenants, in the opinion of Bond Counsel, under present law, interest on the Project No. 61 Bonds is not includible in gross income of the owners thereof for federal income tax purposes, except for interest on any Project No. 61 Bonds for any period during which such Project No. 61 Bonds are owned by a person who is a substantial user of the facilities refinanced with the proceeds of the Project No. 61 Bonds or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended), but such interest is included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX EXEMPTION" herein for a more complete discussion.

#### **Continuing Disclosure**

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits 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 Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, 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 Bonds 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 representative of the Underwriters, Merrill Lynch & Co., World Financial Center, North Tower, 9th Floor, Merrill Lynch World Headquarters, New York, New York 10281-1309 (212) 449-0704.

**OFFICIAL STATEMENT**

**Relating to**

**\$47,730,000**

**COMMONWEALTH OF KENTUCKY  
State Property and Buildings Commission**

**\$44,110,000**

**Revenue and Revenue Refunding Bonds,  
Project No. 60**

**\$3,620,000**

**Revenue Refunding Bonds,  
Project No. 61 (AMT)**

**INTRODUCTION**

This Official Statement, including the cover page and the exhibits attached hereto, provides information in connection with the issuance and sale by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), of its \$44,110,000 Revenue and Revenue Refunding Bonds, Project No. 60 (the "Project No. 60 Bonds") and its \$3,620,000 Revenue Refunding Bonds, Project No. 61 (the "Project No. 61 Bonds") (collectively the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) pay the cost of constructing, acquiring, installing and equipping the Project hereinafter described, (ii) refund as part of the Project certain of the Commission's outstanding bonds, (iii) refund certain notes issued on behalf of the Commission, and (iv) pay for the costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE".

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted Resolutions (collectively the "Resolution") authorizing the issuance of the Bonds and approving the Lease hereinafter described.

The Cabinet, as lessee, has entered into Leases dated as of May 1, 1998 (collectively the "Lease"), with the Commission, as lessor to provide the Commission with amounts to pay the principal of and interest on the Bonds as they become due. The initial period of the Lease ends June 30, 2000, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Bonds. The Lease requires the Cabinet, for each biennial period during which Bonds are outstanding, beginning July 1, 2000, to seek legislative appropriations to the Cabinet in amounts which are sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Bonds. The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2000.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET NOR IS THE CABINET UNDER ANY OBLIGATION TO RENEW THE LEASE. THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.



Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Project, the Cabinet and the state agencies for which portions of the Project are being financed or refinanced (the "State Agencies") are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management and Economic Analysis, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

## THE COMMONWEALTH

The Commonwealth of Kentucky, nicknamed the Bluegrass State, was the first state west of the Alleghenys 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 39, 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 168 through page 181, including Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, ratios of debt to assessed value of property, debt per capita, debt to total expenditures, debt service coverage for university debt, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income, largest Commonwealth manufacturers, miscellaneous statistics, and claims development information for Commonwealth entity risk pools.

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 AGREEMENT." 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 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**

General Fund revenue on a budgetary basis for 1997 was \$5.68 billion, an increase of 5.6% over 1996. This amount included \$5.66 billion in tax and non-tax receipts, and \$20.55 million of Operating Transfers In. Taxes represented 95.0% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1997 totaled \$5.65 billion, including Operating Transfers Out of \$447.62 million. During 1997, expenditures increased by 5.0% and transfers increased by 35.3% compared to 1996. The general government function included \$724.65 million of expenditures and \$8.46 million of transfers for the eight State supported universities, which together amounted to 13.0% of the General Fund total.

The General Fund had a 1997 budgetary undesignated fund balance of \$284,116,626. This was an increase of \$60,689,058 when compared to the 1996 year-end budgetary undesignated fund balance of \$223,427,568. In addition, the balance of the Budget Reserve Trust Fund was maintained at \$200 million.

Revenue for general governmental functions totaled \$10.94 billion for 1997, an increase of 6.0% over the amount recognized during 1996.

1997 Governmental Funds Revenue was \$623.1 million higher than in 1996. Higher Tax and Intergovernmental receipts account for 90.2% of the increase. All eight major tax sources, primarily in the General Fund, went up \$331.6 million. Intergovernmental revenue rose \$230.4 million on the strength of \$245.2 million more in Federal Fund receipts from the United States government. Other revenues improved 44.7%, due to a \$26.3 million increase in the Other Special Revenue Fund and a \$23.6 million improvement in the Agency Revenue Fund. Charges for Services went down 5.3% during the period, mainly because of a \$19.9 million drop in Agency Revenue Fund receipts.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$10.16 billion for 1997, an increase of 7.2% compared to 1996.

1997 Governmental Funds Expenditures were \$686.3 million higher than in 1996. Human services provided by the Cabinet for Families and Children and the Health Services Cabinet went up \$400.7 million. Education and Humanities function costs rose \$114.4 million, due primarily to \$100.9 million more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 25.9%, including \$27.4 million more in Capital Projects Fund expenditures on the Commerce Function offset by various decreases.

Ending fund balances for all governmental fund types decreased 3.3%, from \$2.32 billion as restated for 1996, to \$2.24 billion in 1997. Of these totals, unreserved fund balances decreased 3.9%, from \$1.25 billion as restated at June 30, 1996, to \$1.20 billion at June 30, 1997.

During 1997, general depository cash in excess of daily requirements and not required for immediate expenditure was invested in eligible investments. Investment income from those securities for 1997, excluding that from pension trust funds, was \$152,327,757, a 38.7% increase compared to 1996.

### **Investment Policy**

The Commonwealth of Kentucky's investments are governed by Kentucky Revised Statute 42.500 et seq. and Kentucky Administrative Regulations Title 200 Chapter 14. The State Investment Commission (the Commission), which is comprised of the Governor, the Treasurer, the Secretary of the Finance and

Administration Cabinet and gubernatorial appointees of the Community Independent Banker's Association and the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management and Economic Analysis.

The Commonwealth maintains an average operating portfolio of approximately \$3.1 billion in cash and securities. The composition of investments as of March 31, 1998 was as follows: U.S. treasury securities (25%); securities issued by agencies, corporations and instrumentalities of the United States Government (33%); U.S. agency mortgage backed securities and collateralized mortgage obligations (6%); repurchase agreements collateralized by the aforementioned (21%); municipal securities (2%); and corporate and asset backed securities, including money market securities (13%). The portfolio has a current yield of 5.96% and a modified duration of 1.12 years. The Commonwealth's investments are marked to market daily.

The Commonwealth's investments have been categorized into four distinct classifications or investment pools, the Short-term, Intermediate-term, Long-term, and the Capital Construction Bond Proceeds Pool. In September 1997 the U.S. Treasury and Agency Pool was renamed the Capital Construction Bond Proceeds Pool to more adequately describe its function, and the University Pool and the Trust and Other Pool were merged with the then existing Long-term Pool to form the Intermediate-term Pool. The Intermediate-term Pool includes State Agency and Component Unit investments. A new Long-term Pool was then established for the investment of a portion of the state's Budget Reserve Trust Fund and other state funds that have a longer investment horizon. The purpose of these pools is to provide economies of scale that enhance yield, ease administration, and increase accountability and control.

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

The Commonwealth has used over-the-counter treasury options since the mid-1980's to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of 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 of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a Securities Lending Program since the mid-1980's. 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, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. Currently, the Commonwealth receives a guaranteed rate of 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.

Currently, the Commonwealth has one \$50 million notional amount fixed rate receiver swap transaction outstanding, which has a stated final maturity of July 9, 1999.

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

On February 10, 1998, new administrative regulations governing the purchase of these new securities became effective. The new asset classes will be limited to twenty-five percent (25%) of the assets of any investment pool. Corporate securities, inclusive of Commercial Paper, Bankers' Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and 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 administrative regulations also detail the requirements for the investment of funds in United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO). MBS and CMO 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. CMO must have a weighted-average-life of four (4) years or less.

## SECURITY FOR THE BONDS

The Bonds are not secured by a lien on any properties constituting the Project or any amounts derived therefrom. The Bonds and the interest thereon are payable solely from the revenues to be derived from the rental payments of the Cabinet under the Lease. See the caption "SUMMARIES OF THE PRINCIPAL DOCUMENTS — The Lease."

The Kentucky General Assembly has appropriated to the Cabinet amounts sufficient to meet the rental payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Bonds through June 30, 2000.

Appropriations for the rental payments under the Lease are subject to the discretion and approval of each successive biennial or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) in the performance of his or her obligation to balance the Commonwealth's annual budget, the Governor will not reduce or eliminate such appropriations. FAILURE OF THE CABINET TO RECEIVE SUCH APPROPRIATIONS WILL HAVE A MATERIAL ADVERSE EFFECT ON THE COMMISSION'S ABILITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS.

## THE BONDS

### General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated as of May 1, 1998, and will bear interest payable on each April 1 and October 1, commencing October 1, 1998, at the interest rates set forth on the cover page of this Official Statement. Bank of Louisville is the trustee for the Bonds (the "Trustee").

## **Book Entry Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, 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 § 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Commission may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

*The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.*

## Redemption Provisions

*Optional Redemption.* The Project No. 60 Bonds maturing on and after October 1, 2009, may be redeemed at the option of the Commission on any date on or after October 1, 2008, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at the redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) set forth below, plus accrued interest to the date of redemption:

<u>Redemption Period</u> <u>(Dates Inclusive)</u>	<u>Redemption</u> <u>Price</u>
October 1, 2008 through September 30, 2009	101.0%
October 1, 2009 through September 30, 2010	100.5
October 1, 2010 and thereafter	100.0

The Project No. 61 Bonds are not subject to optional redemption prior to maturity.



*Mandatory Sinking Fund Redemption.* The Project No. 60 Bonds maturing on October 1, 2017 are subject to mandatory sinking fund redemption prior to maturity, at a redemption price of 100% of the principal amount thereof being redeemed, plus accrued interest to the date fixed for redemption, without premium, in the amounts and on October 1 of the years as follows:

<u>Redemption Date</u>	<u>Principal Amount</u>
October 1, 2013	\$435,000
October 1, 2014	455,000
October 1, 2015	480,000
October 1, 2016	505,000
October 1, 2017*	530,000

\*Maturity

In the event that Bonds so subject to mandatory sinking fund redemption have been called for optional redemption or have been purchased by the Commission as provided in the Bond Resolution, then the amount of the mandatory sinking fund installments shall be reduced in such order as shall be distinguished by the Commission.

*Notice of Redemption.* At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least \$1,000,000 in aggregate principal amount of the Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Attention: Call Notification; Kenny Information Systems Notification Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Attention: Called Bonds Section; Financial Information, Inc., 30 Montgomery Street, Jersey City, New Jersey 07302, Attention: Called Bond Service Edition; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; *provided however*, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

A second notice of redemption shall be given within sixty (60) days after the date fixed for redemption in the manner required above to the registered owners of redeemed Bonds which have not been presented for payment within thirty (30) days after the date fixed for redemption.

Any notice mailed as provided, shall be conclusively presumed to have been duly given upon mailing, whether or not the owner of such Bonds receives the notice.

Upon the giving of notice and the deposit of funds for redemption, interest on the Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

### PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet (i) to pay the cost of constructing, acquiring, installing and equipping the Project, (ii) to refund as part of the Project certain of the Commission's outstanding bonds further identified in the table below (the "Refunded Bonds"), (iii) refund certain notes issued on behalf of the Commission, and (iv) to pay the costs of issuance of the Bonds.

The Commission had outstanding bonds in the aggregate principal amount of \$1,040,835,000 as of May 1, 1998. A portion of the proceeds of the Project No. 60 Bonds will be used to refund certain outstanding Commission bonds, as listed below:

<u>Project No.</u>	<u>Date of Bond Issue</u>	<u>Maturities or Sinking Fund Installments Refunded</u>	<u>Principal Amount Refunded</u>
26(2)	10/01/1988	6/01/2000	\$ 700,000
30(5)	10/01/1988	6/01/2000	1,895,000
31(4)	10/01/1988	6/01/2000	740,000
32(3)	12/01/1990	6/01/2003-12/01/2003	1,065,000
53	11/01/1991	10/01/2008-10/01/2011	32,210,000

A portion of the proceeds of the Project No. 61 Bonds will be used to refund certain outstanding Commission bonds, as listed below:

<u>Project No.</u>	<u>Date of Bond Issue</u>	<u>Maturities or Sinking Fund Installments Refunded</u>	<u>Principal Amount Refunded</u>
39(2)	04/01/1988	4/01/1999-4/01/2008	\$3,445,000

A portion of the proceeds of the Bonds will be deposited in a separate and distinct escrow fund to be held by Bank of Louisville, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of May 1, 1998, by and between the Commission and the Escrow Agent. The Escrow Agent is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the interest on the Refunded Bonds as same become due, the principal of certain

Refunded Bonds at maturity and the redemption price of Refunded Bonds subject to redemption prior to maturity through mandatory sinking fund installments and optional redemptions. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Agent on behalf of the prior trustees, in the opinion of Bond Counsel, the Refunded Bonds shall no longer be deemed to be outstanding for the purposes of the resolution under which the Refunded Bonds were issued.

A portion of the proceeds of the Bonds will be deposited in a note payment fund (the "Note Payment Fund") established for the payment of bond anticipation notes (the "Notes") issued on behalf of the Commission by the Kentucky Asset/Liability Commission ("ALCo"). The Notes were originally issued by ALCo to provide interim financing for various Commission projects. The Commission is obligated to issue bonds to provide permanent financing for those projects under a Financing/Lease Agreement dated as of February 1, 1998 among the Commission, ALCo and the Cabinet. The deposit of amounts in the Note Payment Fund is being made pursuant to that obligation.

The remaining proceeds of the Bonds, except for issuance costs and accrued interest, will be deposited in various accounts of the Construction Fund established by the Commonwealth for paying the costs of construction, acquisition, installation and equipping of the Project. Amounts will be disbursed to pay the costs of construction, acquisition, installation and equipping of the Project as costs are incurred.

### SOURCES AND USES OF FUNDS FOR THE BONDS

The following tables set forth the application of the proceeds of the Bonds.

#### Project No. 60

**SOURCES OF FUNDS:**

Par Amount of Bonds	\$44,110,000.00
Accrued Interest	171,074.07
Less: Underwriters' Discount	(292,612.90)
Plus: Original Issue Premium	1,286,834.25
 <b>TOTAL SOURCES</b>	 <b><u>\$45,275,295.42</u></b>

**USES OF FUNDS:**

Escrow Fund Deposit	\$ 38,072,958.69
Deposit to ALCo Note Payment Fund	2,416,000.00
Construction Fund Deposit	4,474,850.00
Costs of Issuance	140,412.66
Deposit to Bond Service Fund - Accrued Interest	<u>171,074.07</u>
 <b>TOTAL USES</b>	 <b><u>\$45,275,295.42</u></b>

**Project No. 61**

**SOURCES OF FUNDS:**

Par Amount of Bonds	\$3,620,000.00
Accrued Interest	12,101.06
Less: Underwriters' Discount	(19,801.80)
Less: Original Issue Discount	(8,213.75)

**TOTAL SOURCES** \$3,604,085.51

**USES OF FUNDS:**

Redemption Fund Deposit	\$3,580,788.13
Costs of Issuance	11,196.32
Deposit to Bond Service Fund - Accrued Interest	12,101.06

**TOTAL USES** \$3,604,085.51

**THE STATE PROPERTY AND BUILDINGS COMMISSION**

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development and the Secretary of the Revenue Cabinet. The Office of Financial Management and Economic Analysis (the "Office") in the Finance and Administration Cabinet serves as staff to the Commission and the Executive Director of the Office serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease-rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Lease. The Resolution was adopted by the Commission on April 28, 1998, authorizing the issuance of the Bonds.

**THE FINANCE AND ADMINISTRATION CABINET**

The Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth.

The functions of the Cabinet include, among other things, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) the construction, maintenance and operation of public buildings, except those provided for the exclusive use of one agency; (5) provision of administrative services of a financial nature to other agencies of Commonwealth government; (6) the estimation and analysis of state revenue; (7) the investment and

management of all Commonwealth funds; and (8) the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

## **THE STATE AGENCIES**

### **Cabinet for Economic Development**

The 1992 General Assembly created the Kentucky Economic Development Partnership, a board governing the Cabinet for Economic Development. The Partnership consists of eleven voting members and the Secretary of the Cabinet for Economic Development and the Secretary of the Tourism Development Cabinet who serve as non-voting members. The Governor serves as Chairman.

The Cabinet for Economic Development promotes and facilitates increased economic development in the Commonwealth. This development is aimed toward increasing the standard of living and improving the opportunities of all Kentucky citizens. The Cabinet for Economic Development works to encourage new businesses to locate in Kentucky, to assist business in the Commonwealth to expand, to increase outside investment and spending in the Commonwealth, to promote Kentucky products and resources and to upgrade the quality and quantity of services provided by Kentucky communities.

### **Cabinet for Families and Children**

The Cabinet for Families and Children was created by Executive Order 96-862 (which also abolished the Cabinet for Human Resources). The Department for Social Insurance, the Department for Social Services, and the Administration and Program Support (APS) Offices form the Cabinet for Families and Children.

### **Cabinet for Health Services**

The Cabinet for Health Services was created by Executive Order 96-862 (which also abolished the Cabinet for Human Resources). The Department for Medicaid Services, Department for Mental Health/Mental Retardation Services, Department for Public Health, Commission for Children with Special Health Care Needs, the Office of Certificate of Need, the Office of Program Support, the Office of the General Counsel, the Office of the Inspector General and the Office of the Secretary form the Cabinet for Health Services.

### **Cabinet for Workforce Development**

The Cabinet for Workforce Development was created by the 1990 General Assembly for the purpose of addressing the needs of the Commonwealth's adult population, employees and employers with a comprehensive, systematic and strategic approach to workforce education, training and retraining. The Cabinet consists of state agencies whose role and mission relate to the training of Kentucky's residents and includes the State Board for Adult and Technical Education, the Department for Technical Education, the Department for Adult Education and Literacy, the Department of Vocational Rehabilitation, the Department for the Blind, the Governor's Council on Vocational, Education, the Job Training Coordinating Council, the Kentucky Occupational Information Coordinating Committee, and the State Board for Proprietary Education.

## **Education, Arts and Humanities Cabinet**

The Education, Arts and Humanities Cabinet is charged with preserving Kentucky's heritage, preparing for its future, and promoting a statewide culture of lifelong learning. Each of the agencies in the Cabinet provides or oversees services that contribute to an enhanced quality of life for Kentuckians: excellence in public education, quality libraries, the preservation of historical landmarks, cultural enrichment through the visual and performing arts, and services to the deaf and hard of hearing.

## **Finance and Administration Cabinet**

A description of the Finance and Administration Cabinet appears under the heading "THE FINANCE AND ADMINISTRATION CABINET."

## **General Government**

*Department of Military Affairs.* The Department of Military Affairs is the state agency responsible for all military matters and disaster and emergency service coordination in the Commonwealth. The Governor is the constitutional Commander-in-Chief of the forces that are on duty in the state. He appoints the Adjutant General who commands the Kentucky National Guard (Army and Air), and directs and coordinates all programs of the Department.

The Department has the responsibility for organizing, equipping, training and housing units of the Kentucky National Guard which may be called to duty by the Governor in the event of civil strife or disorder, or the occurrence of natural or man-made disasters.

The Department consists of these organizational units: General Administration and Support, Property Management, Guard Materials Management, Air Transport, Disaster and Emergency Services, and Bluegrass Station.

*Department of Local Government.* The Department of Local Government is an independent agency attached to the Office of the Governor. The functions of the Department include: acting as the technical support and service agency of state government for local government units of the Commonwealth; serving as a clearinghouse for data, information and assistance useful or necessary to local governmental units; and assisting the Governor in coordinating activities having an impact upon the solution of local governmental problems. The Department is comprised of the Commissioner's Office and four divisions: Financial Services, Community Development, Support Services and Training, and Area Development District Services.

The Commissioner's Office administers the Flood Control Match Program, an initiative to ensure that matching funds required by the U.S. Corps of Engineers are available for vital flood control projects in the Commonwealth. The Water Resource Development Commission is attached to the Commissioner's Office for administrative purposes. Charged with planning to provide potable water to all Kentuckians residing on public roads, the Commission is poised to fully implement its plan by 2020.

## **Justice Cabinet**

The Justice Cabinet has overall responsibility for the criminal justice system of the Commonwealth, including all powers and duties formerly vested in the Department of Public Safety, the Kentucky Crime Commission and the Kentucky Law Enforcement Council. The Justice Cabinet is comprised of seven organizational units, each of which is under the exclusive direction and control of the Secretary of Justice: the Department of State Police, the Department of Criminal Justice Training, the Office of

Administration, the Department of Corrections, the Department of Juvenile Justice, the Parole Board and the Kentucky State Corrections Commission. Under a plan of reorganization adopted by the 1992 General Assembly, the Department of Corrections has replaced the former Corrections Cabinet and, as a department of the Justice Cabinet, exercises all functions of the State in relation to management of penal, reform, and correctional institutions; supervision of probation and parole; the giving of assistance to other departments, agencies and institutions of the state and federal government and the administration, enforcement and development of jail standards, training of jailers and jail personnel, and jail planning and construction. The Department of Corrections is responsible for administering the Kentucky State Reformatory (KSR), the Kentucky Correctional Institution for Women (KCIW), the Kentucky State Penitentiary (KSP), Northpoint Training Center (NTC), the Luther Luckett Correctional Complex (LLCC), the Eastern Kentucky Correctional Complex (EKCC), the Western Kentucky Correctional Complex (WKCC), the Roederer Correctional Complex (RCC), Blackburn Correctional Facilities Complex (BCFC), and three private minimum security prisons or other correctional institutions which may be established.

### **Postsecondary Education**

*Eastern Kentucky University.* Eastern Kentucky University located in Richmond, Kentucky was established by the 1906 General Assembly. The university's three primary responsibilities are: (1) to provide instruction in the arts and sciences, business, professional education, and technical subjects; (2) to provide service to the community and region through the faculty serving as consultants in their fields of specialization and engaging in research dealing with problems of society; and (3) to engage in research to advance knowledge in the subject matter areas with which the various colleges of the university are concerned. These purposes of the university are accomplished by the College of Arts and Humanities; College of Business; College of Education; College of Applied Arts and Technology; College of Health, Physical Education, Recreation and Athletics; College of Allied Health and Nursing; College of Law Enforcement; College of Natural and Mathematical Sciences; and Colleges of Social and Behavioral Sciences; and the Graduate School.

In keeping with its statutory mandates, its Council on Postsecondary Education Mission Statement, and in harmony with the Strategic Plan for Higher Education in Kentucky, the Eastern Kentucky University Board of Regents has adopted a Strategic Plan that clearly defines the institutional mission, goals and strategic directions for the future.

Each college, department and support units of the University has developed unit goals and objectives that support the institutional aims and has translated these goals and objectives into operational plans. In the final analysis, these plans have a direct relationship to the primary purposes of the institution.

*Kentucky Community and Technical College System.* The Kentucky Community and Technical College System ("KCTCS") was created by House Bill 1, the Kentucky Postsecondary Education Improvement Act of 1997, of the First Extraordinary Session of 1997 of the Kentucky General Assembly. The KCTCS includes the Commonwealth's 25 postsecondary technical education institutions and 13 community colleges. Prior to House Bill 1, the Community College System was governed and administered by the University of Kentucky (UK) and the Technical Institutions were governed and administered by the Cabinet for Workforce Development. The effective date of delegation of governance of the Community College System from UK to the KCTCS was January 14, 1998. The KCTCS provides postsecondary education and training at the diploma, associate degree, technical degree and certificate levels. Students can transfer credits easily from one institution to another within the system.

KCTCS gives access to two-year general studies programs for students who plan to transfer to a university or technical career program. Remedial adult education and continuing education credits can also be achieved through the system.

KCTCS also provides short-term customized training for business and industry, adult basic education and remedial education, and other services associated with comprehensive community and technical colleges.

*Kentucky State University.* Kentucky State College was established in 1886 by an Act of the Kentucky General Assembly. With the passage of the 1890 Morrill Act by the U. S. Congress, the college became a land-grant institution. A tripartite mission was instituted: teaching, research, and public service.

The 1972 General Assembly elevated the college to university status, effective July 1, 1973. Since that time, the General Assembly has amended KRS 164.290 to further read: "It is the intent of the general assembly that Kentucky State University shall serve as a four-year residential institution emphasizing a program of liberal studies appropriate to its size and resources." Kentucky State University (KSU) is a multipurpose institution with state and land-grant standing. The university is authorized to provide both undergraduate and graduate programs of instruction and is accredited by regional and national accreditation agencies.

Student enrollment has stabilized at approximately 2,600. The student body is fully integrated, serving both white and black residential students and a significant number of commuting students representing the ethnic and geographic diversity of the Commonwealth.

*Morehead State University.* Morehead State University's (MoSU) roots extend back to its days as a private normal school in the late 1800s. In 1922, the institution became a state normal school to meet expanded higher education needs for teacher training in Kentucky. After several name changes and an expanded perspective on higher education, MoSU was granted university status in 1966 to provide undergraduate and selected masters and specialist programs for the citizens of northern and eastern Kentucky. MoSU has grown both in size and in the quality of its instructional, research, and public service programs and activities.

MoSU has operationalized its mission through the adoption of seven statements of ideals which accent the intellectual, creative, ethical, and technical development of students; the discovery and integration of knowledge; the development of leadership qualities; the utilization of past achievements and values to respond to the challenges of the future; and a commitment to excellence and integrity.

The university's four divisions: Academic Affairs, Student Life, Administrative and Fiscal Services, and University Advancement work in harmony to implement strategies to fulfill the institution's ongoing strategic goals for quality education. The university's accreditation was reaffirmed in 1990 by the Southern Association of Colleges and Schools and programs in veterinary technology, social work, radiologic technology, teacher education, nursing and music are accredited through individual professional agencies.

The MoSU campus is located in the Appalachian foothills with main campus facilities in the city of Morehead and an agricultural center in Rowan County. Art and music facilities provide cultural programs and activities for the campus, community, and surrounding area. A modern student athletic center provides health, physical education, and recreation opportunities for students, employees, and members of the community. Over 47 percent of the university's students live in 13 residence halls and the university provides extensive student development programs to meet the needs of a holistic education for all students.



*Murray State University.* Murray State University (MuSU) was created by the Kentucky General Assembly in 1922 as Murray State Normal School. The university's role has expanded since its founding, as indicated by changes in its name: Murray State Teacher's College (1930), Murray State College (1948), and Murray State University (1966). The MuSU tradition of quality education through close interaction between students and faculty has been maintained as the institution has enlarged its mission at the direction of the Board of Regents and the General Assembly. Today MuSU serves western Kentucky as an educational and cultural center whose achievements continue to improve the quality of life of citizens in its region.

To carry out its mission of instruction, research, and service most effectively, MuSU has established an ongoing strategic planning process to evaluate all institutional policies and activities. A new strategic plan approved by the Board of Regents in November 1990 sets four major goals for the university in the areas of demonstrated baccalaureate excellence, effective regional service, fiscal accountability, and personnel involvement and support. A comprehensive program of assessment of institutional effectiveness supports the achievement of the plan.

The central focus of the university's educational mission is its degree programs at the associate, baccalaureate, master's and specialist levels; its non-degree professional and technical programs; and its joint doctoral programs with the University of Kentucky and the University of Louisville. MuSU's commitment to quality is evident in each of these programs.

Fifty-seven degree programs have achieved accreditation from 14 national professional organizations. Degrees are conferred through the six colleges: Business and Public Affairs, Education, Fine Arts and Communication, Humanistic Studies, Industry and Technology, and Science.

MuSU also serves the western Kentucky region through the Breathitt Veterinary Center, the West Kentucky Small Business Development Center, the National Aeronautics and Space Administration (NASA) Teacher Resource Center, the National Scouting Museum, Wrather West Kentucky Museum, and WKMS-FM.

*Northern Kentucky University.* Northern Kentucky University (NKU) is a comprehensive institution of higher education located in a large metropolitan area. NKU, therefore, recognizes an obligation to serve as a multipurpose, metropolitan institution. In order to meet the needs of the eight-county northern Kentucky region, the university provides programs at the associate, bachelor's, master's, and first-professional degree levels. The university started in 1948 as an extensive center of the University of Kentucky (UK) and later as part of the University of Kentucky's Community College System, and became an autonomous senior institution in 1968 by an act of the Kentucky General Assembly.

A Board of Regents was appointed, and subsequently, the Board of Trustees of the University of Kentucky turned over the Covington facilities and assets of Northern Community College to Northern Kentucky State College. These facilities, along with the community college faculty and students, formed the nucleus of Northern.

Limited space at the Covington campus and a rapidly growing enrollment necessitated the move to a new campus, built in Highland Heights. Beginning in the fall semester 1972, most baccalaureate classes were moved to the Highland Heights campus, with the first bachelor's degrees awarded in the spring of 1973.

In 1976, Northern Kentucky State College was changed to Northern Kentucky University by KRS 164.290. The programs of study offered by the university are those of a multipurpose state institution. There are 68 undergraduate degree programs offered in the arts and sciences, in business, and in

professional study areas. Master's degrees in education, business administration, public administration, nursing and a joint JD/MBA degree are offered as well as a juris doctor degree. The NKU Graduate Center, created in response to NKU's special mission of exploring experimental methods of delivering education, offers degree programs in community nutrition (with Eastern Kentucky University), library science (with UK), nursing (with UK), and social work (with UK).

*University of Kentucky.* The University of Kentucky was established in 1865 and is located in Lexington. The University of Kentucky University System serves as the principal graduate degree granting institution in the Commonwealth's system of higher education for statewide instruction, research and public service programs in all fields without geographic limitation.

These primary functions, (1) instruction - the dissemination of knowledge, (2) research - the creation of knowledge, (3) public service - the application of knowledge, and the scope of programs conducted in each functional area are defined by statute. KRS 164.125 authorizes the University of Kentucky to offer baccalaureate, professional, master's, specialist, doctoral and postdoctoral programs and to conduct joint doctoral programs in cooperation with other institutions. It designates the University of Kentucky as the Commonwealth's principal institution to conduct statewide research and service programs.

As one of the Commonwealth's land-grant institutions, the University is recognized for its federal and state charge as a public service agency for agriculture. There are innumerable other components in the public service program, many of which are mandated by Kentucky's statutory provisions or otherwise supported directly by the Commonwealth. Through its public service programs, the University disseminates new knowledge for the welfare and benefit of the citizens of the Commonwealth.

The University of Kentucky is organized into sixteen colleges and graduate schools plus extension programs, and operates a growing system of thirteen community colleges located throughout the Commonwealth. These two year colleges offer prebaccalaureate education in addition to technical and adult continuing education. Pursuant to House Bill 1 of the First Extraordinary Session of 1997 of the Kentucky General Assembly, the University of Kentucky delegated management of the Community College System to the Kentucky Community and Technical College System, effective January 14, 1998.

*University of Louisville.* The University of Louisville is a metropolitan university which has had close historical and legal ties with the City of Louisville and Jefferson County, Kentucky. The University was founded in 1798 as Jefferson Seminary, later known as Louisville College, and in 1846 became the University of Louisville by legislative charter. The University became a member of Kentucky's public higher education system on July 1, 1970, and amended its charter to reflect its status as a state institution. The University is located on three campuses in Jefferson County, Kentucky which, combined, cover over 667 acres of land.

The University of Louisville has established as independent components the following divisions: the College of Arts and Sciences, the Graduate School, the School of Dentistry, the Speed Scientific School, the Division of Transitional Studies, the School of Music, the School of Nursing, the College of Business and Public Administration, Continuing Studies, the School of Medicine, the School of Law, the School of Education, the Kent School of Social Work and the School of Allied Health Sciences.

The mission statement of the University of Louisville provides that the University shall serve as Kentucky's urban/metropolitan university and shall serve the specific educational, intellectual, cultural, services and research needs of the greater Louisville region. The University has a special obligation to serve the needs of a diverse population, including many ethnic minorities, placebound, part-time and nontraditional students.

*Western Kentucky University.* Western Kentucky University, which was established in 1906 by the General Assembly, offers a broad spectrum of instruction, scholarly activity and professional service within an academic climate encouraging intellectual excellence.

Western Kentucky University, by authorization of the Council on Postsecondary Education, provides instruction at the associate, baccalaureate and graduate levels in the liberal arts and sciences, traditional pre-professional programs and emerging career areas and professional fields including agriculture, business, communications, education, health and technology. The University supports diverse scholarship, including basic and applied research and creative activity, in order to expand knowledge, improve instruction and serve its varied clientele. The University directly supports its constituents with professional and technical expertise, cultural enrichment and educational assistance.

The University is committed to increase access for both traditional and nontraditional students and to improve educational attainment at all levels. This commitment is renewed through the expansion of the Western Kentucky University Community College.

The University is divided into colleges and other support units to facilitate the offering of these programs and services. The major instructional colleges/divisions include the Bowling Green College of Business Administration; College of Education and Behavioral Sciences; Ogden College of Science, Technology and Health; Potter College of Arts, Humanities and Social Sciences; Community College and Continuing Education; and Graduate Studies.

### **Tourism Development Cabinet**

*General.* The Tourism Development Cabinet was established by KRS 148.522 to facilitate efficiency and improved administration by the Commonwealth in promoting the tourism industry in Kentucky. Estimates project tourism spending in excess of \$7.2 billion annually, making tourism Kentucky's third-largest industry. The Tourism Development Cabinet administers 16 resort parks, 23 recreational parks and 10 historical sites. In addition, it includes the Kentucky Fair and Exposition Center, the Commonwealth Convention Center, the Kentucky Horse Park, the Department of Fish and Wildlife Resources and the Department of Travel. The tourism industry, Kentucky's second largest private employer, provides employment for approximately 140,000 Kentuckians. In addition, tourism related industries and businesses annually generate approximately \$500 million of state and local tax revenue in the Commonwealth.

The Department of Parks located within the Tourism Development Cabinet administers and operates the Kentucky State Parks System under the authority of KRS 148. The Department strives to provide quality recreational facilities and to preserve and protect historically significant sites and natural phenomena in the Commonwealth of Kentucky.

The Resort Parks program encourages tourism and economic development in Kentucky by providing excellent overnight accommodations, quality food service, and recreational activities for visitors at the 16 resort parks. In fiscal year 1997 the resort parks provided overnight accommodations for approximately 575,000 guests and served approximately 1.4 million meals.

The Recreation Parks and Historic Sites program encourages tourism and economic development in Kentucky by providing modern recreational and camping facilities and preserving significant scenic and historic landmarks, as well as operating museums and shrines. In fiscal year 1997, the camping areas attracted approximately 280,000 visitors and museum visitation approached 250,000.

*Kentucky Horse Park.* The 1,032-acre Kentucky Horse Park is a recreational and educational park featuring an exclusive movie, a farrier shop and a harness shop, a parade of breeds show, horse-drawn tours, the International Museum of the Horse, and the American Saddlebred Museum. Other attractions include: the Man O' War Memorial, Hall of Champions, Secretariat Memorial, a gift shop, an art gallery, two food service facilities, and horseback riding. Other facilities include a 260-site campground with a grocery, souvenir shop, pool, croquet, tennis, and basketball courts; 826 stalls for horse shows and some of the finest equine eventing facilities in the world, including a covered arena, six polo fields, show rings, and a steeplechase course. Central Kentucky Riding for the Handicapped and the National Horse Center Office Complex, which includes 11 horse-related organizations, are also located at the Park.

The purpose of the Kentucky Horse Park is to be the world's definitive equestrian educational facility dedicated to all breeds of horses; to provide show facilities capable of hosting national and international equestrian competitions in many disciplines; and to provide a positive impact on both the local and state economies by establishing itself as a nationally recognized tourist attraction.

The Horse Park provides recreational and educational activities for over 700,000 visitors a year through its regular activities and special events. In addition, the Park serves as an educational facility for approximately 20,000 students visitors from the Commonwealth.

*Kentucky State Fair Board.* The Kentucky State Fair Board is composed of 15 members: the Governor, the Commissioner of Agriculture, the Dean of the College of Agriculture at the University of Kentucky, and 12 members appointed by the Governor. Five of the 12 members appointed by the Governor are selected from nominations from the Kentucky Association of Fairs and Horse Shows, the Kentucky Livestock Improvements Association, the Kentucky State National Farmers Organization, the American Saddle Horse Breeders Association, and the Kentucky Farm Bureau Federation. The Board has control and custody of the funds, buildings, grounds, and equipment of the Kentucky Fair and Exposition Center and the Commonwealth Convention Center in Louisville, as outlined in KRS 247. A president is appointed by the Board to manage the Centers.

## THE PROJECT

The Cabinet will lease all of the facilities, renovations and improvements financed or refinanced with the proceeds of the Bonds from the Commission under the Lease. The non-refunding portion of the Project No. 60 Bonds is related to the Cabinet for Economic Development, as shown in paragraph A and the state agencies related to the portions of Project No. 60 representing the refunding of a portion of the Refunded Bonds is set out in paragraph B below (collectively, "Project No. 60"). The state agency related to Project No. 61 representing the refunding of a portion of the Refunded Bonds is set out in paragraph C below ("Project No. 61").

## The Resolution

*Funds and Accounts.* The following Funds and Accounts have been established under the Resolution. In addition to the deposit to the Escrow Fund described under "PLAN OF REFUNDING" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into such Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Bond Resolution at or before their maturity. Accrued interest on the Bonds will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any April 1, October 1 or other date set for the redemption of the Bonds (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

No further payments are required to be made to the Bond Fund when, and so long as, the aggregate amount therein is sufficient to retire all of the Bonds that are then outstanding and payable plus interest due or to become due and redemption premium, if any.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance Account will be transferred to the Bond Fund.

3. The Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund shall constitute a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings, real estate or economic development projects, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

*Federal Tax Covenants of the Commission.* The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludable from the gross income of the Holders for the purposes of federal income taxation and not permit the Bonds to be or become "arbitrage bonds" as defined in the Code.

*Investment of Funds.* Moneys in any Fund or Account established under the Resolution will be invested in obligations permitted by Kentucky law as specified in the Resolution.

*Events of Default.* The Resolution defines "Events of Default" as follows:

- [a] Default in the due and punctual payment of the interest on any Bond;
- [b] Default in the due and punctual payment of the principal of or premium, if any, on any Bond at maturity or upon redemption prior to maturity; or
- [c] Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25% in aggregate principal amount of Bonds outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause [a], [b] or [c] above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will ipso facto be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by 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 Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

In the enforcement of any right or remedy under the Resolution or under the law, the Trustee is entitled to sue for, enforce payment on, and receive any or all amounts then or during the continuance of any event of default becoming, and at any time remaining, due from the Commission, for principal, interest or otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as

provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

*Individual Holder Action Restricted.* No Holder of Bonds has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Resolution or for the execution of any trust thereof or for the appointment of a receiver or the enforcement of any other right under the Kentucky Revised Statutes, unless such Holder has given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action, or proceeding is to be taken and unless the Holders of not less than 25% in aggregate principal amount of Bonds outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

*Amendments to the Resolution.* If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds in any particular, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of 66 2/3% of the principal amount of Bonds outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of

the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

*Change, Substitution or Other Modification of Project.* Anything in the Resolution or the Lease notwithstanding, the Cabinet may, in its sole discretion, change, substitute or otherwise modify components of the Project, including economic development projects, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

*The Trustee.* The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of Bondholders.

*Discharge of the Resolution.* If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable at the times and in the manner stipulated therein and in the Bond Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with this Bond Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, "Defeasance Obligations" means:

(a) direct non-callable obligations of (including obligations issued or held in book entry form) the United States of America; and

(b) pre-refunded municipal obligations defined as follows:



Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (1) which are rated, based on the escrow, in the highest rating category of Standard and Poor's Ratings Services, a Division of The McGraw Hill Companies Inc. and Moody's Investors Service or any successors thereto; or (2) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraph (a) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

### **The Lease**

The Commission and the Cabinet have entered into the Lease whereby the Cabinet will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds sufficient to pay the amounts due on the Bonds.

The Lease is for an initial term ending June 30, 2000. The Commission has granted the Cabinet the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year beginning July 1, 2000. The last renewal term for the Lease relating to the Project No. 60 Bonds is ending June 30, 2018, the final maturity of the Project No. 60 Bonds being October 1, 2017. The last renewal term for the Lease relating to the Project No. 61 Bonds is June 30, 2008, the final maturity of the Project No. 61 Bonds being October 1, 2007. Under the provisions of the Constitution of the Commonwealth, the Commission and the Cabinet are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Cabinet is bound for the entire amount of the rent becoming due during such term payable from, but not limited to, appropriations, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

The Cabinet has covenanted and agreed in the Lease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth it will cause to be included in the appropriations proposed for that biennial period to be made for the Cabinet sufficient amounts (over and above all other requirements of the Cabinet) to enable the Cabinet to make rental payments under the Lease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period.

The ability of the Cabinet to make rental payments is subject to the appropriations of the General Assembly. There can be no assurance that such appropriations will be forthcoming at any time after June 30, 2000. The failure of the General Assembly to approve and enact such appropriations will have a material adverse effect on the ability of the Commission to pay the Bonds. In addition, there can be no assurance that in the performance of his or her obligations to balance the Commonwealth budget annually, the Governor will not reduce or eliminate any appropriations which are made.

If the Lease is renewed, then on the first day of the biennial renewal term the Cabinet is firmly bound for the entire amount of rental payments coming due during such renewal term.

In the Resolution, the Commission has covenanted that it will receive and apply the lease-rental payments from the Cabinet to pay the Bonds when due, and will carry out each and every duty imposed on it by the Kentucky Revised Statutes in respect thereto.

Events of default under the Lease include a default in the due and punctual payment of any rent or a default in the performance of any covenants therein not remedied within 30 days (or in the process of being remedied).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Cabinet's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Cabinet under the Lease upon delivery of an opinion of counsel that the subletting or reletting will not cause the interest on the Bonds to be includible in the gross income of the holders of the Bonds. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

#### RATINGS

Moody's Investors Service, Inc. ("Moody's") has given the Bonds the rating of "A2", Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") has given the Bonds the rating of "A+" and Fitch IBCA, Inc. ("Fitch") has given the Bonds the rating of "A+". Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the rating given by S&P may be obtained from Standard & Poor's Rating Services at 25 Broadway, New York, New York 10004, (212) 208-8000; and an explanation of the rating given by Fitch may be obtained from Fitch IBCA, Inc. at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

#### APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Chapman and Cutler, Chicago, Illinois, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as Exhibit D.

#### LITIGATION

Except as described herein, there is no litigation pending or, to the knowledge of the Commission or the Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or which would adversely affect the application of the revenues of the Commission to the payment of the Bonds.

## TAX EXEMPTION

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Commission has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds

Subject to the compliance by the Commission, the Lessee and others with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler, Bond Counsel, interest on the Project No. 60 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Project No. 60 Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations.

Subject to compliance by the Commission, the Lessee and others with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler, Bond Counsel, interest on the Project No. 61 Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, except for interest on any Project No. 61 Bonds for any period during which such Project No. 61 Bonds are owned by a person who is a substantial user of the facilities refinanced with proceeds of the Project No. 61 Bonds or, any person considered to be related to such person (within the meaning of Section 147(a) of the Code). Interest on the Project No. 61 Bonds is included, however, as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Commission and the Lessee with respect to certain material facts solely within the knowledge of the Commission and the Lessee relating to the application of the proceeds of the Bonds. In rendering its opinion, Bond Counsel will rely upon the Verification Report of Deloitte & Touche LLP.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the alternative minimum taxable income of the corporation ("AMTI"), which is the taxable income of the corporation with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, and REMICS) is an amount equal to 75% of the excess of the "adjusted current earnings" of such corporation over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitations, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security

or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the stated redemption price of the Bond at maturity the purchasers will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the election of the purchaser, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

From time to time, there are legislative proposals in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

#### VERIFICATION OF MATHEMATICAL COMPUTATIONS

Deloitte & Touche LLP will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the Refunded Bonds, and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludible from gross income of the owners thereof for federal income tax purposes. Deloitte & Touche LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

#### UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Merrill Lynch & Co. as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Project No. 60 Bonds at an aggregate purchase price of \$45,104,221.35 (which is equal to the principal amount of the Bonds plus net original issue premium of \$1,286,834.25 and less underwriting discount of \$292,612.90) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters have agreed, subject to certain conditions, to

purchase the Project No. 61 Bonds at an aggregate purchase price of \$3,591,984.45 (which is equal to the principal amount of the Bonds less net original issue discount of \$8,213.75 and less underwriting discount of \$19,801.80) plus accrued interest from the dated date of the Bonds to the date of delivery. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds 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 shall deem necessary in connection with the marketing of the Bonds.

### CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits 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 Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

### OTHER MATTERS

This Official Statement has been prepared under the direction of the Executive Director of the Office of Financial Management and Economic Analysis.

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. The summaries of the documents herein contained do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to official documents in all respects.

This Official Statement has been approved, and its execution and delivery have been authorized, by the Commission.

THE COMMONWEALTH OF KENTUCKY STATE  
PROPERTY AND BUILDINGS COMMISSION

By: /s/ Gordon L. Mullis, Jr.  
Executive Director  
Office of Financial Management  
and Economic Analysis  
(Secretary to the Commission)

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**EXHIBIT A**

**DEBT INFORMATION PERTAINING TO THE  
COMMONWEALTH OF KENTUCKY**

**COMMONWEALTH DEBT MANAGEMENT**

**Management**

The Office of Financial Management and Economic Analysis, Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists state agencies which currently have debt outstanding. OFMEA is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission, the Kentucky Local Correctional Facilities Construction Authority, and the Kentucky Infrastructure Authority.

**Structure**

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt.

**Appropriation supported debt** carries the name of the Commonwealth and is either (i) a general obligation of the State, or (ii) a project revenue obligation of one of its debt-issuing agencies created by the Kentucky General Assembly to finance various projects which is subject to state appropriation for all or a portion of the debt service on the bonds.

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth 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. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

Project revenue bonds and notes are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project revenues are not a direct obligation of the Commonwealth. Project revenues are, in some cases, derived partially or solely from biennial appropriations of the General Assembly. In other cases, the direct revenues generated from the project funded constitute the entire source of payment.

**Non-appropriation or moral obligation debt** carries the name of the Commonwealth for the benefit and convenience of other entities within the state. The bonds are special obligations of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of bonds. Although, in the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

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

ENTITY	STATUTORY/AUTHORITY PURPOSE	DEBT LIMITATIONS	RATING MOODY'S/S&P
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	A2/A+
Kentucky Asset/Liability Commission	KRS 56 Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	A/A
The State Universities (consisting of eight)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low income residents in the State.	Limited to \$1.125 billion of debt outstanding.	Aaa/AAA
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.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Other programs limited to \$60 and \$125 million of debt outstanding for maturities under and over 3 years, respectively.	A2/A
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.	Limited to \$553 million of debt outstanding.	Aaa/AA-



ENTITY	STATUTORY/AUTHORITY PURPOSE	DEBT LIMITATIONS	RATING MOODY'S/S&P
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.	Cannot incur debt without appropriation of debt service by General Assembly.	A1/A+
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.	None	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA
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.	Limited to \$500 million of debt outstanding.	NA

TABLE II  
DEBT OF THE STATE AND ITS AGENCIES  
(000)

AGENCY	AMOUNT ISSUED	PRINCIPAL OUTSTANDING 6/30/97	FISCAL YEAR ENDING JUNE 30, 1998		FISCAL YEAR ENDING JUNE 30, 1999	
			PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
<b>APPROPRIATION SUPPORTED DEBT</b>						
State Property and Buildings Commission	\$ 1,334,936	\$ 1,055,031	\$ 77,110	\$ 53,839	\$ 78,395	\$ 49,861
Turnpike Authority of Kentucky	1,887,904	1,208,609	97,774	55,912	92,526	61,843
School Facilities Construction Commission	702,936	511,377	27,532	29,467	29,086	27,869
Kentucky Infrastructure Authority	125,225	101,835	4,410	6,160	4,680	5,900
Subtotal:	<u>4,051,002</u>	<u>2,876,852</u>	<u>206,826</u>	<u>145,378</u>	<u>204,688</u>	<u>145,472</u>
<b>Universities (General Fund Supported Debt)</b>						
University of Kentucky	392,759	230,475	17,850	11,508	18,280	10,603
University of Louisville	173,235	134,515	6,850	6,977	7,200	6,630
Eastern Kentucky University	84,017	52,205	3,985	3,059	4,190	2,853
Western Kentucky University	53,395	33,860	2,450	1,748	2,640	1,605
Murray State University	41,758	19,533	2,528	1,015	2,650	893
Morehead State University	23,790	16,760	1,265	948	1,330	884
Kentucky State University	20,750	16,035	1,045	949	1,105	891
Northern Kentucky University	75,790	49,330	2,795	2,804	2,980	2,622
Subtotal:	<u>865,494</u>	<u>552,713</u>	<u>38,768</u>	<u>29,009</u>	<u>40,375</u>	<u>26,980</u>
<b>Universities (Agency Fund Supported Debt)</b>						
University of Kentucky	66,535	47,933	3,312	2,208	3,450	2,036
University of Louisville	21,574	16,083	645	918	653	883
Eastern Kentucky University	25,845	10,065	1,090	428	1,135	384
Western Kentucky University	42,994	23,157	1,079	1,131	1,123	1,078
Murray State University	14,787	5,532	525	173	570	165
Morehead State University	30,605	15,165	1,265	854	980	798
Kentucky State University	7,000	5,630	365	284	385	266
Northern Kentucky University	6,168	4,610	160	184	165	176
Subtotal:	<u>215,508</u>	<u>128,175</u>	<u>8,441</u>	<u>6,180</u>	<u>8,461</u>	<u>5,788</u>
<b>Total Appropriation Supported Debt</b>	<u>5,132,003</u>	<u>3,557,740</u>	<u>254,035</u>	<u>180,566</u>	<u>253,524</u>	<u>178,240</u>
<b>NON-APPROPRIATION SUPPORTED DEBT</b>						
<b>Moral Obligation Debt</b>						
Kentucky Housing Corporation	1,283,554	894,171	46,253	52,825	23,376	52,597
KY Higher Education Student Loan Corporation	666,185	452,970	31,135	23,427	23,875	21,787
Kentucky Infrastructure Authority	131,510	89,795	10,160	5,068	5,265	4,523
Subtotal:	<u>2,081,249</u>	<u>1,436,936</u>	<u>87,548</u>	<u>81,320</u>	<u>52,516</u>	<u>78,907</u>
<b>Project Revenue Debt</b>						
KY Economic Development Finance Authority	77,674	77,674	0	4,194	77,674	4,194
KY Local Correctional Facilities Construction Authority	45,595	40,785	1,485	2,060	1,515	1,998
Subtotal:	<u>123,269</u>	<u>118,459</u>	<u>1,485</u>	<u>6,254</u>	<u>79,189</u>	<u>6,192</u>
<b>Total Non-Appropriation Supported Debt</b>	<u>2,204,518</u>	<u>1,555,395</u>	<u>89,033</u>	<u>87,574</u>	<u>131,705</u>	<u>85,099</u>
<b>Total Debt</b>	<u>\$ 7,336,521</u>	<u>\$ 5,113,135</u>	<u>\$ 343,069</u>	<u>\$ 268,141</u>	<u>\$ 385,229</u>	<u>\$ 263,339</u>

TABLE II  
DEBT OF THE STATE AND ITS AGENCIES  
(000)

FISCAL YEAR ENDING JUNE 30, 2000		FISCAL YEAR ENDING JUNE 30, 2001		FISCAL YEAR ENDING JUNE 30, 2002		REMAINING DEBT SERVICE TO MATURITY	
PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
\$ 82,775	\$ 45,407	\$ 71,966	\$ 49,882	\$ 71,963	\$ 46,889	\$ 672,823	\$ 237,785
96,146	56,800	97,804	52,653	97,652	55,387	726,707	225,044
30,658	26,191	32,247	24,407	34,122	22,547	357,731	110,756
<u>4,950</u>	<u>5,619</u>	<u>5,235</u>	<u>5,323</u>	<u>5,540</u>	<u>5,023</u>	<u>77,020</u>	<u>29,116</u>
<u>214,529</u>	<u>134,017</u>	<u>207,251</u>	<u>132,265</u>	<u>209,277</u>	<u>129,846</u>	<u>1,834,281</u>	<u>602,700</u>
17,400	9,704	18,320	8,852	19,295	7,949	139,330	34,490
7,550	6,283	7,920	5,917	8,320	5,533	96,675	32,461
4,425	2,630	3,680	2,386	3,905	2,177	32,020	9,325
2,780	1,469	2,925	1,324	2,360	1,185	20,705	5,054
1,935	778	1,300	688	1,365	622	9,755	2,266
1,395	818	1,460	748	820	676	10,490	3,790
1,165	929	1,230	764	1,305	694	10,185	2,958
<u>3,165</u>	<u>2,448</u>	<u>3,315</u>	<u>2,287</u>	<u>3,500</u>	<u>2,114</u>	<u>33,575</u>	<u>10,006</u>
<u>39,815</u>	<u>25,058</u>	<u>40,150</u>	<u>22,967</u>	<u>40,870</u>	<u>20,950</u>	<u>352,735</u>	<u>100,350</u>
3,605	1,883	3,755	1,731	3,910	1,572	29,901	8,948
595	848	630	812	665	774	12,895	5,250
1,180	339	1,235	292	1,285	241	4,140	592
1,177	1,023	1,240	964	1,304	906	17,234	5,820
585	146	610	126	625	106	2,617	493
995	749	975	699	1,025	646	9,925	3,263
405	247	430	227	450	205	3,595	1,004
<u>170</u>	<u>169</u>	<u>175</u>	<u>161</u>	<u>185</u>	<u>152</u>	<u>3,755</u>	<u>1,189</u>
<u>8,712</u>	<u>5,404</u>	<u>9,050</u>	<u>5,012</u>	<u>9,449</u>	<u>4,603</u>	<u>84,062</u>	<u>26,558</u>
<u>263,056</u>	<u>164,479</u>	<u>256,451</u>	<u>160,244</u>	<u>259,596</u>	<u>155,399</u>	<u>2,271,078</u>	<u>729,608</u>
24,408	51,345	25,747	50,636	25,352	49,519	749,034	529,608
38,045	20,302	25,825	18,185	36,320	16,258	297,770	220,977
<u>5,155</u>	<u>4,183</u>	<u>5,130</u>	<u>3,845</u>	<u>5,015</u>	<u>3,538</u>	<u>59,070</u>	<u>22,694</u>
<u>67,608</u>	<u>75,830</u>	<u>56,702</u>	<u>72,667</u>	<u>66,687</u>	<u>69,315</u>	<u>1,105,874</u>	<u>773,279</u>
0	0	0	0	0	0	0	0
<u>1,620</u>	<u>1,930</u>	<u>1,690</u>	<u>1,856</u>	<u>1,765</u>	<u>1,777</u>	<u>32,710</u>	<u>12,725</u>
<u>1,620</u>	<u>1,930</u>	<u>1,690</u>	<u>1,856</u>	<u>1,765</u>	<u>1,777</u>	<u>32,710</u>	<u>12,725</u>
<u>69,228</u>	<u>77,760</u>	<u>58,392</u>	<u>74,523</u>	<u>68,452</u>	<u>71,092</u>	<u>1,138,584</u>	<u>786,004</u>
<u>\$ 332,283</u>	<u>\$ 242,239</u>	<u>\$ 314,844</u>	<u>\$ 234,767</u>	<u>\$ 328,048</u>	<u>\$ 226,491</u>	<u>\$ 3,409,662</u>	<u>\$ 1,515,612</u>

## Appropriation Supported Debt

In Table III, the large decrease in principal debt outstanding from 1981 to 1982 was due to a low to high interest rate refunding of certain Turnpike Authority of Kentucky Revenue Bonds. The large increase in principal debt outstanding from 1983 and 1984 and from 1990 to 1991 was due to the issuance of the \$300,000,000 Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (1984 Series A) and \$307,820,000 of Economic Development Road Revenue Bonds (Revitalization Project) Series 1990, respectively.

**TABLE III**  
**APPROPRIATION SUPPORTED**  
**PRINCIPAL DEBT OUTSTANDING: 1977-2000**  
**(000)**

<u>Fiscal Year</u>	<u>Current Dollars (\$)</u>	<u>Percent(%) Change</u>	<u>Constant Dollars(\$) (1982-1984)</u>	<u>Percent(%) Change</u>
1977	1,779,427	--	2,936,348	--
1978	1,785,852	0.36	2,852,799	-5.89
1979	2,005,685	12.31	2,928,007	2.64
1980	2,113,955	5.40	2,724,169	-6.96
1981	2,125,657	0.55	2,448,914	-10.10
1982	1,698,595	-20.09	1,801,267	-26.45
1983	1,781,785	4.90	1,812,599	0.63
1984	2,100,722	17.90	2,059,531	13.62
1985	2,098,887	-0.09	1,989,466	-3.40
1986	2,197,983	4.72	2,016,498	1.36
1987	2,627,290	19.53	2,360,548	17.06
1988	2,771,071	5.47	2,390,915	1.29
1989	2,726,688	-1.60	2,247,888	-5.98
1990	2,736,178	0.35	2,154,471	-4.16
1991	3,253,560	18.91	2,428,030	12.70
1992	3,537,597	8.73	2,557,915	5.35
1993	3,837,655	8.48	2,691,203	5.21
1994	3,785,779	-1.35	2,587,682	-3.85
1995	3,809,196	0.62	2,531,027	-2.19
1996	3,775,379	-0.89	2,404,700	-4.99
1997	3,557,740	-5.76	2,202,935	-8.39
1998*	3,594,309	1.03	2,161,341	-1.89
1999*	3,337,723	-7.14	1,954,171	-9.59
2000*	3,071,462	-7.98	1,752,118	-10.34

\*Estimate based upon principal outstanding as of 6-30-97 plus amounts authorized by the 1996 General Assembly and subsequent Extraordinary sessions.

**TABLE IV**  
**DEBT SERVICE ON APPROPRIATION SUPPORTED**  
**DEBT AND STATE REVENUE: 1977-2000**  
**(000)**

<u>Fiscal Year</u>	<u>Total Revenues(\$)</u>	<u>Total Appropriated Debt Service (\$)</u>	<u>Percent Debt Service to Total Revenue (%)</u>
1977	2,548,150	117,570	4.61
1978	2,933,001	134,280	4.58
1979	3,342,742	134,770	4.03
1980	3,576,158	156,770	4.38
1981	3,827,187	165,540	4.33
1982	3,981,114	170,670	4.29
1983	4,176,377	184,890	4.43
1984	4,256,161	201,020	4.72
1985	4,672,445	233,907	5.01
1986	5,083,294	247,380	4.87
1987	5,340,693	247,420	4.63
1988	5,649,272	277,690	4.92
1989	6,019,893	291,891	4.85
1990	6,435,020	304,431	4.73
1991	7,442,083	314,664	4.23
1992	8,022,587	394,436	4.92
1993	8,489,899	394,763	4.65
1994	8,747,561	395,953	4.53
1995	9,497,505	424,646	4.47
1996	10,925,186	435,719	3.99
1997	11,812,229	446,271	3.78
1998*	12,146,129	457,609	3.77
1999*	12,491,906	459,010	3.67
2000*	12,934,601	454,628	3.51

\*Estimate

Table IV assumes that all debt authorized for the 96-98 biennium will be issued prior to June 30, 1998.

Debt service is shown only for that debt which will be repaid by an appropriation of the General Assembly. Debt of the Kentucky Housing Corporation, the Kentucky Higher Education Student Loan Corporation, the Kentucky Economic Development Finance Authority (Industrial Revenue Bonds), the Kentucky Local Correctional Facilities Construction Authority, and the Kentucky Agricultural Finance Corporation is excluded. Only that portion of the School Facilities Construction Commission and the Kentucky Infrastructure Authority debt paid from state appropriation is included.

Revenue is reported on a GAAP basis as opposed to a cash basis as is reported in certain budget reports.

**Default Record**

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its 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 state debt. 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 State Property and Buildings Commission and the Asset/Liability Commission.

**EXHIBIT B**

**KENTUCKY COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Commonwealth of Kentucky  
Comprehensive Annual Financial Report  
for the Year Ended June 30, 1997

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  
Mary Penn, Acting Director





COMMONWEALTH OF KENTUCKY  
OFFICE OF THE GOVERNOR

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January 31, 1998

COMMONWEALTH OF KENTUCKY

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My Fellow Kentuckians:

I am proud to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 1997.

This report has been prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Accounts, and audited by the independent 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.

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

Sincerely,

*Paul E. Patton*  
Paul E. Patton

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D

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PAUL E. PATTON  
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JOHN P. MCCARTY  
SECRETARY



## INTRODUCTORY SECTION

January 31, 1998

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, 1997. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, 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 1996 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, and Kentucky Savings Bond Authority.

The Commonwealth's discretely presented component units are: the Kentucky State Fair Board, Kentucky Center for the Arts Corporation, Bluegrass State Skills 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

The U.S. economy has shown robust growth during the current expansion which began in March 1991. In 1997 real gross domestic product (GDP), an inflation adjusted measure of the total output of goods and services in the United States, averaged a growth rate of 3.3%.

Low inflation, strong industrial production, low mortgage rates, and an almost effusive amount of consumer confidence marked 1997. Consumer confidence was, and continues to be, at record highs. This helped keep spending growth strong, and directly resulted in the growth of durable goods production and housing starts.

The Kentucky economy has continued to prosper under the same favorable circumstances that have propelled the national economy. During 1997, Kentucky's personal income grew by an estimated 6.1% versus the 5.3% U.S. average. Nonagricultural employment increased 2.1%, almost at par with the national average of 2.2%. Manufacturing employment in Kentucky did suffer in 1997 due to the restructuring of the apparel industry. The unemployment rate in Kentucky averaged 5.5% compared to 5.2% nationally.

The strong growth in both the U.S. and Kentucky economies is expected to continue albeit at a slightly mellowed rate.

### MAJOR INITIATIVES

During 1997, your 33 point strategic agenda set the Commonwealth on the path of achieving economic opportunity and a standard of living above the national average in the next 20 years.

**Strategic Agenda** - The five major strategies and supporting initiatives identified were: (1) promoting economic development through workers' compensation reform, a regional industrial park plan, Renaissance Kentucky, a transportation plan, the Tourism Development Act, a forestry initiative, the Water Resources Commission, the Kentucky Appalachian Commission, the Military Affairs Commission, a skills training tax credit, and the Venture Capital Fund; (2) improving the education product by implementing postsecondary education reform, the KERA Task Force, and guaranteed raises for teachers; (3) building self-sustaining families with welfare reform, the Office of Child Abuse and Domestic Violence Services, health care initiatives, reduction in teen smoking, and child protective services legislation; (4) strengthening the financial condition of state government through Empower Kentucky, a balanced budget, the classification and compensation study, a revised tax policy; and (5) reducing crime and its costs to society with a Criminal Justice Response Team, a juvenile justice plan, corrections improvements, enhanced penalties for hate crimes, and providing law enforcement with better and more efficient resources.

**Financial Policy** - 1997 accomplishments were highlighted by maintaining a structurally balanced General Fund budget. This objective was achieved by matching annual expenditures to annual revenues, irrespective of the fact the Commonwealth operates on a constitutionally based biennial budget. At year end, General Fund revenues substantially exceeded the consensus annual revenue estimate. The 1997 expenditure plan was accomplished within the budgeted limits of the General Assembly's appropriations. The Commonwealth continued to maintain a Budget Reserve Trust Fund balance of \$200 million. In recognition of these and other accomplishments, Standard and Poor's upgraded the Commonwealth's bond rating to AA-. And, despite continuing reduction in the revenue base in the form of tax relief involving five major General Fund taxes and a major cut in the medical providers' tax, budgetary basis undesignated ending fund balances were \$284 million in the General Fund and \$19 million in the Transportation Fund.

**Postsecondary Education Improvements** - The May 1997 Special Session of the General Assembly adopted your postsecondary education improvement program as an essential and timely counterpart to the nationally acclaimed Kentucky Education Reform Act (KERA) of 1990. The new measure, adopted as House Bill 1, embraces setting statewide postsecondary education goals aimed at achieving nationally recognized stature. It also created both a stronger coordinating authority, the Council on Postsecondary Education (CPE), and a Strategic Committee on Postsecondary Education (SCOPE) to provide Executive and Legislative policy direction to the improvement efforts.

Six Strategic Investment and Incentive Funding programs were established along with a \$100 million additional commitment beyond enacted base budgets by the end of the ensuing biennium. One centerpiece of the new program was the authorization of a Commonwealth Virtual University. Another critical change was the creation of a Kentucky Community and Technical College System (KCTCS) to merge, elevate, and sharpen the focus of the previous community college and Kentucky Tech systems. The five most important goals defined during the Special Session were: (1) providing an integrated postsecondary education system to enhance job opportunities and quality of life for Kentucky's citizens; (2) making the University of Kentucky a top twenty nationally ranked public research institution and the University of Louisville a nationally recognized metropolitan research university; (3) promoting cooperation among regional universities and other postsecondary institutions to give all Kentuckians access to high quality bachelor and master degree programs. Each regional university was encouraged and directed to develop at least one nationally recognized program of distinction or applied research program; (4) designing a KCTCS that provides access to two-year general studies programs for transfer to a baccalaureate program; to technical skills programs designed to help Kentucky workers find better jobs and to attract employers to the Commonwealth; and to remedial and continuing education to improve the employability of students; and (5) developing an efficient, responsive system that delivers services of a quality and quantity comparable to the national average.

A supplemental Appropriation Act, House Bill 4, was also passed providing an immediate \$38 million in additional 1998 funding to strengthen the promise of much more to come.

**Workers' Compensation Reform** - Workers' Compensation reform initiatives were previously enacted in 1994 and 1987. Nonetheless, by late 1996 it had been concluded that the existing system was still inefficient, too costly for employers, and responsible for diminished economic competitiveness for the Commonwealth. The system also did not adequately compensate truly injured workers having experienced job disabling injuries. Additionally, it was projected that the Special Fund, or second injury workers' compensation fund, would be insolvent as early as 2002 under the existing statutory funding scheme. The Special Fund's unfunded liability totaled approximately \$2.6 billion, even though Kentucky employers paid the highest subsequent injury fund assessments in the nation.

During the December 1996 Special Session of the General Assembly a comprehensive reform measure was introduced at your behest and enacted as House Bill 1 improving access and enhancing delivery of worker benefits through a less adversarial system. The reform also improved carrier and self-insured employer performance, provided greater efficiency and promptness in resolving claims and reducing premium costs to employers.

Among the specific major features of the legislation were provisions to: set up an administrative process to decide claims in 90 days; limit attorneys' fees; redefine injury; use standardized, objective AMA guidelines; delete Special fund liability for black lung claims occurring on and after December 12, 1996, and create a second injury fund known as the Coal Workers' Pneumoconiosis Fund (CWP) paid for by the coal industry for black lung claims; increase death benefits; allocate \$19 million in General Fund coal severance tax receipts each year to pay old Special Fund debts; reduce a planned increase in Special Fund non-coal and coal industry assessments; mandate disability assessments by impartial medical doctors at the University of Kentucky and the University of Louisville in disputed cases, limit major future increases in workers' compensation premiums unless first reviewed and approved by the Commissioner of Insurance; and abolish the Workers' Compensation Board as of July 1, 2000, with appeals going directly to the Court of Appeals after that date.

**Empower Kentucky** - The Empower Kentucky program, initially authorized by the 1996 Regular Session of the General Assembly at your urging, moved to the stage of individual process identification and implementation during 1997. The \$103 million in surplus/contingent General Fund cash support provided at the onset of 1997 became available for specific reengineering initiatives when endorsed by a joint Executive/Legislative Redesign Steering Committee the following January. Seven major processes, cutting across virtually all state agencies, were recommended by the Committee. Two of these, the Simplified Revenue System and the Simplified Administrative System, were fully funded from the initial appropriation. In concert with the other five, for which seed money was provided, the Committee set in motion a broad-based, nationally recognized initiative with a financial value, combining General Fund savings and enhanced revenue collections from the existing tax base, estimated at \$690 million over eight years. As part of these reengineering efforts, each process included multiple sub-processes, including for the Simplified Administrative effort the adoption of a "best value" approach to procurements, providing "prompt payment discounts, optimizing warehouse operations through consolidations of inventory space, and the closure of excess facilities, reducing paper reports, streamlining both the budget preparation and allotment process, implementing due date processing and a lock box cash receipts project for investments, increasing reliance on electronic funds transfer tax payments to maximize investment income, and most important, a redesigned financial management system."

The Simplified Revenue effort includes subproject initiatives to install an integrated tax system and a concerted effort called "tax gap" to ensure all taxes presently due and owing are, in fact, collected primarily through electronic cross-checking and enhanced use of technology.

**Capital Projects/Bond Financing** - Capital projects authorized by the 1996 Regular Session of the General Assembly were formally initiated at the start of 1997. A minimal number of new debt financed projects were authorized for the 1996-98 biennium and substantially more bonded indebtedness was retired than was authorized. As a strategic complement to the \$103 million Empower Kentucky initiative, a list of capital projects totaling an identical \$103 million for 27 statewide construction projects was authorized. Examples include authorization to construct secure juvenile detention centers; a number of university and community college projects emphasizing research, new classrooms, technical training, and animal science research center; and the completion of numerous state park projects previously authorized to be designed. These projects were later converted by the General Assembly from cash financing to bond financing during the May 1997 Special Session to free up available cash for tax refund requirements.

**Juvenile Justice** - A pledge to make changes in the Commonwealth's Juvenile Justice system was one of very few major initiatives you promised during the gubernatorial campaign. Your support for major changes reflected widespread public dissatisfaction with the increase in juvenile crime, particularly violent juvenile crime, as well as an increasing concern by elected public officials that the costs of juvenile detention were too high and were disproportionately borne by local governments. At the same time, at the state level, juvenile justice responsibilities were still divided between several cabinets and agencies with no coherent policy continuum or statutory structure. Moreover, in late 1995, the Commonwealth's system of post-adjudicating juvenile justice had been placed under an Agreed Order with the U.S. Department of Justice to ensure and oversee numerous improvements and reforms.

In response, the 1996 Regular General Assembly Session enacted House Bill 117 overhauling the Commonwealth's Juvenile Justice system and realigning and consolidating organizational and financial responsibilities into a new Department of Juvenile Justice under the Kentucky Justice Cabinet. The effective date for this change was originally to be July 1, 1997, but an Executive Order was soon promulgated effecting the change earlier, in mid 1997. Concurrently, the Commonwealth authorized the construction of two new secure juvenile detention facilities to be financed and operated by the state and directed that a third such facility be completed. These three facilities were the Commonwealth's first major foray into the provision of secure (pre-adjudicatory) juvenile detention. Most recently, the May 1997 Special Session of the General Assembly authorized a supplemental \$4 million appropriation for further Juvenile Justice improvements, including new prevention programs as well as additional funding for the Agreed Order and statutory reforms.

**Other Initiatives/Policies** - It is worth reemphasizing the Commonwealth continued to "stay on course" with regard to funding and support of the significant features of KERA and the elementary and secondary education improvements envisioned by the landmark legislation.

## 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 judgements by management. All internal control evaluations occur within this framework.

Budgetary control is maintained at the budget unit level described in the Notes to 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, 1997.

### General Fund Condition - Budgetary Basis

General Fund revenue on a budgetary basis for 1997 was \$5.68 billion, an increase of 5.6% over 1996. This amount includes \$5.66 billion in tax and non-tax receipts, and \$20.55 million of Operating Transfers In. Taxes represented 95.0% of all General Fund revenue collected during the period. The amounts and percentages of 1997 revenue derived from specific sources and the changes from 1996 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	Amount	Percent
Individual Income Tax	\$ 2,205,023	38.8%	\$ 130,451	6.3%
Sales and Gross Receipts Taxes	2,052,228	36.1%	97,308	5.0%
Property Taxes	455,739	8.0%	46,562	11.4%
Corporate Income Tax	292,753	5.1%	8,020	2.8%
Non-Tax Revenue	262,321	4.6%	13,190	5.3%
Severance Taxes	186,642	3.3%	518	0.3%
License and Privilege Taxes	110,339	1.9%	16,903	18.1%
Inheritance and Estate Taxes	95,287	1.7%	13,846	17.0%
Operating Transfers In	20,548	0.4%	(26,724)	(56.5)%
Miscellaneous Taxes	3,221	0.1%	(128)	(3.8)%
<b>Total General Fund Revenue</b>	<b>\$ 5,684,101</b>	<b>100.0%</b>	<b>\$ 299,946</b>	<b>5.6%</b>

General Fund expenditures on a budgetary basis for 1997 totaled \$5.65 billion, including Operating Transfers Out of \$447.62 million. During 1997, expenditures increased by 5.0% and transfers increased by 35.3% compared to 1996. The general government function includes \$724.65 million of expenditures and \$8.46 million of transfers for the eight State supported universities, which together amount to 13.0% of the General Fund total. The amounts and percentages of 1997 expenditures for the various governmental functions and the changes from 1996 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	Amount	Percent
General Government	\$ 1,330,155	23.5%	\$ 160,557	13.7%
Legislative and Judicial	153,013	2.7%	7,876	5.4%
Commerce	119,681	2.1%	10,999	10.1%
Education and Humanities	2,607,843	46.2%	106,975	4.3%
Human Resources	1,044,291	18.5%	24,477	2.4%
Justice	302,950	5.4%	50,227	19.9%
Natural Resources and Environmental Protection	49,479	0.9%	3,222	7.0%
Public Protection and Regulation	36,219	0.6%	36	0.1%
Transportation	5,263	0.1%	347	7.1%
Non-budgetary Items	160	0.0%	(1,653)	(91.2)%
<b>Total General Fund Expenditures</b>	<b>\$ 5,649,054</b>	<b>100.0%</b>	<b>\$ 363,063</b>	<b>6.9%</b>

The General Fund had a 1997 budgetary undesignated fund balance of \$284,116,626. This is an increase of \$60,689,058 when compared to the 1996 year-end budgetary undesignated fund balance of \$223,427,568.

**General Governmental Functions - GAAP Basis**

General governmental 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 \$10.94 billion for 1997, an increase of 6.0% over the amount recognized during 1996. The amounts and percentages of 1997 revenue derived from specific sources and the changes from 1996 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 1996	
			Amount	Percent
Taxes				
Intergovernmental	\$ 6,487,188	59.3%	\$ 331,622	5.4%
Charges for Services	3,625,241	33.2%	230,353	6.8%
Other Revenue	262,366	2.4%	(14,799)	(5.3)%
Licenses, Fees, and Permits	193,206	1.8%	59,682	44.7%
Interest and Investments	164,557	1.5%	1,226	0.8%
Fines and Forfeits	155,878	1.4%	6,970	4.7%
	48,538	0.4%	8,053	19.9%
<b>Total Governmental Funds Revenue</b>	<b>\$ 10,936,974</b>	<b>100.0%</b>	<b>\$ 623,107</b>	<b>6.0%</b>

1997 Governmental Funds Revenue was \$623.1 million over 1996. Higher Tax and Intergovernmental receipts account for 90.2% of the increase. All eight major tax sources, primarily in the General Fund, went up \$33.1 million. Intergovernmental revenue rose \$230.4 million on the strength of \$245.2 million more in Federal Fund receipts from the United States government. Other revenues improved 44.7%, due to a \$26.3 million increase in the Other Special Revenue Fund and a \$23.6 million improvement in the Agency Revenue Fund. Charges for Services went down 5.3% during the period, mainly because of a \$19.9 million drop in Agency Revenue Fund receipts.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$10.16 billion for 1997, an increase of 7.2% compared to 1996. The amounts and percentages of 1997 expenditures for various governmental functions and the changes from 1996 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 1996	
			Amount	Percent
General Government	\$ 593,500	5.8%	\$ 98,901	20.0%
Legislative and Judicial	150,604	1.5%	3,041	2.1%
Commerce	44,408	0.4%	1,704	4.0%
Education and Humanities	3,076,843	30.3%	114,394	3.9%
Human Resources	4,220,653	41.6%	400,746	10.5%
Justice	340,100	3.3%	57,101	20.2%
Natural Resources and Environmental Protection	103,356	1.0%	7,262	7.6%
Public Protection and Regulation	105,763	1.0%	11,639	12.4%
Transportation	1,092,563	10.8%	30,974	2.9%
Capital Outlay	99,755	1.0%	20,510	25.9%
Debt Service	332,127	3.3%	(60,003)	(15.3)%
<b>Total Governmental Funds Expenditures</b>	<b>\$ 10,159,672</b>	<b>100.0%</b>	<b>\$ 686,269</b>	<b>7.2%</b>

1997 Governmental Funds Expenditures were \$686.3 million over 1996. Human services provided by the Cabinet for Families and Children and the Health Services Cabinet went up \$400.7 million. Education and Humanities function costs rose \$114.4 million, due primarily to \$100.9 more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 25.9%, including \$27.4 million more in Capital Projects Fund expenditures on the Commerce function offset by various decreases. Debt Service costs fell by \$60.0 million based on bond retirement and lower interest rates.

Ending fund balances for all governmental fund types decreased 3.3%, from \$2.32 billion as restated for 1996, to \$2.24 billion in 1997. Of these totals, unreserved fund balances decreased 3.9%, from \$1.25 billion as restated at June 30, 1996, to \$1.20 billion at June 30, 1997.

**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 1997 is:

	Debt Service (thousands)	Ratio to Total General Governmental Expenditures	Debt per Capita
General Bonded Debt	\$ 332,127	3.3%	\$ 761

No general obligation bonds are authorized or outstanding at June 30, 1997.

During 1997, Kentucky issued revenue bonds totaling \$51,842,228 for general governmental functions which are supported by governmental fund appropriations. Of this amount, \$27,011,758 defensed existing debt and funded related reserve accounts. The remaining \$24,830,470 funded new projects. All issues sold during 1997 received a rating of "A" or higher by the major rating services. At June 30, 1997, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$3,000,857,913.

**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, 1997, the Commonwealth's operating portfolio was approximately \$3.1 billion cash and securities. The composition of investments was as follows: U.S. treasury securities (31%), securities issued by agencies, corporations and instrumentalities of the United States Government (31%), repurchase agreements collateralized at 102% by the aforementioned (30%), municipal securities rated A or higher by Standard & Poor's or Moody's (1.0%) and money market securities rated A1-P1 or higher by Standard & Poor's or Moody's (7.0%). 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 1997 was 6.13% and has a modified duration of approximately 1.10 years. The Commonwealth's investments are marked to market daily.

During 1997, 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 1997, excluding that from pension trust funds, was \$152,327,757, a 38.7% increase compared to 1996.

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 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 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 selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, including: over-the-counter treasury options, the securities lending program, 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 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% 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 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 outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. Currently, the Commonwealth has one \$50 million notional amount fixed rate receiver swap transaction outstanding, which has a final maturity of July 9, 1999.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The bill amended KRS 42.500 to authorize the purchase of additional 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, and asset backed securities rated in the highest category by a nationally recognized rating agency.

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

## **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, 1997, the Division achieved a cash savings of \$362,422 by obtaining lower bids from improved insurance bid specifications and by seeking broader markets. Risk exposures in the amount of \$2 million were eliminated for properties that were either uninsured or underinsured. Since 1989, risk exposures of \$57 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 \$388.6 million annually for a premium of \$201,908.

New risk management initiatives for the year included obtaining a single master policy to cover vehicle liability insurance for all state agencies and resolving a \$6 million liability insurance crisis relating to the mobile home parks created as a result of the floods in Cynthiana and Falmouth.

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 coverage; and the State Self Insurance Fund for Workers' Compensation benefits. The Finance and Administration Cabinet in accordance with KRS 45A.022, transfers other financial and catastrophic risks not assumed by these programs to insurance companies through the purchase of insurance policies for various state agencies.

The Fire and Tornado Insurance Fund consists of "premiums" charged to state agencies and universities. Current annual "premiums" of \$4.9 million insured \$4.9 billion in property assets for 6,010 facilities throughout the state. 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, 1997, the Fund paid 181 claims in the amount of \$703,480. Earthquake and Flood Coverage for state facilities are 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 42,964 subscribers including state employees, employees of local boards of education, employees of local health departments, and retirees under age 65 and other individuals subscribing to the Kentucky Kare health plans. For the year ended June 30, 1997, the state contributed \$185 per insured monthly or \$67.8 million annually for this coverage. As of June 30, 1997, the Commonwealth had paid \$129.0 million in current and prior year claims. Funded reserves of \$45.6 million are maintained to cover claim liabilities, which at June 30, 1997, were \$21.8 million.

The State Self Insured Workers' Compensation Trust Fund provides workers' compensation coverage for state employees. At June 30, 1997, the State program had assets of \$12.3 million and an unreserved accumulated deficit of \$41.1 million. Assets increased by \$475,000 and the unreserved accumulated deficit increased \$6.0 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 \$10.9 million. The Transportation Cabinet has a separate self insured workers' compensation fund for its employees. As of June 30, 1997, the Fund has liabilities that exceed its assets by \$20.9 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 1997, projects costing \$19,449,632 were completed.

### *Proprietary Funds*

Combined operating revenues of the primary government's Enterprise Funds decreased from \$913.8 million for 1996, to \$908.0 million in 1997. Combined operating expenses of these funds decreased from \$1,014.5 million for 1996 to \$899.6 million in 1997. The Kentucky Lottery Corporation paces Enterprise Fund activity with operating revenues and expenses of \$569.1 million and \$417.0 million. At June 30, 1997, 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 \$195.9 million and \$234.2 million in 1997, compared to \$218.2 million and \$214.4 million in 1996. The Kentucky Housing Corporation leads such activity with operating revenues and expenses of \$81.0 million and \$75.8 million. At June 30, 1997, outstanding revenue bonds for the discretely presented component units totaled \$1.66 billion, of which \$894.2 million and \$453.0 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 \$123.5 million and \$134.0 million, as compared to 1996 totals of \$110.0 million and \$117.2 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, 1997, combined total assets for these plans reached \$20.8 billion. The aggregate operating revenue of these funds was \$1.1 billion, including interest and investment income of \$748.8 million. Total operating expenses were \$1.0 billion, including retirement benefits paid of \$751.3 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 \$1.06 billion in 1996 to \$1.22 billion in 1997 for an increase of 14.9%. State appropriations transferred from the General Fund to these funds went up 4.0% to \$737.9 million. Current fund expenditures and transfers increased 10.5% during 1997, to \$1.96 billion. At June 30, 1997, outstanding revenue bonds for the state supported universities totaled \$748.3 million, of which \$318.5 million is accounted for by the University of Kentucky and \$178.0 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 Component Units Funds. At June 30, 1997, the general fixed assets of Kentucky amounted to \$1,211,734,000. 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, 1996. This is the tenth consecutive year the Commonwealth has received this prestigious award.

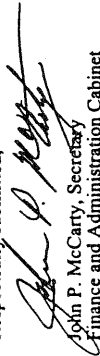
In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable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



John P. McCarty, Secretary  
Finance and Administration Cabinet





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

CAPITOL ANNEX BUILDING  
 702 CAPITOL AVENUE, ROOM 384  
 FRANKFORT, KENTUCKY 40601-3454  
 (502) 564-2210  
 FAX (502) 564-6597

EDGAR C. ROSS  
 CONTROLLER

PAUL E. PATTON  
 GOVERNOR

JOHN P. McCARTY  
 SECRETARY

January 31, 1998

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

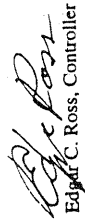
Dear Secretary McCarty:

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, 1997, 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

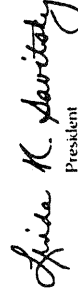
# Certificate of Achievement for Excellence in Financial Reporting

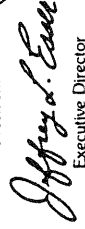
Presented to  
**Commonwealth of Kentucky**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1996

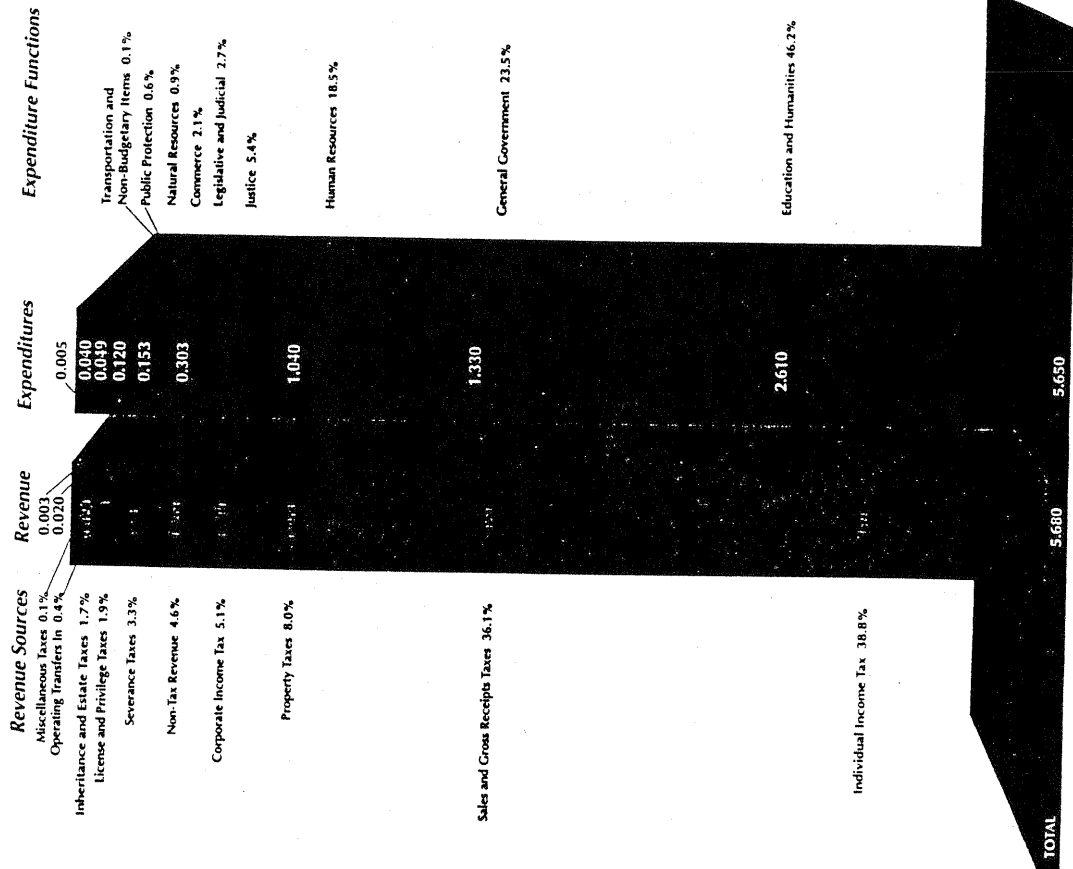
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



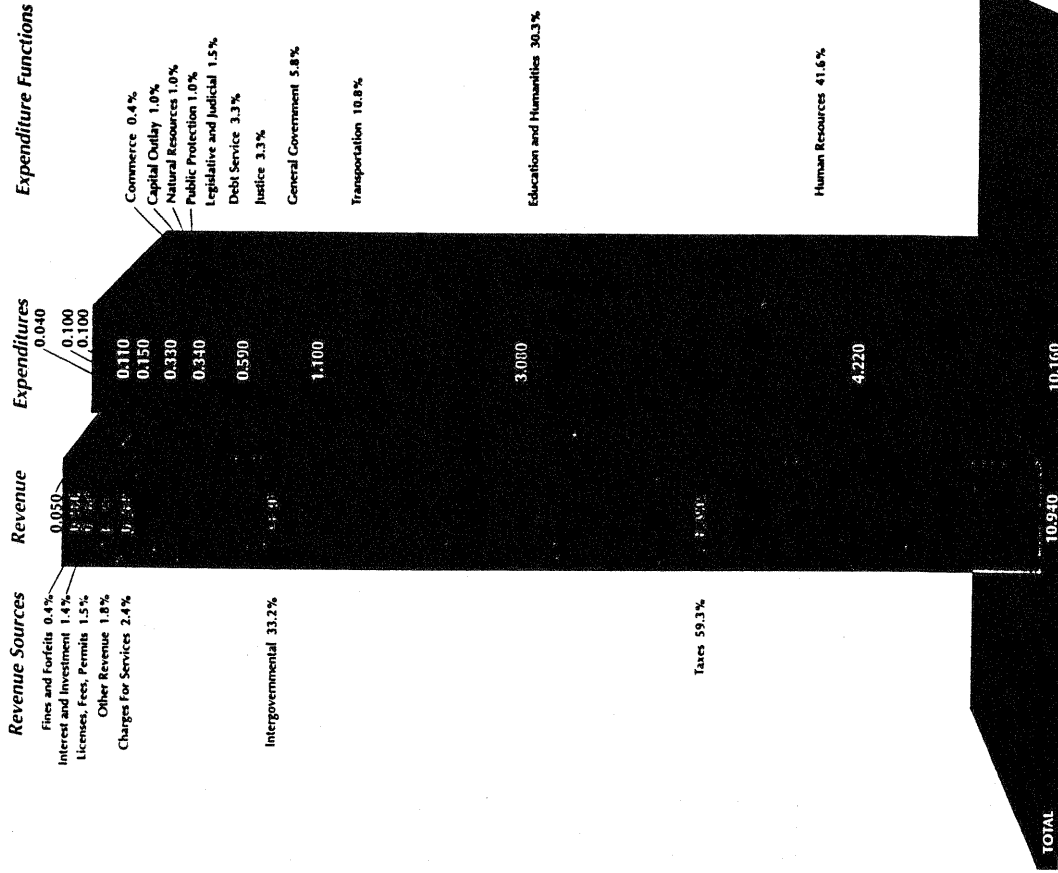
  
 Alice K. Savitsky  
 President

  
 Jeffrey A. Luce  
 Executive Director

**Chart 1**  
**General Fund - Budgetary Basis**  
**Fiscal Year 1997**  
 (amounts in billions)

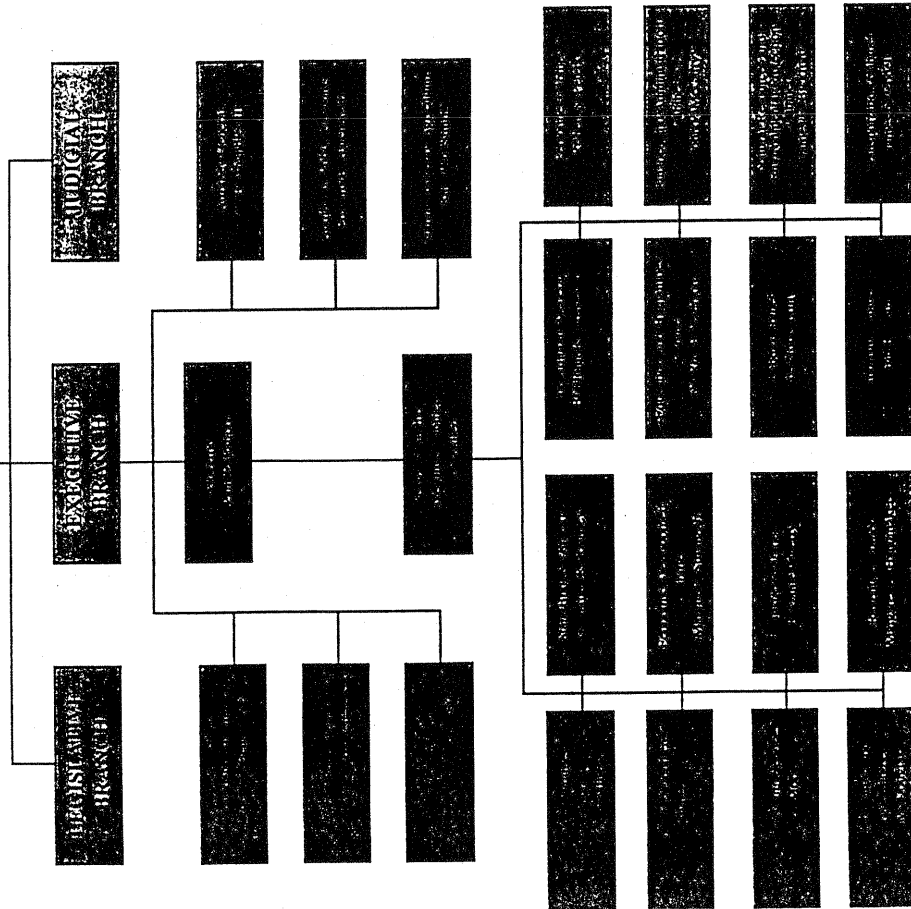


**Chart 2**  
**Governmental Funds - GAAP Basis**  
**Fiscal Year 1997**  
 (amounts in billions)



**ELECTORATE  
OF KENTUCKY**

**FINANCIAL SECTION**



• Principal Officials at June 30, 1997



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, 1997, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We did not audit the financial statements of certain organizational units within the governmental fund types; the Kentucky Lottery Corporation, Workers' Compensation Special Fund, Coal Workers' Pneumoconiosis Fund, Petroleum Storage Tank Environmental Assurance Program, portions of the Kentucky Care Insurance Authority, and Transportation Cabinet's Fleet Management Fund and Self-Insured Workers' Compensation Trust Funds within the proprietary fund types; the Pension Trust Funds and Transportation Cabinet's portion of the Agency Funds within the fiduciary fund types; and universities and colleges and certain other discretely presented component units. These organizational units represent total assets of 16, 67, 94, and 99.9 percent; total revenues/additions of 12, 85, 93, and 99.9 percent; and total expenditures/expenses/deductions of 13, 67, 78, 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 15 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, 1997, 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 2, the Teachers' Retirement System implemented Governmental Accounting Standards Board Statement 25 for the year ended June 30, 1997, which resulted in an increase in beginning net assets held in trust for pensions and health insurance of \$890,072,000. Also as disclosed in Note 2, the Commonwealth changed its capitalization policy, for financial reporting purposes, from \$500 to \$5000, which resulted in a decrease in assets held in the primary government's General Fixed Assets Account Group of \$178,474,000 and a reduction in retained earnings for the primary government's Enterprise Fund and Internal Service Fund of \$3,412,341 and \$2,537,000. During the year ended June 30, 1997, the Commonwealth established the Fleet Management Fund within the primary government's Internal Service Fund; at June 30, 1997, the Fleet Management Fund accounted for 38 percent of the total assets of the Internal Service Fund. As disclosed in Note 12, the actuarially determined claims liability increased significantly for the Petroleum Storage Tank Environmental Assurance Program during the year ended June 30, 1997. This increase is primarily the result of an increase in the estimated number of incidents and the establishment of the Small Operators Tank Removal Account.

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

## GENERAL PURPOSE FINANCIAL STATEMENTS

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 167 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 18 and 169 through 181 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 our report on our consideration of the Commonwealth of Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Respectfully submitted,

  
Edward B. Hatchett, Jr.

January 31, 1998



COMMONWEALTH OF KENTUCKY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND  
 DISCREETLY PRESENTED COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)
	General	Special Revenue	Debt Service				
REVENUES (NOTE 1)							
TAXES	\$ 5,382,949	\$ 1,104,239	\$	249,510	\$ 6,736,698	\$	\$ 6,736,698
LICENSES, FEES AND PERMITS	21,094	143,463		43	164,600		164,600
INTERGOVERNMENTAL	4,706	3,659,374		21,408	3,646,649		3,646,649
CHARGES FOR SERVICES	3,796	255,835	2,735	9	282,375		282,375
FINES AND FORFEITS	41,652	6,886			48,538		48,538
INTEREST AND OTHER INVESTMENT INCOME	32,025	71,318	15,456	39,628	195,506		195,506
OTHER REVENUES	15,363	174,987	2,100	6,313	199,719		199,719
TOTAL REVENUES	5,501,585	5,266,102	20,291	317,111	11,254,085		11,254,085
EXPENDITURES							
CURRENT							
GENERAL GOVERNMENT	393,051	200,449			615,010		615,010
LEGISLATIVE AND JUDICIAL	148,132	2,472		21,510	150,615		150,615
COMMERCE	17,013	27,395		11	44,408		47,815
EDUCATION AND HUMANITIES	2,535,870	540,973		283,445	3,340,288	3,207	3,340,298
HUMAN RESOURCES	1,043,539	3,177,114		3,812	4,224,465		4,224,465
JUSTICE	294,167	45,833			340,100		340,100
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	49,994	53,362			103,356		103,356
PUBLIC PROTECTION AND REGULATION	36,327	69,436			105,763		105,763
TRANSPORTATION	5,288	1,087,275			1,092,563		1,092,563
CAPITAL OUTLAY					99,755		99,755
DEBT SERVICE:							
PRINCIPAL RETIREMENT			183,412		183,412		183,412
INTEREST AND FISCAL CHARGES			183,034		183,034		183,034
OTHER EXPENDITURES			5,681		5,681		5,681
TOTAL EXPENDITURES	4,523,381	5,204,409	332,127	288,778	10,448,450	3,207	10,451,657
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	978,204	161,693	(311,836)	28,333	805,635	(3,207)	802,428
OTHER FINANCING SOURCES (USES)							
OPERATING TRANSFERS IN	171,453	723,227	340,975		1,449,259		1,449,259
OPERATING TRANSFERS OUT	(467,808)	(882,414)	(1,294)	166,329	(1,384,081)		(1,384,081)
TRANSFERS FROM PRIMARY GOVERNMENT				(23,932)			
TRANSFERS TO COMPONENT UNITS	(783,205)					3,205	3,205
PROCEEDS FROM SALE OF BONDS:							
NEW ISSUES	524	60			7,413		7,413
CAPITALIZED LEASES					594		594
TOTAL OTHER FINANCING SOURCES (USES)	(1,079,036)	(166,127)	339,681	142,397	(710,030)	3,205	(706,825)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(100,832)	1,566	27,845	170,730	95,605	(2)	95,603
FUND BALANCE AT JULY 1 (NOTE 2), AS RESTATED	463,391	1,216,332	322,417	563,514	2,885,056	(160)	2,884,896
INCREASE (DECREASE) IN INVENTORIES	(905)	1,922			1,017		1,017
RESIDUAL EQUITY TRANSFER IN (OUT)		(3,298)			(3,298)		(3,298)
FUND BALANCE AT JUNE 30	361,654	1,216,552	350,322	734,244	2,978,360	(162)	2,978,198

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 AND  
 DISCRETELY PRESENTED COMPONENT UNITS (NOTE 4)  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	General Fund			Special Revenue			Enterprises			Internal Service			Expendable Trust		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES															
BUDGETED															
TAXES	\$ 5,300,221	\$ 5,401,232	\$ 101,011	\$ 809,750	\$ 812,633	\$ 2,873									
FEES, CHARGES, AND PERMITS	18,497	21,095	2,598	94,143	93,189	(954)									
INTEREST AND INVESTMENT INCOME	4,481	4,706	225												
CHARGES FOR SERVICES	3,850	3,650	(200)	19,420	19,741	321									
FINES AND FORFEITS	38,895	41,632	2,737	75	49	(26)									
INTEREST AND OTHER INVESTMENT INCOME	30,804	30,804	369	25,300	31,876	6,576									
LOTTERY PROCEEDS	151,000	150,000	(1,000)												
OTHER REVENUES	10,472	2,469	(7,983)	3,525	1,307	(2,218)									
TRANSFERS IN	12,875	17,110	4,235												
TRANSFERS IN (INTRA-FUND)															
TRANSFERS IN (INTER-FUND)															
TRANSFERS IN (INTRA-FUND)															
TRANSFERS IN (INTER-FUND)															
TOTAL NON-BUDGETED REVENUES	10,033	10,033	10,033	5,929,797	6,040,547	1,116,750									
TOTAL BUDGETED REVENUES	5,569,493	5,674,068	104,575	952,213	958,785	6,572									
TOTAL REVENUES	10,988,986	11,348,136	359,150	14,474,026	15,000,332	5,526,262									
EXPENDITURES															
GENERAL GOVERNMENT	1,580,453	1,320,155	(260,298)	1,530,854	1,192,453	(338,401)									
LEGISLATIVE AND JUDICIAL	166,965	153,013	(13,952)	30,310	28,741	(1,569)									
COMMERCIAL AND HUMANITIES	131,442	119,681	(11,761)	30,310	28,741	(1,569)									
EDUCATION	2,609,810	2,607,843	(1,967)	582,535	542,062	(40,473)									
HUMAN RESOURCES	1,066,830	1,044,291	(22,539)	2,918,717	2,787,489	(131,228)									
JUSTICE	303,954	302,950	(1,004)	101,802	89,345	(12,457)									
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	49,497	49,479	(18)	88,259	56,177	(32,082)									
PUBLIC PROTECTION AND REGULATION	36,991	36,219	(772)	81,417	74,284	(7,133)									
TRANSPORTATION	9,569	5,263	(4,306)	2,884,710	1,265,459	(1,619,251)									
TOTAL EXPENDITURES	5,945,631	5,646,894	(298,737)	8,204,646	6,040,547	(2,164,099)									
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(376,138)	35,207	411,345	1,257	848,035	846,778									
OTHER FINANCING SOURCES (USES)															
FINANCING SOURCES (USES)															
TURNPIKE AUTHORITY															
TOTAL OTHER FINANCING SOURCES (USES)															
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(376,138)	35,207	411,345	1,257	848,035	846,778									
FUND BALANCE/FUND EQUITY AT JULY 1	503,028	503,028													
MOVED TO AGENCY REVENUE FUND															
MOVED FROM FEDERAL FUND															
MOVED FROM AGENCY REVENUE FUND															
MOVED TO FLEET MANAGEMENT FUND															
MOVED TO UNIVERSITIES															
FIXED ASSET ALLOCATION															
NON-BUDGETED ITEMS															
FUND BALANCE/FUND EQUITY AT JUNE 30	\$ 126,890	\$ 538,075	\$ 411,185	\$ 1,257	\$ 1,696,070	\$ 574,793									
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 AND  
 DISCREETLY PRESENTED COMPONENT UNITS (NOTE 4)  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Component Units		
	Budget	Actual	Variance
REVENUES			
BUDGETED			
TAXES			
FEES, FEES, AND PERMITS			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES			
FINES AND FORFEITS			
INTEREST AND OTHER INVESTMENT INCOME			
LOTTERY PROCEEDS			
OTHER REVENUES			
TRANSFERS IN			
TOTAL BUDGETED REVENUES			
NON BUDGETED			
TAXES			
LICENSES, FEES, AND PERMITS			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES			
FINES AND FORFEITS			
INTEREST AND OTHER INVESTMENT INCOME			
LOTTERY PROCEEDS			
OTHER REVENUES			
ESCHEAT REVENUE			
TRANSFERS IN (INTERFUND)			
TRANSFERS IN (INTRA-FUND)			
TOTAL NON-BUDGETED REVENUES			
TOTAL REVENUES			
EXPENDITURES			
GENERAL GOVERNMENT			
LEGISLATIVE AND JUDICIAL			
EDUCATION AND HUMANITIES			
HUMAN RESOURCES			
JUSTICE			
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION			
PUBLIC PROTECTION AND REGULATION			
TRANSPORTATION			
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES			
OTHER FINANCING SOURCES (USES)			
TURNPIKE AUTHORITY			
TOTAL OTHER FINANCING SOURCES (USES)			
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES			
FUND BALANCES-FUND EQUITY AT JULY 1			
FIXED ASSET ALLOCATION			
NON-BUDGETED ITEMS			
FUND BALANCES-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  
 ALL PROPRIETARY FUND TYPES AND DISCREETLY PRESENTED COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Totals Reporting Entity (Memorandum Only)
	Enterprises	Internal Services		
OPERATING REVENUES				
CHARGES FOR SERVICES				
INTEREST AND OTHER INVESTMENT INCOME				
LOTTERY PROCEEDS				
AMORTIZATION OF PREMIUM ON LEASES				
OTHER REVENUES				
TOTAL OPERATING REVENUES				
OPERATING EXPENSES				
PERSONAL SERVICES				
UTILITIES, RENTALS, AND OTHER SERVICES				
COMMODITIES AND SUPPLIES				
GRANTS AND SUBSIDIES				
DEPRECIATION AND AMORTIZATION				
TRAVEL				
REINSURANCE EXPENSE				
CLAIMS EXPENSE				
PRIZE EXPENSE				
OTHER EXPENSES				
TOTAL OPERATING EXPENSES				
OPERATING INCOME (LOSS)				
NONOPERATING REVENUES (EXPENSES):				
INTERGOVERNMENTAL REVENUE				
MEMBERSHIP REVENUE				
KENTUCKY CENTER FOR THE ARTS ENDOWMENT GAIN (LOSS) ON SALE OF FIXED ASSETS				
INTEREST AND OTHER INVESTMENT INCOME				
INVESTMENT CAPITAL ESTIMATE				
INTEREST EXPENSE				
OTHER REVENUES (EXPENSES)				
TOTAL NONOPERATING REVENUES (EXPENSES)				
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEMS				
OPERATING TRANSFERS IN				
TRANSFERS FROM COMPONENT UNITS				
OPERATING TRANSFERS OUT				
TRANSFERS TO PRIMARY GOVERNMENT				
TRANSFERS TO COMPONENT UNITS				
NET INCOME (LOSS)				
AND OTHER CATEGORIES OF FIXED ASSETS ACQUIRED BY CAPITAL GRANTS				
INCREASE (DECREASE) IN RETAINED EARNINGS				
RETAINED EARNINGS				
AT JULY 1 (NOTE 2), AS RESTATED				
IN SOCIAL EQUITY TRANSFER				
RETAINED EARNINGS				
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 NET PLAN ASSETS  
 PENSION TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Pension Benefits	Healthcare Benefits	Totals (Memorandum Only)
ADDITIONS			
CONTRIBUTIONS:			
EMPLOYER	\$ 574,178	\$ 124,797	\$ 698,975
MEMBER	335,701	23,487	359,188
TOTAL CONTRIBUTIONS	909,879	154,284	1,064,163
INVESTMENT INCOME			
NET APPRECIATION IN FAIR VALUE			
OF INVESTMENTS	2,561,525	66,207	2,627,732
INTEREST	435,221	14,628	449,849
REAL ESTATE	209,150	5,210	214,360
REAL ESTATE OPERATING INCOME, NET	37,418		37,418
SECURITIES LENDING INCOME	27,200		27,200
TOTAL INVESTMENT INCOME	3,290,514	86,045	3,376,559
LESS: INVESTMENT EXPENSE	41,313	1,695	43,008
LESS: SECURITIES LENDING EXPENSE	26,503		26,503
NET INVESTMENT INCOME	3,222,698	84,350	3,307,048
TOTAL ADDITIONS	4,132,577	240,634	4,373,211
DEDUCTIONS:			
BENEFIT PAYMENTS	751,277		751,277
REFUNDS	50,829		50,829
ADMINISTRATIVE EXPENSE	10,415	2,996	13,411
OTHER DEDUCTIONS, NET	89,930	108,893	198,823
TOTAL DEDUCTIONS	902,451	111,891	1,014,342
NET INCREASE	3,230,126	128,743	3,358,869
NET ASSETS HELD IN TRUST			
BEGINNING OF YEAR	14,280,954	409,523	14,690,477
ADJUSTMENTS TO NET ASSETS	892,247	308	892,555
END OF YEAR	\$ 18,995,327	\$ 538,574	\$ 19,533,901

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

COMMONWEALTH OF KENTUCKY  
 COMBINED STATEMENT OF CASH FLOWS  
 ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Proprietary Fund Types			Totals	
	Enterprise	Internal Service	Government (Memorandum Only)	Primary Government (Memorandum Only)	Totals Reporting Entity (Memorandum Only)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
CASH RECEIVED FROM CUSTOMERS, PUBLIC	\$ 877,036	\$ 82	\$ 877,518	\$ 135,544	\$ 1,013,062
CASH RECEIVED FROM CUSTOMERS, STATE	2,276	122,035	124,311	250,756	129,311
COLLECTION OF PROGRAM LOANS				(276,746)	250,756
PROGRAM LOANS ISSUED	(99,311)	(55,031)	(154,342)	(162,853)	(317,795)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(75,970)	(43,862)	(119,732)	(141,186)	(169,920)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(624,814)	(15,240)	(640,054)	(17,436)	(640,054)
CASH PAYMENTS FOR CLAIMS EXPENSE	(5,034)	(1,195)	(6,229)	(101,923)	(13,655)
CASH PAYMENTS (TO) FROM OTHER SOURCES	74,883	6,789	80,872	(1,354)	(21,051)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
PROCEEDS FROM BOND ISSUANCE				285,947	285,947
PROCEEDS FROM SALE OF REVENUE BONDS FOR COST OF ISSUANCE				(1,396)	(1,396)
PRINCIPAL PAYMENT ON DEBT				(109,281)	(109,281)
DEBT RELATED EXPENSES				(68,695)	(68,695)
SUBSIDIES				64,495	64,495
RESIDUAL EQUITY TRANSFER IN		9,204	9,204	36,431	9,204
OPERATING TRANSFERS IN FROM OTHER FUNDS	36,872	6,985	43,857	80,288	80,288
OPERATING TRANSFERS OUT TO OTHER FUNDS	(156,182)	(4,726)	(160,908)	(2,818)	(163,726)
<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	(1,299)	(14,026)	(15,325)	(8,715)	(35,040)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(500)	(1,587)	(2,087)	(3,050)	(5,170)
INCREASE IN RESTRICTED ASSET CONSTRUCTION ACCOUNT				(6,316)	(6,316)
RESTRICTED INCOME-CONSTRUCTION				292	292
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS	(3)	(567)	(570)	(1,280)	(1,850)
PROCEEDS FROM SALE OF EQUIPMENT	320	1,059	1,419	8,355	1,419
CONTRIBUTED CAPITAL				(11,714)	(11,714)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
PURCHASE OF INVESTMENT SECURITIES	(995,279)	(8,671)	(1,003,950)	(1,345,514)	(2,349,664)
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES	960,174	92	960,266	1,335,778	2,296,044
INTEREST AND DIVIDENDS ON INVESTMENTS	26,887	375	27,262	45,615	72,877
<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	(54,827)	(5,083)	(60,010)	(126,905)	66,895
CASH AND CASH EQUIVALENTS AT END OF YEAR	159,524	14,893	174,417	360,966	535,283
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>					
	\$ 104,597	\$ 8,810	\$ 114,407	\$ 487,811	\$ 602,729

	Proprietary Fund Types			Totals	
	Enterprise	Internal Service	Government (Memorandum Only)	Primary Government (Memorandum Only)	Totals Reporting Entity (Memorandum Only)
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>					
OPERATING INCOME (LOSS)	\$ 8,411	\$ (10,489)	\$ (2,078)	\$ (38,307)	\$ (40,365)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
DEPRECIATION AND AMORTIZATION	7,173	9,832	17,005	5,958	5,958
INTEREST AND OTHER INVESTMENT INCOME	(32,118)	(368)	(32,486)	12,330	29,358
INTEREST EXPENSE				8,130	(24,350)
MISCELLANEOUS NONOPERATING INCOME (EXPENSES)	3	(14)	(11)	12,576	12,576
CHANGE IN ASSETS AND LIABILITIES:					
(INCREASE) DECREASE IN ASSETS					
RECEIVABLES, NET	9,075	(683)	8,392	(77,586)	(68,194)
INTERFUND RECEIVABLES	876	553	1,429	1,429	1,429
INVENTORIES	1,371	604	1,975	71	2,046
PREPAID EXPENSES	(1,061)	131	25	(280)	(235)
OTHER ASSETS	(2,260)	320	(1,940)	(19)	(1,969)
INCREASE (DECREASE) IN LIABILITIES					
ACCOUNTS PAYABLE	5,500	2,351	7,851	3,343	11,794
INTERFUND PAYABLES	(6,902)	1,335	(4,567)	(4,567)	(4,567)
CLAIMS LIABILITY	85,045	6,223	91,268	366	91,268
COMPENSATED ABSENCES	603	201	804	366	1,170
OTHER LIABILITIES	(4,255)	(3,221)	(7,476)	(1,690)	(9,156)
DEFERRED REVENUE	967	14	981	(326)	365
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
	\$ 74,083	\$ 6,789	\$ 80,872	\$ (101,923)	\$ (21,051)

RECONCILIATION OF CASH AND CASH EQUIVALENTS, JUNE 30, 1997

	Component Units
PER COMBINED BALANCE SHEET	\$ 928,750
LESS: UNIVERSITIES	(440,879)
CASH AND CASH EQUIVALENTS FOR PROPRIETARY COMPONENT UNITS	\$ 487,871

THE PROPRIETARY FUNDS ACQUIRED ASSETS OF \$57,375,000 THROUGH NON-CASH TRANSACTIONS. CONTRIBUTED CAPITAL TOTALLED \$57,258,000. CAPITAL LEASES TOTALLED \$67,000. PAYMENTS FOR PRINCIPAL AND INTEREST FOR THE YEAR WERE \$15,000 AND \$2,000, RESPECTIVELY. CHANGING INVESTMENTS, AND THE RELATED PRINCIPAL LIABILITY WHICH INCREASED DURING THE YEAR BY APPROXIMATELY \$17,566,000. 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, 1997  
 (Expressed in Thousands)

	Totals June 30, 1997
REVENUES:	
TUITION AND FEES	333,196
FEDERAL GRANTS AND CONTRACTS	13,976
STATE/COLLEGE GRANTS AND CONTRACTS	73,210
RESTRICTED GIFTS AND GRANTS	4,946
ENDOWMENT INCOME	59,929
SALES AND SERVICES OF EDUCATION ACTIVITIES	144,206
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	1,216,693
OTHER REVENUES	144,206
TOTAL CURRENT REVENUES	1,431,461
EXPENDITURES AND TRANSFERS:	
EDUCATIONAL AND GENERAL:	
INSTRUCTION	561,926
RESEARCH	85,601
PUBLIC SERVICE	93,325
AGRICULTURAL SUPPORT	9,213
ADVISORY SERVICES	59,947
STUDENT SERVICES	75,169
INSTITUTIONAL SUPPORT	118,628
STUDENT FINANCIAL AID	120,329
MAINTENANCE AND OPERATION	100,390
OTHER EXPENDITURES	810
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	1,431,461
MANDATORY TRANSFERS FOR:	
PRINCIPAL AND INTEREST	67,288
LOAN FUND	1
UNEXPENDED PLANT FUND	2,154
RETIREMENT OF INDEBTEDNESS	165
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - UNRESTRICTED	(18,539)
CURRENT FUND - RESTRICTED	(3,665)
LOAN FUND	747
UNEXPENDED PLANT FUND	57,532
RENEWAL AND REPLACEMENT	3,148
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	1,539,870
AUXILIARY ENTERPRISES AND HOSPITALS:	
EXPENDITURES	401,355
MANDATORY TRANSFERS FOR:	
RENEWAL AND REPLACEMENT	13,000
RETIREMENT OF INDEBTEDNESS	81
NON-MANDATORY TRANSFERS FOR:	
CURRENT FUND - UNRESTRICTED	1,117
AUXILIARY ENTERPRISES AND HOSPITALS - UNRESTRICTED	6,350
RENEWAL AND REPLACEMENT	2,097
TOTAL AUXILIARY ENTERPRISES AND HOSPITALS	1,797
TOTAL EXPENDITURES AND TRANSFERS	419,054
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):	
TRANSFERS FROM PRIMARY GOVERNMENT	1,988,924
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	707,884
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	(3,634)
REFUNDS TO GRANTORS	40,230
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	5,374
NET INCREASE (DECREASE) IN FUND BALANCE	1,009
FUND BALANCE AT JULY 1, 1996	38,228
FUND BALANCE AT JUNE 30, 1997	39,237

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

COMMONWEALTH OF KENTUCKY  
 COMBINED STATEMENT OF CHANGES IN FUND BALANCE  
 ALL UNIVERSITY AND COLLEGE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Totals June 30, 1997
REVENUES AND OTHER ADDITIONS:	
EDUCATIONAL AND GENERAL REVENUES	582,788
AUXILIARY ENTERPRISES AND HOSPITALS REVENUES	425,503
INDIRECT COST RECOVERED	283,970
RESTRICTED GIFTS AND GRANTS	68,365
ENDOWMENT INCOME	4,441
INTEREST AND OTHER INVESTMENT INCOME	184,917
EXPENDED FOR PLANT FACILITIES	(49,598)
OTHER REVENUE AND ADDITIONS	(112,716)
TOTAL REVENUES AND OTHER ADDITIONS	1,768,979
EXPENDITURES AND OTHER DEDUCTIONS:	
EDUCATIONAL AND GENERAL EXPENDITURES	1,405,854
AUXILIARY ENTERPRISES AND HOSPITALS EXPENDITURES	401,355
RENEWAL AND REPLACEMENT	206
ADMINISTRATIVE COLLECTION AND LITIGATION COSTS	730
LOAN CANCELLATIONS	1,010
PAYMENT TO BENEFICIARIES	120,048
EXPENDED FOR PLANT FACILITIES	48,705
INTEREST ON DEBT INDEBTEDNESS	44,798
INTEREST PAYMENTS	43,053
DISPOSAL OF PLANT FACILITIES	187,395
NOTES ISSUED	(2,245,848)
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	2,245,848
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):	
NON-MANDATORY TRANSFERS FOR:	
TRANSFERS FROM PRIMARY GOVERNMENT	773,845
TRANSFERS TO PRIMARY GOVERNMENT	(4,419)
TOTAL TRANSFERS AMONG FUNDS	769,426
INCREASE (DECREASE) IN FUND BALANCE	274,479
FUND BALANCE AT JULY 1, (NOTE 2) AS RESTATED	2,948,602
FUND BALANCE AT JUNE 30	3,222,081

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 NCPA 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 Kentucky Agricultural Finance Authority and the Kentucky Grain Insurance Corporation. (See page 79 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 to issue their own revenue bonds.

ally 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.

**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, three ex officio members, the other nine appointed by the Governor.

Kentucky Center for the Arts Corporation (KRS 153.410)

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

Kentucky Educational Television Authority (KRS 168.030)

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

Kentucky Economic Development Finance Authority (KRS 154.20-010)

KEDFA possesses the corporate powers necessary to distinguish it as being legally separate from the Commonwealth 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 Industrial Revitalization Authority, 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)

KHESLC 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 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.

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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 appurtenant 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, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date. 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, Fleet Management, Computer Services, Central Stores, Telecommunications, Prison Industries, Central Printing, Property Management, and Risk Management, and Unemployment Trust. 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, 1997, are \$2,863,067,252.

**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 \$488,473,885.

**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** - The policy of the primary government is to capitalize all land, buildings, and equipment having an acquisition cost of \$5,000 or greater. Component units establish their own capital capitalization policy and that policy may vary from the amount of the primary government. 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 \$678,337,000 at June 30, 1997, were valued as follows: \$351,961,000 at estimated historical cost, \$280,829,000 at historical cost and \$45,547,000 at fair market value at time of donation. Land of \$78,247,000 at June 30, 1997, was valued as follows: \$34,138,000 at estimated historical cost, \$30,902,000 at historical cost, and \$13,207,000 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-five percent (85%) of the land cost and fifty-six percent (56%) of the proprietary fund's buildings cost as of June 30, 1997. 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 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.

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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 1997, 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 appropriate combined statements included in the Commonwealth of Kentucky Comprehensive Annual Financial Report for the

Year Ended June 30, 1997, 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 (I) 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.

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

	Primary Government		Debt Service	Component Units
	General	Special Revenue		
Loans investments	\$ 10,871	\$ 8,983	\$	
Restricted for grants and contracts		32,630		
Deposited in trust for fixed assets		6,547	19,272	664,790
Compassionate balance with depositories	200,000	997		
Budget Stabilization				
TOTALS	\$ 210,871	\$ 49,157	\$ 19,272	\$ 664,790

**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 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, 1997, the estimated liability for accrued annual leave for the governmental and Primary Government proprietary funds was \$137,973,809 and \$9,069,754, respectively. Compensatory leave is granted to authorized employees on an hour-for-hour basis. At June 30, 1997, the estimated liability for compensatory leave in the governmental and Primary Government proprietary funds was \$41,751,580 and \$2,520,246, respectively.

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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.

(Expressed in Thousands)

**Primary Government - Enterprise Fund**

Contributed capital as of June 30, 1996, as restated	\$ 84,512
Additions: Fiscal Year 1997	31,017
	\$ 115,529

Amortization through June 30, 1996

Additions: Fiscal Year 1997	\$ (20,926)
	(1,799)
	(22,725)

Net contributed capital as of June 30, 1997

	\$ 92,804
--	-----------

**Primary Government - Internal Service Fund**

Contributed capital as of June 30, 1996, as restated	\$ 905
Additions: Fiscal Year 1997	24,202
Retirements: Fiscal Year 1997	(8,614)
	\$ 16,493

Amortization through June 30, 1996

Additions: Fiscal Year 1997	(163)
Retirements: Fiscal Year 1997	(4,403)
	5,969

Net contributed capital as of June 30, 1997

	\$ 17,892
--	-----------

**Component Units - Proprietary Funds**

Contributed capital as of June 30, 1996	\$ 160,916
Additions: Fiscal Year 1997	2,039
	\$ 162,975

Amortization through June 30, 1996

Additions: Fiscal Year 1997	(64,746)
	(5,299)
	(70,045)

Net contributed capital as of June 30, 1997

	\$ 92,930
--	-----------

**O. Totals - Memorandum Only.** Total columns (memorandum only) have been added to certain statements to reflect totals for both the primary government and the reporting entity. These columns 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 Agency Revenue Fund, within the Special Revenue Fund, was restated to include \$859,000 previously omitted in error. The net effect of this adjustment was an increase in fund balance of \$859,000.

**Debt Service Fund.** The Debt Service was restated to report \$3,364,000 previously omitted in error. The net effect of this adjustment was an increase in fund balance of \$3,364,000.

**Capital Projects Fund.** The Capital Projects Fund was restated to remove \$568,000 previously reported in error. The effect of this adjustment was a decrease in fund balance of \$568,000.

**Enterprise Funds.** A change in capitalization policy, for financial reporting purposes, resulted in a decrease in retained earnings for the State Parks Fund, Industries for the Blind Fund, and Horse Park Fund. The effect of this change was a reduction in retained earnings of \$1,414,000, \$26,000, and \$119,000, respectively. The Insurance Administration Fund's fixed assets were decreased through a change in capitalization policy by \$1,853,341. The retained earnings were increased by \$631,000 for premiums receivable and \$26,427,000 assessments, which were previously omitted. The net effect of these changes was an increase in retained earnings of \$23,645,659.

**Internal Service Funds.** A change in capitalization policy, for financial reporting purposes, resulted in a decrease in retained earnings for the Computer Services Fund, Central Stores Fund, Telecommunications Fund, Prison Industries Fund, Central Printing Fund, Property Management Fund, and Risk Management Fund. The effect of this change was a reduction in retained earnings of \$1,580,000, \$19,000, \$123,000, \$322,000, \$86,000, \$404,000, and \$3,000, respectively. The Risk Management Fund was increased by \$6,000 to include an amount previously omitted in error. The net effect of these adjustments was a decrease in retained earnings of \$2,531,000.

**Trust and Agency Funds.** The Commonwealth Choice Fund, within the Agency Funds, was restated to include an amount previously omitted in error. The result of this restatement was an increase in assets and liabilities of \$1,828,000. Kentucky Teachers' Retirement System adopted the provisions of GASB Statement 25 and this change resulted in an increase in the beginning net assets held in trust for pension benefits of \$890,072,000. The net effect of these adjustments was an increase in retained earnings of \$891,900,000.



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**Fixed Asset Account Group** - A change in capitalization policy, for financial reporting purposes, resulted in a decrease in assets held in the account group of \$178,474,000. Buildings totaling \$43,170,000 were previously omitted from the Account Group. The net effect on the Account Group was a decrease in assets of \$135,304,000.

**General Long-term Debt Account Group** - The long-term liabilities were increased by \$157,000 to include capital leases previously omitted in error. The liability for Unfunded Employer Pension Contribution was reduced by \$81,338,000 as a result of implementation of GASB Statement 27 reporting requirements. The net effect of these changes was a reduction in the General Long-term Debt Account Group of \$81,181,000.

**Component Units** - The retained earnings for the Kentucky Economic Development Finance Authority were decreased from an amount previously reported by \$841,000. The adjustment is the result of the removal of operations for which the Authority is no longer responsible. The retained earnings of the Kentucky Higher Education Assistance Authority were increased by \$3,534,000. This increase reflects additional Loan Insurance assets received. The net effect on fund balance for proprietary funds in a net increase of \$2,693,000.

The fund balance for the University of Kentucky increased by \$12,499,000 due to the implementation of GASB Statement 31. Western Kentucky University had a decrease in fund balance of \$436,000 due to timing difference of statements for its foundation, and an increase of \$396,000 due to the implementation of GASB Statement 31. Kentucky State University had a decrease in fund balance of \$837,000 due to the recording of a capital lease obligation not previously reported. The fund balance for the universities was restated by a net increase of \$11,226,000.

**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 \$6,575,000 at June 30, 1997, for Campbell, Daviess, 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. The Federal Fund has a deficit fund balance of \$45,378,000. The deficit is a result of expenditures for which reimbursement has not been received.

**B. The Enterprise Fund** - The Insurance Administration Fund has a deficit retained earnings of \$1,153,625,000. 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 \$57,034,000. 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 \$162,000. 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 \$6,075,000. The Kentucky Local Correctional Facilities Construction Authority has a deficit retained earnings of \$20,628,000, 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 1F) 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, 1997, to the fund balance on a modified accrual basis follows (expressed in thousands):

	Budgetary Funds		Enterprise		Internal Service		Expendable Trust		Component Units	
	General	Special Revenue	Enterprise	Enterprise	Internal Service	Internal Service	Trust	Fiduciary	Fiduciary	Units
Financial Statements Funds	General	Special Revenue	Enterprise	Enterprise	Internal Service	Internal Service	Trust	Fiduciary	Fiduciary	Units
Fund Balance/Retained Earnings June 30, 1997:	\$ 538,075	\$ 1,340,352	\$ 277,959	\$ 46,574	\$ 550,531	\$ 118,112				
Adjustments:										
Accrued Revenues	194,416	375,710	1,998		2,544		1,749			
Accrued Expenditures	(360,668)	(447,626)	(4,219)		(5,073)		(41,552)			
Accrued Transfers (Net)	(6,040)	216	(8)							
Total Accruals <sup>1</sup>	(172,292)	(71,700)	(2,229)		(2,529)		(39,803)			
Reclassifications and Other Adjustments:										
Inventory Balances <sup>2</sup>	10,871	32,578	3,965		5,681					
To Reclassify Financial Resources into Financial Statement Fund Types <sup>3</sup>		(485,744)	11,413		14,716					
To Record Financial Resources available as Non-Budgeted Funds <sup>4</sup>	(15,000)	401,016	(1,278,415)		(73,684)		19,161,417			3,830,671
Fund Equity/Other Credits June 30, 1997:										
GAAP Basis	\$ 461,654	\$ 1,216,532	\$ (985,307)	\$ (9,242)	\$ 19,672,145	\$ 1,948,783				
Basis Differences Perspective Differences										
Fund Differences										

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**Note 5**

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

**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 estate held by the pledging institution but not in the entity's name.

**CASH - PRIMARY GOVERNMENT**

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 759,489,450	\$	\$ 27,641,488	\$ 787,130,938	\$ 717,790,245
Cash with Fiscal Agents	33,433,452		10,362,116	43,795,568	38,048,342
Imprest and Change	11,310,838			11,310,838	9,998,904
Money Market			17,921,238	17,921,238	17,785,043
Total	\$ 804,233,740	\$	\$ 55,924,842	\$ 860,158,582	\$ 783,622,534
Cash on Deposit with Federal Government			550,484,609	550,484,609	550,484,609
Total			\$ 1,410,643,191	\$ 1,410,643,191	\$ 1,334,107,143

**CASH - COMPONENT UNITS**

	Categories			Total Bank Balance	Carrying Amount
	1	2	3		
Cash	\$ 171,572,174	\$ 9,350,257	\$ 42,828,111	\$ 223,750,542	\$ 203,705,599
Money Market	8,593,144	39,641,982	17,829,408	66,064,534	66,064,534
Nonnegotiable Certificates of Deposit	200,000		9,815	209,815	209,815
Total	\$ 180,365,318	\$ 48,992,239	\$ 60,667,334	\$ 290,024,891	\$ 271,979,948

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**Investments** - The State holds investments both for its own benefit and as 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**

	Categories			Net Investment	Market Value
	1	2	3		
Government Securities	\$ 3,890,390,077	\$ 162,302,722	\$ 213,611,795	\$ 4,266,204,594	\$ 4,298,049,797
Negotiable Certificate of Deposit	6,656,314			6,656,314	6,655,494
Corporate Bonds	2,104,526,621	78,412,673	45,319,253	2,228,258,547	2,229,116,845
Common Stocks	10,894,547,526	66,611,840		10,961,159,366	10,980,306,602
Repurchase Agreements	667,846,654	456,821,300	1,120,593,447	2,245,261,401	2,251,864,571
State and Municipal Obligations	21,942,804			21,942,804	21,900,184
Commercial Paper	107,432,968			107,432,968	107,396,637
Securities Lending Collateral			691,254,778	691,254,778	691,254,778
Totals	\$ 17,693,342,964	\$ 764,048,535	\$ 2,070,779,273	\$ 20,528,170,772	\$ 20,586,544,908
Mutual Funds				186,110,838	186,110,838
Real Estate				524,035,232	524,035,232
Mortgage				398,601,241	398,601,241
Annuity Contracts				192,483,503	191,483,503
State Investment Pool				299,066,632	298,160,051
Investments Held by Broker Dealers				1,837,032,244	1,837,032,244
Under Securities Lending				129,325	107,995
Total Investments				\$ 23,965,629,857	\$ 24,022,076,012

**INVESTMENTS - COMPONENT UNITS**

	Categories			Net Investment	Market Value
	1	2	3		
Government Securities	\$ 279,161,589	\$ 247,967,657	\$	\$ 527,129,246	\$ 529,810,970
Negotiable Certificate of Deposit	9,795,257			9,795,257	9,795,257
Corporate Bonds	43,089,670	267,939		43,357,609	43,621,706
Other	4,617,190		315,000	5,332,190	5,332,190
Common Stock	83,905,506	270,848		84,176,354	84,176,354
Repurchase Agreements	203,783,300	3,885,065		207,668,365	207,910,365
State and Municipal Obligations	500,110	409,381		909,491	934,239
Preferred Stock	475,500			475,500	475,500
Commercial Paper	31,354,590	44,142,428	5,864,411	81,361,429	81,361,429
Closed End Mutual Funds	193,969	305,820		499,789	754,123
Totals	\$ 656,876,681	\$ 297,249,138	\$ 6,179,411	\$ 960,305,230	\$ 963,797,178
Endowment Funds				84,691,448	84,691,448
Open-End Mutual Funds				116,844,726	118,161,331
Guaranteed Investment Contracts				44,927,305	44,927,305
Real Estate				414,362	414,362
Trust Funds				11,479,878	11,320,121
State Investment Pool				394,476,186	393,346,324
Total Investments				\$ 1,613,139,135	\$ 1,616,638,069

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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 Commonwealth does not have the ability to pledge or sell collateral securities without a borrower default. The market value of the securities received in the agreement is 102 percent of the value of the securities transferred. The securities transferred are a part of the total investments reported above. The securities being held are not reported as a part of the total investments. The Commonwealth

retains the interest income on the securities being transferred and received a fee of 9.5 basis points from July 1, 1996 to June 30, 1997. During the year, the State earned \$2,077,066 in securities lending income. On June 30, 1997, the market value of the securities transferred was \$2,187,227,038 and the market value of the securities the Commonwealth was holding was \$2,249,172,525. 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, 1997, the portfolio included \$50,000,000 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.

**Note 6**

**GENERAL FIXED ASSETS**

A statement of changes in general fixed assets for the year ended June 30, 1997, is presented below (Expressed in Thousands):

	Land	Buildings	Machinery and Equipment	Construction in Progress	Totals
Balance June 30, 1996, as restated	\$ 76,748	\$ 617,576	\$ 549,816	\$ 162,092	\$ 1,406,232
Restatements		93,170	(178,424)		(135,304)
Additions	1,838	17,681	25,556	20,303	65,378
Deletions	(119)	(90)	(43,417)	(14,922)	(58,768)
Transferred to Internal Service Fund			(105,403)		(105,403)
Balance June 30, 1997	\$ 78,247	\$ 678,337	\$ 287,677	\$ 167,473	\$ 1,211,734

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**Note 7**

**INTERFUND TRANSACTIONS**

The table below shows the interfund receivables and payables and net fund operating transfers for fiscal year 1997 (Expressed in Thousands).

	Interfund Receivables and Payables		Transfers In/Out		Operating Transfers	
	Fund	Interfund Receivable	Interfund Payable	Fund	In	Out
General		\$ 74,324	\$ 34,894	General	\$ 171,453	\$ 1,231,013
Special Revenue:				Special Revenue:		
Transportation	10,240	10,917	118,624	Transportation	858	175,178
Federal	3,770	118,624	43,996	Federal	940	19,068
Agency Revenue	128,043	43,996	31,417	Agency Revenue	342,401	227,284
Other Special Revenue	5,306	31,417	1,660	Other Special Revenue	378,028	460,884
Debt Service	339	1,660	591	Debt Service	340,975	1,294
Capital Projects	5,894	591		Capital Projects	48,275	8,633
Enterprise:				Enterprise:		
State Parks	222	1,121		State Parks	31,985	1,121
Industries for the Blind	18			Kentucky Lottery Corporation		151,000
Horse Park	20	81		Industries for the Blind	880	
Insurance Administration	1,033	185		Horse Park	1,752	
Fleet Management	842			Insurance Administration	37	5,892
Computer Services	2,940	27		Internal Service:		
Central Stores	176	16		Computer Services	5,906	334
Telecommunications	276	223		Central Stores		
Prison Industries	2,888	70		Telecommunications	238	84
Central Printing	401	402		Prison Industries	130	896
Property Management	910	55		Central Printing		
Risk Management	76	2,810		Property Management	2,156	83
Fiduciary Funds:				Risk Management	22,016	20,954
Unemployment, Compensation	701	554		Fiduciary Funds:		
Special Benefits	12,804	1,418		Unemployment, Compensation	700	2,616
Special Deposit Trust	212	18		Special Benefits	165,629	21,316
Component Units:				Special Deposit Trust		
Governmental				Governmental:		
Proprietary				Proprietary	3,205	3,210
Universities and Colleges	131,147	131,147		Universities and Colleges	773,885	4,419
Totals per financial statements	\$ 383,836	\$ 383,836		Totals per financial statements	\$ 2,355,279	\$ 2,355,279

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**Note 8**

**PENSION PLANS**

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 the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The 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, provides for retirement, disability, and death benefits to plan members.

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

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

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

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

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

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.

The Judicial Retirement Plan is a single employer defined benefit plan which provides retirement, disability and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.525% benefit rate and the sixty month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

The Legislators' Retirement Plan is a single employer defined benefit plan which provides retirement, disability, and death benefits to 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

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

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

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

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

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

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

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

Cost-of-living adjustments (COLA) are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

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

	Kentucky Legislators' Retirement System	Kentucky Judicial Retirement Plan	State Police Retirement System	Kentucky Employers Retirement System	Kentucky Teachers' Retirement System
State	47.70%	32.40%	26.58%	8.89%-17.87%	13.105%-13.48%
Plan Members	5.00%	5.00%	7.00%	3%-7%	6.16%-9.853%
Portion of State Contribution for Health Insurance					
Annual pension costs (in thousands)	\$1,347	\$5,984	\$11,054	\$125,456	\$328,600
Contributions made (in thousands)	\$1,631	\$5,386	\$9,628	\$118,119	\$328,600
Actuarial valuation date	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997
Actuarial cost method	Projected unit credit	Projected unit credit	Entry age normal	Entry age normal	Projected unit credit
Amortization method	Interest + 1%	Interest + 1%	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period	23 years	23 years	30 years	30 years	30 years
Asset valuation method	Cost	Cost	market to book value	market to book value	market to book value
Actuarial assumptions					
Investment rate of return	7.00%	7.00%	8.25%	8.25%	8.00%
Projected salary increases	5.50%	5.50%	6.50%	6.50%	4.5%-8.60%
Increase in Health Insurance Cost	6%-10%	6%-10%	7.5%-10%	7.5%-10%	1.50%
(Dollar amounts in thousands)					
Annual Required Contributions (ARC)	\$ 1,587	\$ 5,984	\$ 11,054	\$ 125,456	\$ 328,600
Increase on Net Pension Obligation (NPO)	6	269	566	3,801	0
Adjustment to ARC	(7)	(307)	(144)	(2,308)	0
Annual pension cost	1,546	5,945	11,276	126,949	328,600
Contributions made	1,631	5,386	9,628	118,119	328,600
Increase (Decrease) in NPO	(85)	360	1,648	8,330	0
NPO beginning of year	87	3,811	6,867	46,068	0
NPO end of year	0	4,401	8,515	54,898	0

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**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAI) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAI as a Percentage of Covered Payroll ((b-a)/c)
<b>Kentucky Employees Retirement System</b>						
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
June 30, 1997	\$ 3,850,712,243	\$ 3,603,966,110	\$ 246,746,133	1.068	\$ 1,322,555,813	(0.187)
<b>State Police Retirement System</b>						
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
June 30, 1997	\$ 279,643,275	\$ 255,784,758	\$ 23,858,517	1.093	\$ 41,586,211	(0.574)
<b>Judicial Retirement Plan</b>						
June 30, 1995	\$ 121,487,703	\$ 122,947,042	\$ 1,459,339	0.988	\$ 17,481,864	0.083
June 30, 1996	\$ 131,973,167	\$ 133,259,942	\$ 713,225	1.005	\$ 18,963,743	(0.038)
June 30, 1997	\$ 156,157,021	\$ 144,748,660	\$ 11,408,361	1.079	\$ 18,445,743	(0.618)
<b>Legislators' Retirement Plan</b>						
June 30, 1995	\$ 30,895,685	\$ 36,100,573	\$ 5,204,888	0.856	\$ 3,492,500	1.490
June 30, 1996	\$ 34,942,019	\$ 36,958,664	\$ 2,016,645	0.945	\$ 3,410,000	0.591
June 30, 1997	\$ 40,098,285	\$ 39,487,831	\$ 610,454	1.015	\$ 3,245,000	(0.188)
<b>Kentucky Teachers' Retirement System</b>						
June 30, 1995	\$ 6,621,200,000	\$ 8,210,000,000	\$ 1,588,800,000	0.806	\$ 1,819,800,000	0.873
June 30, 1996	\$ 7,624,700,000	\$ 9,178,600,000	\$ 1,553,900,000	0.831	\$ 1,877,900,000	0.827
June 30, 1997	\$ 8,789,900,000	\$ 9,906,200,000	\$ 1,116,300,000	0.887	\$ 1,925,000,000	0.580

Membership of the retirement systems, at June 30, 1997, 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		Totals
	Members	Beneficiaries	Members	Beneficiaries	Members	Beneficiaries	Members	Beneficiaries	Members	Beneficiaries	Members	Beneficiaries	
Retirees and beneficiaries receiving benefits	21,125	2,627	20,014	2,603	669	9	194	21	102	26,283	68,387	9,682	
Terminated plan members - vested	9,897	15,480	75,732	113,829	943	1,698	234	449	128	50,445	177,067	26,610	
Terminated plan members - non-vested	49,605	83,254	113,829	1,090	77	1	1	1	277	81,101	203	1,617	
Active plan members	361	1,090	1,090	1	1	1	1	1	1	203	203	1,617	
Number of participating employees	361	1,090	1,090	1	1	1	1	1	1	203	203	1,617	

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**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.245, selects the administrator to oversee the daily operations and technical compliance of the plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the insurance companies holding fixed and variable annuity contracts (carriers). Both plans permit employees to defer collecting a portion of their salary until future years. This 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 employees.

Of the \$381,048,000 in the 457 Plan at June 30, 1997, \$253,228,000 was applicable to the Commonwealth while the remaining \$127,820,000 represents assets of the other jurisdictions participating in 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 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, 1997, 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.

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	Fiscal Year 1997	Fiscal Year 1996
Beginning of Fiscal Year Liability	\$ 3,439,494	\$ 3,177,682
Claims and Claims Adjustments Incurred		261,812
Changes in Estimates		
Claims and Claims Adjustments Payments		
Balance at Fiscal Year End	\$ 3,439,494	\$ 3,439,494

The claims liability of \$277,177 reported in the Program at June 30, 1997, 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 1997 and 1996 were:

	Fiscal Year 1997	Fiscal Year 1996
Beginning of Fiscal Year Liability	\$ 277,177	\$ 277,177
Claims and Claims Adjustments Incurred		
Changes in Estimates		
Claims and Claims Adjustments Payments		
Balance at Fiscal Year End	\$ 277,177	\$ 277,177

**Note 13**

**DEFEASANCE OF LONG-TERM DEBT**

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. During the fiscal year ended June 30, 1997, the Commission issued the following refunding revenue bonds:

	Fiscal Year 1997	Fiscal Year 1996
Beginning of Fiscal Year Liability	\$ 25,000	\$ 25,000
Claims and Claims Adjustments Incurred		
Changes in Estimates		
Claim and Claims Adjustments Payments	(27,555)	
Balance at Fiscal Year End	\$ 219,000	\$ 25,000

**Risk Pools - Component Units**

**Grain Insurance:**  
The Grain Insurance Program is established to promote economic stability in agriculture by providing coverage to grain producers for losses incurred in the event of a financial failure of a grain

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Series issues. The Commission's portion of the refunding issues was \$1,919,381 maturing April 1, 1997 through April 1, 2009, and carrying interest rates from 4.375% to 5.000%. 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 are \$121,969 and the present value of the savings is \$97,393 at a rate of 5.0149%.

Revenue refunding bonds dated December 1, 1996, were issued for the Franklin County School District Finance Corporation to refund portions of the 1988, 1989 and 1990 issues. The Commission's portion of the refunding issue was \$3,372,720 maturing February 1, 1997 through August 1, 2010, and carrying interest rates from 4.450% to 4.700%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1988, 1989 and 1990 issues being refunded. Net savings to the Commission are \$248,654 and the present value of the savings is \$157,691 at a rate of 4.8436%.

Revenue refunding bonds dated December 1, 1996, were issued for the Floyd County School District Finance Corporation to refund a 1988 issue. The Commission's portion of the refunding issue was \$1,222,675 maturing February 1, 1998 through February 1, 2008, and carrying interest rates from 4.500% to 4.550%. 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 are \$122,120 and the present value of the savings is \$98,062 at a rate of 4.7246%.

Revenue refunding bonds dated December 1, 1996, were issued for the Wolfe County School District Finance Corporation to refund a portion of the 1989 issue. The Commission's portion of the refunding issue was \$412,504 maturing March 1, 1997 through September 1, 2009, and carrying interest rates from 3.700% to 5.000%. 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 are \$31,723 and the present value of the savings is \$22,944 at a rate of 4.7410%.

Revenue refunding bonds dated December 1, 1996, were issued for the Magoffin County School District Finance Corporation to refund a 1988 issue. The Commission's portion of the refunding issue was \$850,000 maturing April 1, 1997 through October 1, 2008, and carrying interest rates from 4.200% to 5.000%. 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 are \$63,401 and the present value of the savings is \$50,491 at a rate of 4.7100%.

Revenue refunding bonds dated December 1, 1996, were issued for the Bracken County School District Finance Corporation to

refund a 1988 issue. The Commission's portion of the refunding issue was \$466,203 maturing December 1, 1997 through December 1, 2008, and carrying interest rates of 4.800%. 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 are \$35,222 and the present value of the savings is \$27,665 at a rate of 4.8000%.

Revenue refunding bonds dated January 1, 1997, were issued for the Nelson County School District Finance Corporation to refund a 1987 issue. The Commission's portion of the refunding issue was \$427,400 maturing April 1, 1998 through April 1, 2007, and carrying interest rates from 4.000% to 4.600%. 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 are \$35,272 and the present value of the savings is \$34,036 at a rate of 4.6600%.

Revenue refunding bonds dated January 1, 1997, were issued for the Anchorage Independent School District Finance Corporation to refund a 1989 issue. The Commission's portion of the refunding issue was \$216,554 maturing June 1, 1997 through June 1, 2009, and carrying interest rates from 3.750% to 5.000%. 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 are \$26,583 and the present value of the savings is \$20,699 at a rate of 4.7083%.

Revenue refunding bonds dated February 1, 1997, were issued for the Clay County School District Finance Corporation to refund a 1989 issue. The Commission's portion of the refunding issue was \$387,491 maturing September 1, 1997 through September 1, 2008, and carrying interest rates from 3.750% to 5.000%. 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 are \$28,378 and the present value of the savings is \$21,044 at a rate of 4.861%.

Revenue refunding bonds dated February 1, 1997, were issued for the Mason County School District Finance Corporation to refund a 1988 issue and fund improvements. The Commission's portion of the refunding issue was \$620,316 maturing April 1, 1998 through April 1, 2017, and carrying interest rates from 4.300% to 5.400%. 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 are \$10,013 and the present value of the savings is \$7,734 at a rate of 5.0318%.

Revenue refunding bonds dated February 1, 1997, were issued for the Pineville Independent School District Finance Corporation to refund a 1987 issue. The Commission's portion of the refunding issue was \$341,975 maturing October 1, 1997 through October 1, 2006, and carrying interest rates from 4.250% to 4.500%. The

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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 are \$30,718 and the present value of the savings is \$21,254 at a rate of 4.2841%.

Revenue refunding bonds dated March 1, 1997, were issued for the Greenup County School District Finance Corporation to refund a 1988 issue. The Commission's portion of the refunding issue was \$3,140,279 maturing March 1, 1998 through March 1, 2008, and carrying interest rates from 4.500% to 4.750%. 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 are \$265,423 and the present value of the savings is \$210,869 at a rate of 4.6567%.

Revenue refunding bonds dated March 1, 1997, were issued for the Williamson Independent School District Finance Corporation to refund a 1988 issue. The Commission's portion of the refunding issue was \$274,695 maturing June 1, 1997 through December 1, 2008, and carrying interest rates from 4.000% to 5.000%. 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 are \$18,425 and the present value of the savings is \$14,219 at a rate of 4.710%.

Revenue refunding bonds dated March 1, 1997, were issued for the Hart County School District Finance Corporation to refund a 1987 issue. The Commission's portion of the refunding issue was \$171,621 maturing June 1, 1997 through December 1, 2006, and carrying interest rates from 4.000% to 4.800%. 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 are \$16,347 and the present value of the savings is \$11,550 at a rate of 4.7245%.

Revenue refunding bonds dated March 1, 1997, were issued for the Jackson County School District Finance Corporation to refund a 1989 issue. The Commission's portion of the refunding issue was \$1,114,890 maturing September 1, 1997 through September 1, 2009, and carrying interest rates from 3.700% to 5.150%. 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 are \$73,041 and the present value of the savings is \$53,729 at a rate of 4.9049%.

Revenue refunding bonds dated April 1, 1997, were issued for the Taylor County School District Finance Corporation to refund a portion of a 1987 issue. The Commission's portion of the refunding issue was \$875,683 maturing August 1, 1997 through August 1, 2007, and carrying interest rates of 4.900%. 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 are \$78,717 and the present value of the savings is \$70,484 at a rate of 4.900%.

Revenue refunding bonds dated April 1, 1997, were issued for the Harlan County School District Finance Corporation to refund 1989 and 1990 issues. The Commission's portion of the refunding issue was \$1,550,000 maturing September 1, 1997 through September 1, 2009, and carrying interest rates from 3.750% to 5.000%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1989 and 1990 issue being refunded. Net savings to the Commission are \$100,427 and the present value of the savings is \$68,331 at a rate of 5.0755%.

Revenue refunding bonds dated April 1, 1997, were issued for the Perry County School District Finance Corporation to refund Series A and Series B 1990 issues. The Commission's portion of the refunding issue was \$4,110,000 maturing April 1, 1998 through April 1, 2010, and carrying interest rates from 4.100% to 5.100%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1990 issue being refunded. Net savings to the Commission are \$243,780 and the present value of the savings is \$187,532 at a rate of 4.8813%.

Revenue refunding bonds dated April 1, 1997, were issued for the Gallatin County School District Finance Corporation to refund a 1987 issue and a portion of a 1989 issue. The Commission's portion of the refunding issue was \$1,104,817 maturing from June 1, 1997 through June 1, 2009, and carrying interest rates from 4.100% to 5.250%. 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 are \$72,811 and the present value of the savings is \$63,342 at a rate of 5.0000%.

Revenue refunding bonds dated June 1, 1997, were issued for the Lewis County School District Finance Corporation to refund a 1988 issue. The Commission's portion of the refunding issue was \$451,332 maturing April 1, 1998 through April 1, 2017, and carrying interest rates from 4.200% to 5.400%. 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 are \$5,419 and the present value of the savings is \$4,298 at a rate of 4.8550%.

Revenue refunding bonds dated June 1, 1997, were issued for the Livingston County School District Finance Corporation to refund a portion of a 1987 issue and a portion of a 1988 issue. The Commission's portion of the refunding issue was \$1,774,096 maturing March 1, 1998 through March 1, 2008, and carrying interest rates from 4.375% to 4.600%. The proceeds were placed in an escrow account to fund the debt service requirements for the Commission's portion of the 1987 and 1988 issues being refunded. Net savings to

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the Commission are \$113,987 and the present value of the savings is \$91,049 at a rate of 4.7133%.

**Component Units**

The University of Louisville issued \$15,275,000 of Consolidated Educational Buildings Refunding Revenue Bonds, Series L, dated December 1, 1996, to advance refund Series G Bonds maturing on and after May 1, 1999. The net proceeds of \$15,020,455, after discounts and issuance cost of \$254,545, were deposited with an escrow agent. The net savings to the University are \$704,646 and the present value of the savings is \$568,873 at a rate of 4.8110%.

Western Kentucky University issued \$6,625,000 of Consolidated Educational Building Refunding Revenue Bonds, Series M, dated March 1, 1997, to advance refund Series I Bonds maturing on and after May 1, 1997. The net proceeds of \$6,504,450, after discounts and issuance cost of \$120,550 were deposited into a Series I Bond Fund through May 1, 1997, when the bonds were redeemed at a premium of 3%. The net savings to the University are \$341,320 and the present value of the savings is \$277,319 at a rate of 4.9979%.

**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.

**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 issued at June 30, 1997.

*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 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, for 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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Component	Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky Housing Corporation*		894,171	3.625%-9.875%	2029
Kentucky Infrastructure Authority*	\$	186,430	3.9%-8.4%	2018
Kentucky Higher Education Student Loan Corporation		452,970	4.1%-9.25%	2027
Kentucky Local Correctional Facilities Construction Authority*		40,785	4.0%-5.5%	2014
Kentucky Economic Development Finance Authority		87,394	5.4%	1999
University of Kentucky		318,478	2.5%-7.25%	2023
University of Louisville		177,982	3.0%-10.0%	2018
Eastern Kentucky University		62,270	3.0%-6.6%	2011
Western Kentucky University		57,017	2.6%-7.4%	2025
Murray State University		25,065	3.0%-7.4%	2025
Morehead State University		31,925	2.88%-7.25%	2017
Kentucky State University		21,665	2.875%-7.15%	2014
Northern Kentucky University		53,940	3.0%-9.0%	2014
			3.0%-8.3%	2021
<b>Total Component Unit Revenue Bonds Payable</b>		<b>\$ 2,410,092</b>		

\*Amounts do not include unamortized premiums, discounts, or deferred loss or early retirement of debt.

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units, at June 30, 1997, are as follows (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Totals
1998	\$ 136,235	\$ 131,682	\$ 267,917
1999	195,389	127,185	322,574
2000	122,698	116,455	239,153
2001	112,716	110,516	223,232
2002	123,629	104,196	227,825
Thereafter	1,719,425	977,179	2,696,604
	<b>\$ 2,410,092</b>	<b>\$ 1,567,213</b>	<b>\$ 3,977,305</b>

During the fiscal year ended June 30, 1997, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

*The Kentucky State Property and Buildings Commission* is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of the Finance and Administration Cabinet, Secretary of the Revenue Cabinet, and Secretary of the Economic Development (formerly Commerce) Cabinet. The Commission is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

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

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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, 1997, are as follows (Expressed in Thousands):

Agency/ Account Group	Principal Outstanding	Interest Rate	Annual Maturity To
General Long-Term Obligations			
State Property & Buildings Commission	\$ 1,083,746	2.4%-9.84%	2018
Turnpike Auth. of Kentucky	1,405,735	3.5%-9.7%	2015
Kentucky School Facilities Construction Commission	\$ 1,336,465		
Less: Local school district participation	825,088		
<b>Total</b>	<b>\$ 511,377</b>	2.2% - 8.25%	2017
	<b>\$ 3,000,858</b>		

Future revenue bond debt service requirements, to be paid with State funds, at June 30, 1997, are as follows (Expressed in Thousands):

Year Ending June 30,	Principal	Interest	Totals
1998	\$ 176,791	\$ 168,391	\$ 345,182
1999	188,680	158,106	346,786
2000	199,228	147,467	346,695
2001	189,100	145,168	334,268
2002	194,986	130,867	325,853
Thereafter	2,052,073	765,279	2,817,352
	<b>\$ 3,000,858</b>	<b>\$ 1,515,278</b>	<b>\$ 4,516,136</b>



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The Authority issued no bonds during the fiscal year ended June 30, 1997.

**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, 1997, state supported universities issued \$32,370,000 in revenue and refunding revenue bonds as follows:

\$15,275,000, University of Louisville, Consolidated Educational Buildings Refunding Revenue Bonds, Series L, maturing serially each May 1, 1997 through 2007 at 4.25% to 4.75%;

\$6,645,000, University of Kentucky, Housing and Dining System Revenue Bonds, Series Q, with \$5,060,000 in serial bonds maturing each June 1, 1998 through 2015, at 5.2% to 5.375% and \$1,585,000 in term bonds due June 1, 2017 at 5.65%;

\$6,625,000, Western Kentucky University, Consolidated Educational Buildings Refunding Revenue Bonds, Series M, maturing serially each May 1, 1998 through 2007, at 4.7% to 4.9%;

\$3,000,000, Western Kentucky University, Housing and Dining System Revenue Bonds, Series M, maturing serially each December 1, 1996 through 2026, at 5.5%;

\$825,000, Murray State University, Housing and Dining System Revenue Bonds, Series M, maturing serially each September 1, 1998 through 2017, at 4.0% to 5.4%.

**The Kentucky Housing Corporation**, established in 1972 under KRS Chapter 198A, is a municipal corporation and political subdivision of the Commonwealth governed by a board of directors comprised of the Secretary of the Finance and Administration Cabinet, Commissioner of the Department 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 construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$2.125 billion total maximum principal value of debt outstanding.

During the fiscal year ended June 30, 1997, the Corporation issued or remarketed \$114,820,000 in Housing Revenue Bonds as follows:

\$1,500,000, 1996 Series C, a remarketed issue, with term maturities of \$675,000 due July 1, 2022, at 6.25% and \$825,000 due July 1, 2028, at 6.3%;

\$15,355,000, 1996 Series D, a replacement refunding issue with term maturities of \$2,400,000 due July 1, 2006, at 5.05%, \$2,660,000 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, a replacement refunding issue with term bonds due January 1, 2028, at 6.3%;

\$10,015,000, 1996 Series F, term bonds due July 1, 2010, at 7.21%;

\$9,785,000, 1997 Series A, a replacement refunding issue with \$6,845,000 maturing serially and semiannually each January and July 1, 2005 through 2009, at 5.15% to 5.55%, and \$2,940,000 in term bonds due January 1, 2012, at 5.7%;

\$20,215,000, 1997 Series B, with \$6,195,000 applied to replacement refunding of Prior Bonds of the Corporation. Term maturities include \$3,680,000 due July 1, 2016, at 6.1%, and \$16,535,000 due July 1, 2028, at 6.25%;

\$10,000,000, 1997 Series C, floating rate term bonds due July 1, 2007, at an initial rate of 6.03%; and

\$24,820,000, 1997 Series D, earning 4.0% per annum to the Tender Date on or after September 30, 1997, but not later than the Mandatory Tender Date of December 31, 1997.

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

The Authority issued no bonds during the fiscal year ended June 30, 1997, but did issue \$5,200,000 in Governmental Agencies Program Revenue Bond Anticipation Notes described in the Notes Payable section of this Note.

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

During the fiscal year ended June 30, 1997, the Corporation issued \$167,410,000, in Insured Student Loan Revenue Bonds, as follows:

\$25,000,000, 1996 Series A, with term bonds due June 1, 2026, at 3.5% interest through September 17, 1996, and at variable interest rates determined weekly by the remarketing agent as more fully described in the Official Statement;

\$2,500,000, 1996 Series B, a replacement refunding issue with term bonds due June 30, 2003, at 5.15%;

\$1,870,000, 1997 Series A, a replacement refunding issue with term maturities including \$250,000 due June 1, 1998, at 4.1%, \$125,000 due June 1, 1999, at 4.5%, \$95,000 due December 1, 1999, at 4.5%, \$240,000 due June 1, 2000, at 4.75%, and \$1,160,000 due June 1, 2002, at 4.9%;

\$1,000,000, 1997 Series B, a replacement refunding issue with term bonds due June 1, 2003, at 5.15%;

\$1,040,000, 1997 Series C, a replacement refunding issue with term maturities including \$140,000 due June 1, 1998, at 4.4%, \$70,000 due June 1, 1999, at 4.75%, \$50,000 due December 1, 1999, at 4.75%, \$135,000 due June 1, 2000, at 5.0%, and \$645,000 due June 1, 2002, at 5.15%;

\$1,000,000, 1997 Series D, a replacement refunding issue with term bonds due June 1, 2003, at 5.4%;

\$45,250,000, Senior Series 1997-A-1, issued as Auction Rate Certificates (ARCs) with a final maturity of May 1, 2027, at 5.65%;

\$45,200,000, Senior Series 1997-A-2, issued as ARCs with a final maturity of May 1, 2027, at 5.65% initial interest; and

\$44,550,000, Subordinate Series 1997-B, issued as ARCs with a final maturity of May 1, 2027, at 3.9% initial interest. Initial interest on the 1997 ARCs is recomputed each thirty-five days through Auction Procedures described in Appendix E of the Official Statement.

**The Kentucky Local Correctional Facilities Construction Authority** is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.005 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, 1997.

**The Kentucky School Facilities Construction Commission** was created 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 to 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, 1997, the Commission sold seventy-four (74) school building revenue and revenue refunding bond issues having aggregate state participation of \$51,842,228 maturing through June 1, 2017, at interest rates of 3.7% to 6.1%.

Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 1997, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997. Copies of this report are available from the Division of Accounts, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

**The Kentucky Agricultural Finance Corporation** is a public corporation and governmental agency of the Commonwealth established by Act of the 1984 General Assembly for the purpose of "improving and promoting the health, welfare, and prosperity of the people of the Commonwealth through the stimulation of existing agricultural ventures." The Authority's bond program is designed to help lender banks and other financial institutions assist eligible farmers in obtaining low interest loans through the issuance of tax-exempt agricultural revenue bonds. The Authority's

**COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1997**

debt does not constitute a legal or moral obligation of the Commonwealth, and this debt is not included in these general purpose financial statements.

The Corporation issued no bonds during the year ended June 30, 1997.

*The Kentucky Economic Development Finance Authority* 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, 1997.

During this same reporting period, KEDFA is a party to \$208,700,000 in conduit debt which does 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 this debt.

**NOTES PAYABLE:**

At June 30, 1997, the following entities had notes payable as follows:

*The Kentucky Infrastructure Authority* issued 1997 Series A Governmental Agencies Program Revenue Bond Anticipation Notes dated May 1, 1997, in the amount of \$5,200,000 due June 30, 1998. Initial interest of 4.25%, which will vary with weekly calculations as described in the Official Statement, is payable the first Wednesday of each month beginning June 4, 1997.

*The Kentucky Center for the Arts Corporation* has a \$25,000, non-interest bearing note scheduled to mature in fiscal year 1998.

*The Kentucky Lottery Corporation*, on December 18, 1996, the Corporation borrowed \$6,787,000 to fund the renovation of real estate purchased during the year ended June 30, 1996, to be used as a new corporate headquarters. The terms of the loans require monthly interest payments beginning December 31, 1996, with an annual interest rate of 6.66%. Principal payments are to be made in sixty monthly installments beginning the first full calendar month following the completion date of the renovation, expected to be September 1997.

*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 \$77,000 balance on this non-interest bearing note is payable in monthly installments of \$1,750 with principal of \$21,000 during fiscal years

1998 through 2000, and \$14,000 during fiscal year 2001.

*Northern Kentucky University* purchased \$3,313,000 in notes payable for various installment purchase contracts to acquire property and equipment, to include \$2,783,000 during fiscal 1997. Payments, including interest, through June 30, 2002, total \$3,657,000.

*Murray State University* borrowed \$400,000 from the Commonwealth of Kentucky Capital Construction and Equipment Purchase Contingency Account to fund a portion of the Regional Special Events Center. The note bears an effective rate of interest of 6.7% and the University is required to make annual equal payments of principal and interest through June, 2002. The first annual installment of \$96,750 is due on June 1, 1998.

*The University of Louisville Athletic Association, Incorporated* has entered into a promissory note of \$3.5 million with CSX Transportation, Incorporated in exchange for CSX property to be used for a sports stadium. The note is to be paid over twenty years with an interest rate of 7.5% per annum. The note is secured by an irrevocable letter of credit by Bank One, Kentucky, NA on behalf of the Association.

*Morehead State University* reported a \$498,439 note payable to a company, repayable in monthly installments of \$4,904, plus interest at prime (currently 8.75%), to December, 2005.

**COMMONWEALTH OF KENTUCKY  
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Future debt service requirements for aggregate notes payable at June 30, 1997, are as follows (amounts expressed in thousands).

Year Ending June 30,	Principal	Interest	Totals
1998	\$ 7,448	\$ 1,161	\$ 8,609
1999	2,654	772	3,426
2000	2,543	603	3,146
2001	1,964	431	2,415
2002	1,621	333	1,954
Thereafter	3,545	2,042	5,587
	19,775	5,362	25,137

**Changes in General Long-Term Obligations**

Changes in general long-term obligations (Expressed in Thousands) for the fiscal year ended June 30, 1997, are summarized as follows:

	Compensated Absences	Capital Leases	State Supported Revenue Bonds	Judgements & Contingent Liabilities	Unfunded Employer Pension Contributions	Totals
Balance at June 30, 1996, as restated	\$ 170,749	\$ 1,082	\$ 3,134,342	\$ 447,513	\$ 56,858	\$ 3,810,544
Obligations Incurred	126,922	585	51,842	4,854	11,038	198,178
Obligations Retired	(117,946)	(545)	(185,326)	(254,139)	(85)	(560,975)
Balance at June 30, 1997	\$ 179,725	\$ 1,122	\$ 3,000,858	\$ 198,228	\$ 67,811	\$ 3,447,744

**COMMONWEALTH OF KENTUCKY**  
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**June 30, 1997**

**Note 16**

**SEGMENT INFORMATION**

*Segment financial information for the Commonwealth's Enterprise Funds for the year ended June 30, 1997, is presented below (Expressed in Thousands).*

**Primary Government Enterprise Funds**

	State Parks		Kentucky Lottery Corporation		Industries for the Blind		Horse Park		Insurance Administration		Totals
	Recreation and Lodging	Lottery Operations	Light Industry	Equine Museum	Insurance						
Goods and Services Provided	\$ 37,643	\$ 569,055	\$ 1,620	\$ 3,751	\$ 295,930	\$ 907,999					
Operating Revenues											
Depreciation and Amortization Expense	3,863	2,596	30	527	156	7,172					
Operating Income (Loss)	(37,853)	152,041	(737)	(2,429)	(102,611)	8,411					
Income (Loss) Before Operating Transfers and Extraordinary Item	(37,864)	153,729	(736)	(2,426)	(75,929)	36,774					
Operating Transfers:											
In	33,985		880	1,752	37	36,654					
Out	(1,121)	(151,000)			(5,892)	(158,013)					
Net Income (Loss)	(5,000)	2,729	144	(674)	(81,784)	(84,585)					
Current Contributed Capital:											
Contributions	30,236			781		31,017					
Fixed Assets:											
Additions	31,248	2,560		781	166	34,755					
Deletions	303			83	15	401					
Net Working Capital	1,850	19,286	512	331	(106,180)	(84,701)					
Total Assets	115,989	888,278	1,205	15,923	561,735	1,105,130					
Bonds and Other Long-Term Liabilities:											
Payable from Operating Revenue and Operating Transfers-in	3,298	300,153	29	171	1,505,273	1,808,924					
Total Equity	126,116	26,021	1,118	15,063	(1,153,625)	(985,307)					



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June 30, 1997

CONDENSED STATEMENT  
INFORMATION

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

	Governmental			Proprietary Funds		
	Bluegrass State Skills Corporation	Kentucky Housing Corporation	Kentucky Infrastructure Authority	Others		
Assets						
Current Assets	\$ 56	\$ 257,390	\$ 78,134	\$ 284,744		
Property, Plant and Equipment (net)	2	9,616		152,090		
Other Assets		853,979	307,904	548,945		
Total Assets	\$ 58	\$ 1,120,985	\$ 386,038	\$ 985,779		
Liabilities						
Current Liabilities	\$ 220	\$ 81,636	\$ 17,010	\$ 79,496		
Capital Lease Obligations		845,353	173,205	19,027		
Revenue Bonds				548,161		
Amounts Held in Custody for Others						
Deposits and Advance Payments						
Deferred Revenue				2,050		
Other Liabilities	220	926,989	190,215	648,734		
Fund Equity						
Investment in Fixed Assets						92,930
Contributed Capital						
Fund Balance:						
Reserved for:						
Encumbrances						
Capital Outlay						
Restricted Gifts, Grants and Contracts						
Unreserved:						
Designated for Universities and Colleges	(162)					
Undesignated						
Retained Earnings:						
Reserved for:						
Revenue Bond Retirement		157,457		130,572		
Unreserved		36,539	195,833	113,543		
Total Fund Equity	(162)	193,996	195,833	337,045		
Total Liabilities and Fund Equity	\$ 58	\$ 1,120,985	\$ 386,038	\$ 985,779		

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
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	Universities and College Funds				Totals
	University of Kentucky	University of Louisville	Others		
\$	946,202	305,188	275,346	\$ 2,147,060	
	1,350,448	545,783	1,021,802	3,079,741	
	6,949	2,915	23,668	1,744,360	
	2,303,599	853,886	1,320,816	6,971,161	
\$	213,930	50,614	35,461	478,367	
	38,548	7,501	48,471	94,520	
	318,478	177,982	251,882	2,338,448	
	391	3,180	3,180	3,571	
	2,366	1,808	908	5,142	
	12,666	11,954	10,185	34,805	
	47,207	14,885	7,743	71,885	
	633,586	264,744	357,890	3,022,378	
	998,264	390,161	713,924	2,102,349	
				110,573	
	1,349	4,769	4,172	10,290	
	80,691	30,909	95,657	207,257	
	452,738	80,768	131,284	664,790	
	136,971	82,535	17,889	237,395	
				(162)	
				288,029	
				328,363	
				3,948,783	
	1,670,013	589,142	962,926	6,971,161	
	2,303,599	853,886	1,320,816	6,971,161	

COMMONWEALTH OF KENTUCKY  
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CONDENSED STATEMENT INFORMATION

Condensed Statement of Changes in Retained Earnings Discretely Presented Proprietary Funds  
(Expressed in Thousands)

	Kentucky Housing Corporation	Kentucky Infrastructure Authority	Others	Totals
Operating Revenues	\$ 81,017	\$ 15,926	\$ 98,990	\$ 195,933
Operating Expenses:				
Operating and Other Expenses	74,386	14,010	133,418	221,814
Depreciation & Amortization	1,407	406	10,613	12,426
Operating Income (Loss)	5,224	1,510	(45,041)	(38,307)
Nonoperating Revenues (Expenses)	(314)	35,536	4,752	39,974
Transfers:				
From Primary Government		10,201	49,109	59,310
From Component Units			2,500	2,500
To Primary Government			(710)	(710)
To Component Units			(2,500)	(2,500)
Net Income (Loss)	4,910	42,247	8,110	60,267
Depreciation on Fixed Assets			5,299	5,299
Acquired by Capital Grants	189,086	148,576	230,706	568,368
Retained Earnings - July 1, 1996	\$ 193,996	\$ 195,823	\$ 244,115	\$ 633,934

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
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Condensed Statement of Changes in Fund Balances University and College Funds  
(Expressed in Thousands)

	University of Kentucky	University of Louisville	Others	Totals
Total Revenues and Other Additions	\$ 1,029,767	\$ 316,756	\$ 422,456	\$ 1,768,979
Total Expenditures and Other Deductions	1,247,185	399,325	619,456	2,265,966
Transfers from (to) Primary Government	171,514	130,071	247,881	549,466
Net Increase for Year	134,096	67,502	50,881	252,479
Fund Balance and Other Credits, Beginning, As Restated	1,315,917	571,640	912,045	2,800,602
Fund Balance and Other Credits, Ending	\$ 1,670,013	\$ 589,142	\$ 962,926	\$ 3,222,081

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
Total Revenues	\$ 632,521	\$ 220,319	\$ 343,853	\$ 1,216,693
Expenditures:				
Education and General	633,138	307,479	490,844	1,431,461
Auxiliary Enterprises and Hospitals	308,143	41,055	52,167	401,355
Total Expenditures	941,281	348,534	543,011	1,832,816
Mandatory Transfers	36,474	15,144	32,288	83,906
Non-Mandatory Transfers	18,097	17,361	6,744	42,202
Total Expenditures and Transfers	959,852	381,029	582,043	1,922,924
Other Transfers	346,457	148,787	239,016	734,260
Other Additions (Deductions)	25,010	18,068	3,131	46,209
Net Increase (Decrease) in Fund Balance	\$ 28,136	\$ 6,135	\$ 3,937	\$ 38,208

COMMONWEALTH OF KENTUCKY  
Notes to Combined Financial Statements  
June 30, 1997

[Note 17]

COMMITMENTS AND CONTINGENCIES

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

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

**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, 1997 and 1996, amounted to \$42.0 million and \$35.7 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense 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, 1997. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was \$2,301,079,949 and \$14,051,170, respectively.

**Construction Projects** - The Transportation Cabinet, at June 30, 1997, has contractual commitments of approximately \$712,502,023, for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 33% State funds, 49% Federal funds, and the remaining 18% 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, 1997, and prior to January 23, 1998, and reported other subsequent events for the same period, as described below.

**The Kentucky Asset/Liability Commission** was created by House Bill 5 of the 1997 Extraordinary Session of the General Assembly of the Commonwealth of Kentucky and enacted on May 30, 1997. Pursuant to its June 18, 1997, Resolution and a Trust Indenture dated as of July 10, 1997, with Bank One, Kentucky, the Commission issued \$200,400,000 in General Fund Tax and Revenue Anticipation Notes, 1997 Series A.

The proceeds of the 1997 Series A Notes will be used by the Commonwealth to discharge expenditure demands on the General Fund for the fiscal year ending June 30, 1998, in anticipation of taxes and revenues to be collected during fiscal year 1998 and to pay the costs of issuance. The Notes are due June 28, 1998, at 4.5%.

**The Kentucky Infrastructure Authority**, on September 1, 1997, issued Infrastructure Revolving Fund Program Revenue and Revenue Refunding Bonds, 1997 Series L, in the amount of \$28,775,000. The 1997 Series L bonds have principal due annually to June 1, 2017, with interest rates from 4.0% to 5.5%.

On September 3, 1997, the Authority issued Revenue Bond Anticipation Notes, 1997 Series B in the amount of \$3,700,000. The 1997 Series B notes mature June 30, 1998. Interest is paid monthly with an initial rate of 3.65% that is adjusted weekly. The proceeds of the notes will be used to fund the Governmental Agencies Program loans. It is anticipated that the notes will be redeemed at their maturity from proceeds from the sale of government agencies program revenue bonds to be issued by the Authority. The issuance of these notes is secured by a letter of credit.

COMMONWEALTH OF KENTUCKY  
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**The Kentucky Housing Corporation**, on July 1, 1997, borrowed \$2,640,000 from a bank line of credit. The proceeds of the borrowing are invested in short-term federal agency obligations. The purpose of the borrowing is to preserve tax-exempt bond issuance capacity. The borrowing is expected to be repaid upon the next issuance of Housing Revenue Bonds.

On August 28, 1997, the Corporation's Board of Directors authorized the development of a financing plan for the replacement refunding of Housing Revenue Bonds. The proceeds of the transaction will be used to finance mortgage loans for persons and families of lower and moderate income.

On December 18, 1997, the Corporation remarketed or initially issued Housing Revenue Bonds as follows:

On December 18, 1997, Series D, a remarketed issue, with \$1,330,000 in semiannual serial maturities January and July 1, 2008 through 2010, at 5.0% to 5.25% and term maturities of \$5,205,000 due July 1, 2018, at 5.55% and \$16,015,000 due July 1, 2030, at 5.6%; \$5,340,000, 1997 Series E, all in serial bonds maturing semiannually January and July 1, 1999 through 2017, at 4.0% to 5.4%; and \$8,495,000, 1997 Series F, with term maturities of \$830,000 due July 1, 2013, at 5.45%; \$2,790,000 due January 1, 2021, at 4.95%; \$2,875,000 due January 1, 2028, at 5.7%; and \$2,000,000 due July 1, 2028, at 5.7%.

**The Kentucky Higher Education Student Loan Corporation**, on September 4, 1997, issued \$2,040,000 of Insured Student Loan Revenue Bonds pursuant to its 1983 General Bond Resolution to finance its loan program. The \$1,040,000 1997 Series C bonds are scheduled to mature in various amounts through June 1, 2002, and bear interest ranging from 4.4% to 5.15%. The \$1,000,000 1997 Series D bonds are scheduled to mature June 1, 2003, and bear interest at 5.4%.

**The Kentucky Higher Education Assistance Authority** reported the 1997 Budget Reconciliation Act requires payment of a portion of guaranty agency reserves to the U.S. Treasury. The Authority will return approximately \$13 million. These funds will be placed in a designated investment and returned to the U.S. Treasury at the end of a five-year period. The first installment of \$2.5 million will be set aside in a restricted account and invested during the 1998 fiscal year.

**The Finance and Administration Cabinet's Central Stores Branch** ceased operations during November, 1997. As part of the Empower Kentucky program authorized by the 1996 Regular Session of the Kentucky General Assembly, specific reengineering initiatives were endorsed by a joint Executive/Legislative Redesign Steering Committee. Among the efforts, a Simplified Admin-

istrative System includes adoption of a "best value" approach to procurements and optimizing warehouse operations through inventory and space consolidations, and closure of excess facilities. Central Stores was among the operations identified for closure. As a result, the Central Stores column will be removed from Internal Service Fund Statements for the year ended June 30, 1998.

**The University of Louisville, The Commonwealth of Kentucky, and Columbia HCA (Columbia)** entered into a complete settlement of all outstanding matters related to the affiliation and lease agreement between the University and Columbia. The agreed order provides for the University to drop all its claims against Columbia and vice versa with the stipulation that Columbia deed its land east of the Hospital to the University upon payment of \$800,000. The University must also make payments of \$13,500 per month for 120 months, beginning January 1, 1998. In an unrelated lawsuit, Columbia must pay the University the lesser of \$820,000 or 20% of the amount by which Columbia prevails or settles with the Revenue Cabinet.

**Kentucky School Facilities Construction Commission** administrators State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 1997, and maturing as to principal through 2017 as follows:

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School District	Sale Date	Principal at Issue	State Share	Interest Rate
Christian County	07/02/97	\$ 4,935,000	\$ 965,769	5.0-5.1%
Fulton County	07/10/97	293,000	223,408	4.0-5.5%
Oldham County	07/17/97	7,350,000	610,468	4.9-5.9%
Montgomery County	07/24/97	5,385,000	401,567	4.25-5.0%
Shelby County	07/29/97	1,210,000	846,982	3.8-4.5%
Carroll County	07/31/97	4,055,000	525,089	3.8-5.0%
Powell County	08/07/97	1,500,000	457,560	4.25-4.7%
Covington Ind.	08/12/97	1,250,000	642,317	4.0-4.8%
Boyle County	08/14/97	2,115,000	558,879	4.375-5.0%
Clinton County	08/20/97	960,000	169,655	4.35-5.2%
Christian County	08/21/97	5,085,000	2,815,464	4.0-5.0%
Edmonson County	08/25/97	2,405,000	1,274,846	3.7%-4.6%
Larue County	08/26/97	1,515,000	747,819	4.1-5.2%
Pike County	08/27/97	3,675,000	2,821,426	5.4-5.5%
Boone County	08/28/97	4,585,000	2,918,329	4.0-5.0%
Hickman County	09/29/97	2,725,000	271,918	3.9-5.0%
Berea Independent	10/01/97	1,350,000	138,500	4.1-4.8%
Logan County	10/07/97	1,575,000	525,465	4.0-4.75%
Jenkins Independent	10/14/97	4,090,000	548,442	3.8-5.1%
Knox County, A	10/15/97	1,775,000	512,900	4.0-5.0%
Knox County, B	10/22/97	10,355,000	1,512,152	4.0-5.125%
Rowan County	10/28/97	660,000	385,105	4.3-5.0%
Garrard County	11/05/97	7,000,000	3,453,735	3.8-4.8%
Boyd County	11/06/97	2,590,000	1,895,833	3.75-4.7%
Muhlenburg County	11/09/97	13,295,000	1,619,272	4.4-5.375%
Greenup County	11/10/97	700,000	700,000	4.1-5.5%
Barboursville Ind., A	11/18/97	3,120,000	3,120,000	4.0-4.7%
Barboursville Ind., B	11/20/97	935,000	75,923	4.375-5.125%
Henry County	11/20/97	620,000	203,501	4.2-4.7%
Monroe County	12/03/97	1,810,000	151,052	4.0-4.6%
Gallatin County	12/03/97	4,595,000	3,085,502	3.75-4.625%
Bath County	12/04/97	1,440,000	535,152	4.1-5.1%
Scott County	12/09/97	2,785,000	1,714,679	3.9-4.7%
Pike County	12/09/97	4,345,000	1,079,901	3.9-4.5%
Fleming County	12/10/97	12,370,000	8,767,805	4.0-4.75%
Lawrence County	12/10/97	400,180	400,180	4.0-5.4%
Campbellville Ind.	12/10/97	597,820	597,820	4.0-5.4%
Whitley County	12/11/97	325,000	211,120	4.5-5.0%
Union County	12/15/97	3,305,000	1,562,429	3.75-4.0%
Greenup County	01/06/98	2,910,000	2,419,169	4.1-4.6%
Magoffin County	01/12/98	1,725,000	566,870	3.9-5.0%
Grant County	01/13/98	2,340,000	1,535,559	3.9-4.3%
Paris Independent	01/14/98	1,475,000	1,459,948	3.85-4.2%
Bourbon County	01/15/98	3,625,000	504,395	4.0-4.2%
Boyle County	01/20/98	1,825,000	1,942,944	4.0-4.1%
Covington Independent	01/20/98	4,790,000	385,274	NIC 4.2387%
Marion County	01/21/98	1,690,000	2,492,213	NIC 4.253552%
Powell County	01/21/98	1,345,000	398,962	NIC 4.33%
Caldwell County, A	01/22/98	2,875,000	462,161	3.9-4.25%
Caldwell County, B	01/22/98	2,650,000	637,649	NIC 4.135051%
Totals		\$ 159,386,000	\$ 64,470,063	NIC 4.2557557%

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

**COMMONWEALTH OF KENTUCKY**  
**Notes to Combined Financial Statements**  
**June 30, 1997**

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

Bluegrass State Skills Corporation Capital Plaza Tower 500 Mero 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 Mero 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 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, 1997  
 (Expressed in Thousands)

	JUNE 30, 1997
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	233,502
INVESTMENTS, NET OF AMORTIZATION	300,980
RECEIVABLES, NET	454,928
INTERFUND RECEIVABLES	74,524
INVENTORIES	10,871
<b>TOTAL ASSETS</b>	<b>1,074,805</b>
<b>LIABILITIES AND FUND BALANCE</b>	
LIABILITIES:	
ACCOUNTS PAYABLE	449,425
TAX REFUNDS PAYABLE	168,913
INTERFUND PAYABLES	34,894
DEFERRED REVENUE	59,919
<b>TOTAL LIABILITIES</b>	<b>713,151</b>
FUND BALANCE:	
RESERVED FOR:	
STATUTORY OBLIGATIONS	53,958
BUDGET STABILIZATION	200,000
INVENTORIES	10,871
UNRESERVED:	
UNDESIGNATED	96,825
<b>TOTAL FUND BALANCE</b>	<b>361,654</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>1,074,805</b>

COMMONWEALTH OF KENTUCKY  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	JUNE 30, 1997
<b>REVENUES:</b>	
TAXES	5,382,949
LICENSES, FEES, AND PERMITS	21,094
INTERGOVERNMENTAL	4,706
CHARGES FOR SERVICES	3,796
FINES AND FORFEITS	41,832
INTEREST AND OTHER INVESTMENT INCOME	32,025
<b>OTHER REVENUES</b>	<b>15,362</b>
<b>TOTAL REVENUES</b>	<b>5,501,565</b>
<b>EXPENDITURES:</b>	
GENERAL GOVERNMENT	393,051
LEGISLATIVE AND JUDICIAL	148,132
COMMERCE	17,013
EDUCATION AND HUMANITIES	2,535,870
HUMAN RESOURCES	1,043,439
JUSTICE	294,167
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	48,894
PUBLIC PROTECTION AND REGULATION	38,327
TRANSPORTATION	5,268
<b>TOTAL EXPENDITURES</b>	<b>4,523,381</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>978,204</b>
<b>OTHER FINANCING SOURCES (USES):</b>	
OPERATING TRANSFERS IN	171,453
OPERATING TRANSFERS OUT	(487,809)
TRANSFERS TO COMPONENT UNITS	(783,208)
CAPITALIZED LEASES	582
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,079,059)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(100,852)</b>
<b>FUND BALANCE AT JULY 1</b>	<b>463,391</b>
<b>INCREASE (DECREASE) IN INVENTORIES</b>	<b>(909)</b>
<b>FUND BALANCE AT JUNE 30</b>	<b>361,654</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, 1997  
 (Expressed in Thousands)

	Budget	Actual	Variance
REVENUES:			
BUDGETED:			
TAXES	\$ 5,300,221	\$ 5,401,232	\$ 101,011
LICENSES, FEES, AND PERMITS	18,497	21,095	2,598
INTERGOVERNMENTAL	4,481	4,706	225
CHARGES FOR SERVICES	2,427	3,850	1,423
FINES AND FORFEITS	38,895	41,652	2,757
INTEREST AND OTHER INVESTMENT INCOME	30,625	30,334	(291)
LOTTERY PROCEEDS	151,000	151,000	0
OTHER REVENUES	10,472	2,469	(7,983)
TRANSFERS IN	12,975	17,110	4,235
TOTAL BUDGETED REVENUES	5,569,493	5,674,068	104,575
NON BUDGETED:			
OTHER REVENUES		21	21
ESCHEAT REVENUE		6,574	6,574
TRANSFERS IN (INTERFUND)		3,438	3,438
TOTAL NON BUDGETED REVENUES		10,033	10,033
TOTAL REVENUES	5,569,493	5,684,101	114,608

	Budget	Actual	Variance
EXPENDITURES:			
GENERAL GOVERNMENT:			
GOVERNOR'S OFFICE	6,626	6,446	(180)
GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT	2,269	2,207	(62)
GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT - PLANNING FUND		195	129
UNIFIED PROSECUTORIAL SYSTEM - COMMONWEALTH ATTORNEYS	15,886	15,616	(270)
UNIFIED PROSECUTORIAL SYSTEM - COUNTY ATTORNEYS	15,057	15,057	0
DEPARTMENT OF AGRICULTURE	16,417	15,423	(994)
OFFICE OF THE ATTORNEY GENERAL	10,183	10,174	(9)
AUDITOR OF PUBLIC ACCOUNTS	4,434	4,434	0
REGISTRY OF ELECTION FINANCE	1,286	1,272	(14)
MILITARY AFFAIRS - GENERAL OPERATIONS	11,169	10,315	(854)
MILITARY AFFAIRS - DISASTER AND EMERGENCY SERVICES	9,454	9,005	(449)
LOCAL GOVERNMENT - VARIOUS AREA DEVELOPMENT DISTRICTS	5,895	5,763	(132)
LOCAL GOVERNMENT - ECONOMIC ASSISTANCE FUND	39,703	31,193	(8,510)
LOCAL GOVERNMENT - ECONOMIC DEVELOPMENT FUND	29,061	25,357	(3,704)
SECRETARY OF STATE - GENERAL OPERATIONS	2,160	2,049	(111)
DEPARTMENT OF STATE - GENERAL OPERATIONS	1,735	1,735	0
BOARD OF ELECTIONS	3,277	3,100	(177)
PERSONNEL BOARD	491	490	(1)
SCHOOL FACILITIES CONSTRUCTION COMMISSION	60,144	57,247	(2,897)
EXECUTIVE BRANCH ETHICS COMMISSION	248	242	(6)
COMMISSION ON HUMAN RIGHTS	1,743	1,731	(12)
COMMISSION ON WOMEN	210	199	(11)
COUNCIL ON HIGHER EDUCATION	8,766	8,424	(342)
BUDGET RESERVE TRUST FUND	200,000		200,000

	Budget	Actual	Variance
PERSONNEL CABINET	4,877	4,874	(3)
EASTERN KENTUCKY UNIVERSITY	57,991	57,991	0
KENTUCKY STATE UNIVERSITY	19,579	19,579	0
MOREHEAD STATE UNIVERSITY	33,922	33,922	0
NORTHERN KENTUCKY UNIVERSITY	41,700	41,700	0
NORTHERN KENTUCKY UNIVERSITY	31,566	31,566	0
UNIVERSITY OF KENTUCKY COMMUNITY COLLEGE SYSTEM	263,336	263,336	0
UNIVERSITY OF KENTUCKY	82,810	82,810	0
UNIVERSITY OF LOUISVILLE	147,843	147,755	(88)
WESTERN KENTUCKY UNIVERSITY	54,649	54,649	0
REVENUE			
GENERAL ADMINISTRATION	29,381	29,138	(243)
DEPARTMENT OF TAX COMPLIANCE	20,941	20,866	(75)
DEPARTMENT OF PROPERTY TAXATION	4,270	4,125	(145)
OFFICE OF PROPERTY VALUATION ADMINISTRATORS	19,433	19,067	(366)
FINANCE AND ADMINISTRATION - OFFICE OF THE SECRETARY	27,802	26,406	(1,396)
CAPITAL PLAZA AUTHORITY	59	59	0
KENTUCKY VETERANS CENTER	5,835	5,835	0
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY	30,222	30,098	(124)
DEPARTMENT FOR ADMINISTRATION	3,279	3,557	278
FACILITIES MANAGEMENT - 1997 FLOOD HOUSING DISASTER AND DEPARTMENT FOR FACILITIES MANAGEMENT	812	812	0
DEPARTMENT FOR FACILITIES MANAGEMENT	6,288	6,236	(52)
SPECIAL ACCOUNTS - CAPITAL CONSTRUCTION	2,300	2,300	0
EMPPOWER KENTUCKY CAPITAL CONSTRUCTION POOL B	65,125	65,125	0
EMPPOWER KENTUCKY	103,351	103,351	0
COUNTY COSTS	14,868	14,259	(609)
ACCESS TO JUSTICE	1,200	1,183	(17)
APPROPRIATIONS NOT OTHERWISE CLASSIFIED:			
BOARD OF CLAIMS AWARDS	300	248	(52)
GUARDIAN AD LITEM	2,100	2,016	(84)
JUDGEMENTS AND COURT ORDERED REFUNDS	55,071	27,734	(27,337)
PRIOR YEAR CLAIMS	481	480	(1)
UNREDEEMED CHECKS REFUNDED	300	223	(77)
INVOLUNTARY COMMITMENTS	60	51	(9)
FRANKFORT IN LIEU OF TAXES	195	195	0
FRANKFORT CEMETERY	3	3	0
POLICE AND FIREMEN LIFE INSURANCE	300	250	(50)
MASTER COMMISSIONER EMPLOYERS RETIREMENT	220	210	(10)
MASTER COMMISSIONER SOCIAL SECURITY	143	143	0
WORKERS' COMPENSATION	348	348	0
ATTORNEY GENERAL EXPENSE	147	147	0
TOTAL GENERAL GOVERNMENT	1,580,453	1,330,155	(250,298)
LEGISLATIVE AND JUDICIAL			
GENERAL ASSEMBLY	13,993	6,837	(7,156)
REGULAR SESSIONS	663	298	(365)
KENTUCKY LEGISLATIVE ETHICS COMMISSION	514	429	(85)
LONG TERM POLICY RESEARCH CENTER			
LEGISLATIVE RESEARCH COMMISSION			
ADMINISTRATIVE	23,744	20,154	(3,590)
EDUCATIONAL PLANNING COMMISSION	200	200	0
JUDICIAL RETIREMENT SYSTEM	5,834	5,834	0
COURT OF JUSTICE - CASE MANAGEMENT SYSTEM	860	860	0

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL (BUDGETARY BASIS) - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Budget	Actual	Variance
COURT OF JUSTICE OPERATION AND ADMINISTRATION			
COURT OF JUSTICE - LOCAL FACILITY SUPPORT	103,184	103,163	1
TOTAL LEGISLATIVE AND JUDICIAL	182,213	156,638	2,575
COMMERCE:	166,985	153,013	13,972
ECONOMIC DEVELOPMENT			
OFFICE OF THE SECRETARY	1,691	1,684	7
ADMINISTRATION AND SUPPORT	1,726	1,937	13
JOB DEVELOPMENT	2,015	1,937	78
FINANCIAL INCENTIVES	65,445	53,908	11,537
COMMUNITY DEVELOPMENT	3,214	3,158	56
TOURISM - OFFICE OF THE SECRETARY	1,224	1,217	7
BREAKS INTERSTATE PARK	170	170	0
DEPARTMENT OF TRAVEL DEVELOPMENT	6,273	6,211	62
KENTUCKY STATE FAIR BOARD	11,795	11,795	0
KENTUCKY HORSE PARK	2,740	2,739	1
DEPARTMENT OF PARKS	35,149	35,149	0
TOTAL COMMERCE	131,442	119,681	11,761
EDUCATION AND HUMANITIES:			
OFFICE OF THE SECRETARY:			
COMMISSION ON DEAF AND HARD OF HEARING	1,865	1,865	0
KENTUCKY HERITAGE COUNCIL	461	461	0
EDUCATION POLICY AND MANAGEMENT	569	569	0
SUPPORT EDUCATION EXCELLENCE IN KY (SEEK)	3,392	3,392	0
EXECUTIVE POLICY AND MANAGEMENT	1,975,180	1,975,180	0
MANAGEMENT SUPPORT SERVICES	3,184	3,184	0
LEARNING RESULTS SERVICES	260,611	258,184	2,427
KENTUCKY EDUCATION TELEVISION	30,964	30,324	640
KENTUCKY HISTORICAL SOCIETY	123,420	123,195	225
KENTUCKY CHILDREN'S ARTS	15,761	15,761	0
LIBRARIES AND ARCHIVES - LOCAL AID	3,134	4,004	(870)
LIBRARIES AND ARCHIVES - GENERAL OPERATIONS	3,034	3,034	0
TEACHERS' RETIREMENT SYSTEM	5,687	5,687	0
WORKFORCE DEVELOPMENT - OFFICE OF THE SECRETARY	7,443	7,443	0
GENERAL ADMINISTRATION AND PROGRAM SUPPORT	69,647	69,647	0
WORKER RETIREMENT EMPLOYER CONTRIBUTION MATCH	7,358	7,318	40
WORKFORCE DEVELOPMENT	8,822	8,822	0
DEPARTMENT FOR THE BLIND	1,744	1,714	30
DEPARTMENT OF EMPLOYMENT SERVICES	551	544	7
BOARD FOR ADULT AND TECHNICAL EDUCATION	34	28	6
DEPARTMENT FOR TECHNICAL EDUCATION	67,219	67,168	51
DEPARTMENT FOR ADULT EDUCATION & LITERACY	10,090	9,990	100
VOCATIONAL REHABILITATION	8,736	8,636	100
TOTAL EDUCATION AND HUMANITIES	2,609,910	2,607,843	2,067
HUMAN RESOURCES:			
CHR - EXECUTIVE OFFICE OF SUPPORT SERVICES	19,713	19,713	0
CHR - DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION SERVICES	65,093	65,093	0
CHR - COMMISSION FOR SPECIAL NEEDS CHILDREN	22,895	22,825	70
CHR - DEPARTMENT FOR SOCIAL INSURANCE - PROGRAMS	1,229	1,228	1
CHR - DEPARTMENT FOR SOCIAL INSURANCE - BENEFITS	24,656	24,656	0
CHR - DEPARTMENT FOR MEDICARE SERVICES - PROGRAMS	40,444	40,444	0
CHR - DEPARTMENT FOR MEDICARE SERVICES - BENEFITS	4,218	4,218	0
CHR - KENTUCKY HEALTH POLICY BOARD	315,931	315,931	0
CHR - DEPARTMENT FOR SOCIAL SERVICES - PROGRAMS	303	303	0
CHR - DEPARTMENT FOR SOCIAL SERVICES - BENEFITS	86,677	86,677	0

	Budget	Actual	Variance
CHR - OFFICE OF CERTIFICATE OF NEED CENTERS	27,733	27,733	0
CHR - OFFICE OF FAMILY RESOURCE AND YOUTH SERVICES	3,028	2,930	98
CFC - ADMINISTRATIVE SERVICES	25,513	24,413	1,100
CFC - DEPARTMENT FOR SOCIAL INSURANCE	50,035	38,694	11,341
CFC - DEPARTMENT FOR SOCIAL SERVICES	35,478	35,478	0
CFC - OFFICE OF FAMILY RESOURCES AND YOUTH SERVICES CENTERS	10,664	10,664	0
CHS - ADMINISTRATIVE SUPPORT	2,723	2,723	0
CHS - DEPARTMENT OF PUBLIC HEALTH	26,694	26,694	0
CHS - DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION	48,435	48,435	0
CHS - DEPARTMENT FOR MEDICARE SERVICES	4,568	4,568	0
CHS - MEDICARE SERVICES BENEFITS	239,169	239,169	0
CHS - OFFICE OF CERTIFICATE OF NEED	160	160	0
CHS - COMMISSION FOR CHILDREN WITH SPECIAL HEALTH CARE NEEDS	1,392	1,392	0
TOTAL HUMAN RESOURCES	1,052,830	1,044,291	12,539
JUSTICE:			
DEPARTMENT OF STATE POLICE	6,253	6,232	21
DEPARTMENT OF JUVENILE JUSTICE	48,174	48,173	1
DEPARTMENT OF CORRECTIONS	22,535	22,535	0
MANAGEMENT	24,188	24,181	7
ADULT INSTITUTIONS	141,059	140,593	466
LOCAL JAIL ALLOTMENT	15,371	14,889	502
COMMUNITY SERVICES AND LOCAL FACILITIES	46,374	46,367	7
TOTAL JUSTICE	303,954	302,950	1,004
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION:			
OFFICE OF THE SECRETARY	7,750	7,746	4
ENVIRONMENTAL QUALITY COMMISSION	211	211	0
KENTUCKY NATURE PRESERVES COMMISSION	701	701	0
DEPARTMENT FOR ENVIRONMENTAL PROTECTION	19,963	19,957	6
DEPARTMENT FOR NATURAL RESOURCES	11,472	11,472	0
DEPARTMENT FOR SURFACE MINING RECLAMATION AND ENFORCEMENT	9,400	9,392	8
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	49,497	49,479	18
PUBLIC PROTECTION AND REGULATION:			
OFFICE OF THE SECRETARY	319	319	0
BOARD OF CLAIMS/CRIME VICTIMS COMPENSATION BOARD	444	424	20
BOARD OF TAX APPEALS	530	335	195
KENTUCKY RACING COMMISSION	857	856	1
PUBLIC SERVICE COMMISSION	6,852	6,425	427
DEPARTMENT FOR PUBLIC ADVOCACY	13,226	13,226	0
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL	1,411	1,411	0
DEPARTMENT OF HOUSING, BUILDING, AND CONSTRUCTION	3,291	3,288	3
LABOR - OFFICE OF THE SECRETARY	7,914	7,910	4
LABOR - OFFICE OF THE SECRETARY STANDARDS	468	470	(2)
DEPARTMENT OF WORKPLACE STANDARDS	1,661	1,557	104
TOTAL PUBLIC PROTECTION AND REGULATION	36,991	35,219	1,772

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES BY SOURCE  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
REVENUES BY SOURCE	
TAXES	\$ 2,057,894
SALES AND GROSS RECEIPTS	2,201,574
INCOME	291,536
INDIVIDUAL CORPORATIONS	440,973
PROPERTY	185,744
COAL SEVERANCE	108,045
LICENSES AND PRIVILEGES	93,962
INHERITANCE AND ESTATE	3,221
MISCELLANEOUS	5,382,349
TOTAL TAXES	21,094
LICENSES, FEES AND PERMITS	4,706
INTERGOVERNMENTAL	3,796
CHARGES FOR SERVICES	41,632
FINES AND FORFEITS	32,025
INTEREST AND OTHER INVESTMENT INCOME	13,383
OTHER REVENUES	\$ 5,501,305
TOTAL REVENUES BY SOURCE	

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET TO ACTUAL (BUDGETARY BASIS) - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Budget	Actual	Variance
TRANSPORTATION:			
AIR	5,127	2,117	3,010
RAIL	64	60	4
PUBLIC	4,378	3,085	1,292
TOTAL TRANSPORTATION	9,569	5,262	4,306
TOTAL EXPENDITURES	5,945,631	5,648,894	296,737
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(376,138)	35,207	411,345
FUND BALANCE AT JULY 1	503,028	503,028	
NON BUDGETED ITEMS		(160)	(160)
FUND BALANCE AT JUNE 30	\$ 126,890	\$ 538,075	\$ 411,185

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed In Thousands)

	June 30, 1997	June 30, 1997
<b>GENERAL GOVERNMENT:</b>		
<b>CABINET FOR GENERAL GOVERNMENT:</b>		
PERSONAL SERVICES	77,396	
UTILITIES, RENTALS, AND OTHER SERVICES	9,211	
COMMODITIES AND SUPPLIES	5,184	
GRANTS AND SUBSIDIES	51,969	
CAPITAL OUTLAY	461	
TRAVEL	1,730	
JUDGEMENTS AND CONTINGENT LIABILITIES	(5,041)	
TOTAL CABINET FOR GENERAL GOVERNMENT	140,910	
<b>FINANCE AND ADMINISTRATION CABINET:</b>		
PERSONAL SERVICES	21,387	
UTILITIES, RENTALS, AND OTHER SERVICES	2,686	
COMMODITIES AND SUPPLIES	16,172	
GRANTS AND SUBSIDIES	1,311	
CAPITAL OUTLAY	641	
TRAVEL	169	
JUDGEMENTS AND CONTINGENT LIABILITIES	(95)	
REISSUE UNREDEEMED TREASURY CHECKS	223	
TOTAL FINANCE AND ADMINISTRATION CABINET	42,494	
<b>REVENUE CABINET:</b>		
PERSONAL SERVICES	56,207	
UTILITIES, RENTALS, AND OTHER SERVICES	14,087	
COMMODITIES AND SUPPLIES	2,245	
CAPITAL OUTLAY	139	
TRAVEL	1,100	
JUDGEMENTS AND CONTINGENT LIABILITIES	131,035	
TOTAL REVENUE CABINET	204,813	
<b>PERSONNEL CABINET:</b>		
PERSONAL SERVICES	3,732	
UTILITIES, RENTALS, AND OTHER SERVICES	916	
COMMODITIES AND SUPPLIES	166	
CAPITAL OUTLAY	5	
TRAVEL	15	
TOTAL PERSONNEL CABINET	4,834	
TOTAL GENERAL GOVERNMENT	393,051	
<b>LEGISLATIVE AND JUDICIAL:</b>		
PERSONAL SERVICES	113,283	
UTILITIES, RENTALS, AND OTHER SERVICES	24,233	
COMMODITIES AND SUPPLIES	6,948	
CAPITAL OUTLAY	1,192	
TRAVEL	2,362	
JUDGEMENTS AND CONTINGENT LIABILITIES	14	
TOTAL LEGISLATIVE AND JUDICIAL	148,132	
<b>COMMERCE:</b>		
<b>ECONOMIC DEVELOPMENT CABINET:</b>		
PERSONAL SERVICES	5,565	
UTILITIES, RENTALS, AND OTHER SERVICES	840	
COMMODITIES AND SUPPLIES	312	
GRANTS AND SUBSIDIES	2,171	
CAPITAL OUTLAY	158	
TRAVEL	9,046	
TOTAL ECONOMIC DEVELOPMENT CABINET	19,092	
<b>HEALTH SERVICES CABINET:</b>		
PERSONAL SERVICES	26,364	
UTILITIES, RENTALS, AND OTHER SERVICES	1,408	
COMMODITIES AND SUPPLIES	2,784	
GRANTS AND SUBSIDIES	385,612	
CAPITAL OUTLAY	62	
TRAVEL	284	
JUDGEMENTS AND CONTINGENT LIABILITIES	16,981	
TOTAL CABINET FOR HEALTH SERVICES	435,495	
<b>TOTAL HUMAN RESOURCES</b>	1,043,539	
<b>TOURISM CABINET:</b>		
PERSONAL SERVICES	5,051	
UTILITIES, RENTALS, AND OTHER SERVICES	1,167	
COMMODITIES AND SUPPLIES	397	
GRANTS AND SUBSIDIES	1,248	
TRAVEL	104	
TOTAL TOURISM CABINET	7,967	
TOTAL COMMERCE	17,013	
<b>EDUCATION AND HUMANITIES:</b>		
<b>EDUCATION AND HUMANITIES CABINET:</b>		
PERSONAL SERVICES	50,304	
UTILITIES, RENTALS, AND OTHER SERVICES	5,301	
COMMODITIES AND SUPPLIES	2,038	
GRANTS AND SUBSIDIES	2,376,118	
CAPITAL OUTLAY	544	
TRAVEL	1,885	
JUDGEMENTS AND CONTINGENT LIABILITIES	14	
TOTAL EDUCATION AND HUMANITIES CABINET	2,436,294	
<b>WORKFORCE DEVELOPMENT CABINET:</b>		
PERSONAL SERVICES	65,988	
UTILITIES, RENTALS, AND OTHER SERVICES	9,791	
COMMODITIES AND SUPPLIES	6,121	
GRANTS AND SUBSIDIES	14,458	
CAPITAL OUTLAY	2,226	
TRAVEL	958	
JUDGEMENTS AND CONTINGENT LIABILITIES	46	
TOTAL WORKFORCE DEVELOPMENT CABINET	99,578	
<b>TOTAL EDUCATION AND HUMANITIES</b>	2,535,872	
<b>HUMAN RESOURCES:</b>		
<b>CABINET FOR HUMAN RESOURCES:</b>		
PERSONAL SERVICES	75,730	
UTILITIES, RENTALS, AND OTHER SERVICES	14,250	
COMMODITIES AND SUPPLIES	1,918	
GRANTS AND SUBSIDIES	415,354	
CAPITAL OUTLAY	155	
TRAVEL	2,031	
JUDGEMENTS AND CONTINGENT LIABILITIES	(16,962)	
TOTAL CABINET FOR HUMAN RESOURCES	482,478	
<b>CABINET FOR FAMILIES AND CHILDREN:</b>		
PERSONAL SERVICES	37,498	
UTILITIES, RENTALS, AND OTHER SERVICES	4,515	
COMMODITIES AND SUPPLIES	(847)	
GRANTS AND SUBSIDIES	71,885	
CAPITAL OUTLAY	1,778	
TRAVEL	37	
JUDGEMENTS AND CONTINGENT LIABILITIES	115,588	
<b>TOTAL CABINET FOR FAMILIES AND CHILDREN</b>	218,476	

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1987
JUSTICE:	
PERSONAL SERVICES	161,141
UTILITIES, RENTALS, AND OTHER SERVICES	20,779
COMMODITIES AND SUPPLIES	14,606
GRANTS AND SUBSIDIES	86,083
CAPITAL OUTLAY	3,592
TRAVEL	1,266
DEBT SERVICE	206
JUDGEMENTS AND CONTINGENT LIABILITIES	6,494
TOTAL JUSTICE	<u>294,167</u>
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	
PERSONAL SERVICES	39,244
UTILITIES, RENTALS, AND OTHER SERVICES	4,500
COMMODITIES AND SUPPLIES	2,464
GRANTS AND SUBSIDIES	2,588
CAPITAL OUTLAY	373
TRAVEL	336
JUDGEMENTS AND CONTINGENT LIABILITIES	469
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	<u>49,954</u>
PUBLIC PROTECTION AND REGULATION:	
PUBLIC PROTECTION AND REGULATION CABINET:	
PERSONAL SERVICES	24,985
UTILITIES, RENTALS, AND OTHER SERVICES	2,651
COMMODITIES AND SUPPLIES	764
GRANTS AND SUBSIDIES	5,372
CAPITAL OUTLAY	85
TRAVEL	465
TOTAL PUBLIC PROTECTION AND REGULATION	<u>34,322</u>
LABOR CABINET:	
PERSONAL SERVICES	1,575
UTILITIES, RENTALS, AND OTHER SERVICES	116
COMMODITIES AND SUPPLIES	92
GRANTS AND SUBSIDIES	114
TRAVEL	108
TOTAL LABOR CABINET	<u>2,005</u>
TOTAL PUBLIC PROTECTION AND REGULATION	<u>36,327</u>
TRANSPORTATION:	
PERSONAL SERVICES	1,104
UTILITIES, RENTALS, AND OTHER SERVICES	33
COMMODITIES AND SUPPLIES	204
GRANTS AND SUBSIDIES	3,632
CAPITAL OUTLAY	71
TRAVEL	44
TOTAL TRANSPORTATION	<u>5,288</u>
TOTAL EXPENDITURES	<u>\$ 4,523,381</u>



COMMONWEALTH OF KENTUCKY  
 COMBINING BALANCE SHEET  
 SPECIAL REVENUE FUNDS  
 JUNE 30, 1997  
 (Expressed in Thousands)

**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.

	Transportation	Federal	Agency Revenue	Other Special Revenue	Totals June 30, 1997
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	\$ 179,270	\$ 2,189	\$ 57,048	\$ 122,538	\$ 361,045
RESTRICTED CASH	997		123,876		124,873
INVESTMENTS, NET OF AMORTIZATION	488,368			275,204	763,572
RECEIVABLES, NET	58,540	566,985	48,024	31,617	1,185,166
INTERFUND RECEIVABLES	10,240	3,770	128,043	5,306	147,359
INVENTORIES	29,553	617	2,408	33	32,611
RESTRICTED ASSETS		77,542			77,542
<b>TOTAL ASSETS</b>	<b>\$ 766,968</b>	<b>\$ 651,103</b>	<b>\$ 385,150</b>	<b>\$ 434,718</b>	<b>\$ 2,177,859</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
ACCOUNTS PAYABLE	\$ 72,944	\$ 431,982	\$ 88,858	\$ 801	\$ 594,615
INTERFUND PAYABLES	10,917	118,824	43,996	31,417	204,954
DEFERRED REVENUE	20,785	145,875	22,622	12,586	201,868
<b>TOTAL LIABILITIES</b>	<b>104,646</b>	<b>696,681</b>	<b>155,476</b>	<b>44,814</b>	<b>1,001,617</b>
<b>FUND BALANCE:</b>					
<b>RESERVED FOR:</b>					
ENCUMBRANCES	211,619				211,619
STATUTORY OBLIGATIONS	41,451			2,090	43,541
LOANS			8,173	610	8,783
INVENTORIES	29,553	617	2,408	52	32,630
DEPOSIT WITH FISCAL AGENTS	771		5,776		6,547
CURRENT FUND BALANCE WITH DEPOSITORIES					
RESERVE FOR BOND RETIREMENT	997				997
UNRESERVED				1,000	1,000
DESIGNATED FOR HIGHWAY CONSTRUCTION	335,132				335,132
UNDESIGNATED (NOTE 3)	42,799	(45,995)	183,317	365,952	578,073
<b>TOTAL FUND BALANCES</b>	<b>662,322</b>	<b>(45,378)</b>	<b>209,674</b>	<b>369,904</b>	<b>1,216,522</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 766,968</b>	<b>\$ 651,103</b>	<b>\$ 385,150</b>	<b>\$ 434,718</b>	<b>\$ 2,177,859</b>

COMMONWEALTH OF KENTUCKY  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 TRANSPORTATION FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
REVENUES	\$ 816,459
TAXES	93,160
LICENSES, FEES AND PERMITS	467
INTERGOVERNMENTAL	19,878
CHARGES FOR SERVICES	49
FINES AND FORFEITS	35,377
INTEREST AND OTHER INVESTMENT INCOME	1,006
OTHER REVENUES	966,596
TOTAL REVENUES	35,232
EXPENDITURES	46,821
TRANSPORTATION	40,872
GENERAL ADMINISTRATION AND SUPPORT	633,984
MOTOR VEHICLE REGULATION	3,285
JUSTICE - STATE POLICE	768,268
HIGHWAYS	198,268
OTHER	659
TOTAL EXPENDITURES	(175,178)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(174,320)
OTHER FINANCING SOURCES (USES):	635,048
OPERATING TRANSFERS IN	3,326
OPERATING TRANSFERS OUT	662,322
TOTAL OTHER FINANCING SOURCES (USES)	23,948
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	635,048
FUND BALANCE AT JULY 1	3,326
INCREASE (DECREASE) IN INVENTORIES	662,322
FUND BALANCE AT JUNE 30	662,322

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Transportation	Federal	Agency Revenue	Other Special Revenue	Totals
	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997
REVENUES:					
TAXES	\$ 816,459	\$ 20	\$ 210,537	\$ 77,243	\$ 1,104,239
LICENSES, FEES AND PERMITS	93,160	49,889	384	143,463	498,806
INTERGOVERNMENTAL	467	3,578,586	30,221	100	3,609,374
CHARGES FOR SERVICES	19,878	253	228,754	8,950	255,835
FINES AND FORFEITS	49	228	4,127	2,710	6,886
INTEREST AND OTHER INVESTMENT INCOME	35,577	228	5,369	30,144	71,318
OTHER REVENUES	1,006	67,333	64,229	42,418	174,987
TOTAL REVENUES	966,596	3,646,420	591,126	161,960	5,366,102
EXPENDITURES:					
GENERAL GOVERNMENT	78,098	54,917	67,456	200,449	299,920
LEGISLATIVE AND JUDICIAL	338	1,926	208	2,472	3,944
COMMERCE	7,899	19,496	27,395	540,973	87,769
EDUCATION AND HUMANITIES	487,554	53,153	266	3,177,114	4,127,927
HUMAN RESOURCES	2,750,071	428,766	277	45,933	3,225,047
JUSTICE	16,135	29,798	239	53,382	109,654
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	34,040	4,796	64,640	89,458	192,934
PUBLIC PROTECTION AND REGULATION	4,796	296,306	22,841	1,087,275	1,411,218
TRANSPORTATION	768,328	3,675,235	652,420	85,428	5,204,451
TOTAL EXPENDITURES	768,328	3,675,235	652,420	85,428	5,204,451
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	198,268	(28,815)	(101,294)	93,534	161,693
OTHER FINANCING SOURCES (USES):					
OPERATING TRANSFERS IN	858	940	342,401	378,028	729,227
OPERATING TRANSFERS OUT	(175,178)	(19,068)	(227,284)	(460,884)	(862,414)
CAPITALIZED LEASES			60		60
TOTAL OTHER FINANCING SOURCES (USES)	(174,320)	(18,128)	115,177	(82,856)	(160,127)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	23,948	(46,943)	13,883	10,678	1,566
FUND BALANCES AT JULY 1, AS RESTATED	635,048	2,068	199,960	379,236	1,216,312
INCREASE (DECREASE) IN INVENTORIES	3,326	(523)	(671)	(10)	1,922
RESIDUAL EQUITY TRANSFER IN (OUT)	662,322	(45,378)	209,674	388,904	1,216,522
FUND BALANCES AT JUNE 30	662,322	2,545	409,290	778,160	1,852,317



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, 1997  
 (Expressed in Thousands)

	Transportation			Federal	
	Budget	Actual	Variance	Budget	Actual
REVENUES					
BUDGETED					
TAXES	\$ 809,750	\$ 812,620	\$ 2,870	\$	\$
LICENSES, FEES, AND PERMITS	94,143	93,189	(954)		
CHARGES FOR SERVICES	19,420	19,741	321		
FINES AND FORFEITS	75	49	(26)		
INTEREST AND OTHER INVESTMENT INCOME	25,300	31,876	6,576		
OTHER REVENUES	3,525	1,307	(2,218)		
TOTAL BUDGETED REVENUES	952,213	998,785	6,572		
NON-BUDGETED					
TAXES					
LICENSES, FEES, AND PERMITS				20	
INTERGOVERNMENTAL		1,242	1,242	3,261,008	218
CHARGES FOR SERVICES					9
INTEREST AND OTHER INVESTMENT INCOME				236	
EMPLOYER CONTRIBUTIONS					
OTHER REVENUES		157	157	68,679	887
TRANSFERS IN (INTERLAND)		860	860		
TRANSFERS IN (INTRAFUND)		5	5	803	
TOTAL NON-BUDGETED REVENUE		2,264	2,264	3,332,060	
TOTAL REVENUES	952,213	991,049	8,836		

	Agency Revenue		Variance	Totals	
	Budget	Actual		Budget	Actual
EXPENDITURES					
GENERAL GOVERNMENT:					
GOVERNOR'S OFFICE	400	250	(150)	250	150
CAMPBELL COUNTY FEES	1,836	1,836	(369)	2,305	(369)
DAYRESS COUNTY FEES	2,666	2,666	(393)	3,069	(393)
JEFFERSON COUNTY FEES	6,843	6,843	(236)	7,443	(236)
HARRISON COUNTY FEES	2,476	2,476	(658)	2,476	(658)
JEFFERSON COUNTY FEES	19,121	23,069	(3,948)	23,069	(3,948)
Pike County Fees	3,555	3,771	(216)	3,555	(216)
WARREN COUNTY FEES	2,012	2,199	(187)	2,012	(187)
UNIVERSITY OF KY. SYSTEM	2,141	2,709	(568)	2,141	(568)
COMMONWEALTH ATTORNEYS					
COUNTY ATTORNEYS	458	393	65	820	127
DEPARTMENT OF AGRICULTURE	70	101	(31)	13	46
OFFICE OF THE ATTORNEY GENERAL	2,238	1,938	300	3,621	908
AUDITOR OF PUBLIC ACCOUNTS	2,364	2,318	46	3,782	154
MILITARY AFFAIRS	3,876	3,082	794	3,876	794
KENTUCKY RETIREMENT SYSTEMS	11,259	10,457	802	50,343	2,333
LOCAL GOVERNMENT	11,966	11,304	662	11,966	662
VARIOUS AREA DEVELOPMENT DISTRICTS	456	208	248	39,213	8,330
SECRETARY OF STATE	100	100		100	
DEPARTMENT OF THE TREASURY	211	210	1	210	1
BOARD OF					
AGRICULTURE	482	491	(9)	491	9
ALCOHOL AND DRUG COUNSELORS	39	27	12	27	12
ACTIONEERS	248	194	54	248	54
BARBERING	201	201		191	10
CHIROPRACTIC EXAMINERS	125	125		125	
CERTIFICATION FOR PROF. COUNSELORS	5	5		5	
DENTISTRY AND NUTRITIONISTS	316	316		316	
ELECTIONS	23	23		23	
EMBALMERS AND FUNERAL HOME DIRECTORS	50	50		50	
EXAMINERS AND REGISTRATION OF	137	130	7	130	7
ARCHITECTS	156	147	9	147	9
EXAMINERS OF ARCHITECTS	38	37	1	37	1
EXAMINERS OF PSYCHOLOGISTS	154	147	7	154	7

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, 1997  
 (Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
EXAMINERS OF SOCIAL WORKERS							714	616	98	714	616	98
HAIRDRESSERS AND COSMETOLOGISTS												
LABORERS AND FITTERS												
LICENSES FOR NURSING HOME ADMINISTRATORS							25	24	1	25	24	1
MEDICAL LICENSES							70	62	8	70	62	8
NURSING							1,381	1,260	1,21	1,381	1,260	121
OPTOMETRIC EXAMINERS							2,158	2,145	13	2,158	2,145	13
OPTICIAN EXAMINERS							21	18	3	21	18	3
PHYSICAL THERAPISTS							153	153		153	153	
RESPIRATORY CARE PRACTITIONERS							12	12		12	12	
MARRIAGE AND FAMILY THERAPISTS							29	24	5	29	24	5
BOARD OF GEOLOGISTS							62	67	5	62	67	5
PHARMACY							37	19	18	37	19	18
PHYSICAL THERAPISTS							68	51	17	68	51	17
POSTAL SERVICE							3	1	2	3	1	2
REGISTRATION FOR PROFESSIONAL ENGINEERS AND SURVEYORS							482	482		482	482	
SPEECH PATHOLOGY AND AUDIOLOGY							558	76	482	558	76	482
VETERINARY EXAMINERS							203	195	8	203	195	8
KENTUCKY ATHLETICS COMMISSION							9	8	1	9	8	1
EXECUTIVE BRANCH ETHICS COMMISSION							914	901	13	914	901	13
REAL ESTATE COMMISSION							55	50	5	55	50	5
EDUCATION RESEARCH AND TRAINING							72	72		72	72	
REAL ESTATE APPRAISAL BOARD							62	50	12	62	50	12
COMMISSION ON HUMAN RIGHTS							8	3	5	8	3	5
COUNCIL ON HIGHER EDUCATION							1,064	906	1,58	1,064	906	158
PERSONNEL CABINET							806	76	730	806	76	730
GOVERNOR'S OFFICE FOR POLICY AND MANAGEMENT							35	35		35	35	
EASTERN KENTUCKY UNIVERSITY							7	2	5	7	2	5
KENTUCKY STATE UNIVERSITY							89	35	54	89	35	54
WALDEN UNIVERSITY							4,307	4,088	219	4,307	4,088	219
WIRY STATE UNIVERSITY							40	40		40	40	
NORTHERN KENTUCKY UNIVERSITY							99,039	90,787	8,252	99,039	90,787	8,252
UNIVERSITY OF KENTUCKY							21,994	18,183	3,811	21,994	18,183	3,811
UNIVERSITY OF KENTUCKY - COMMUNITY COLLEGE SYSTEM							4,045	44,045	40,000	4,045	44,045	40,000
COMMUNITY COLLEGE OF LOUISVILLE							44,374	42,999	1,375	44,374	42,999	1,375
UNIVERSITY OF LOUISVILLE							49,567	45,799	3,768	49,567	45,799	3,768
WESTERN KENTUCKY UNIVERSITY							585,924	537,354	48,570	585,924	537,354	48,570
REVENUE CABINET							94,124	57,264	36,860	94,124	57,264	36,860
OFFICE OF REVENUE VALUATION							222,448	165,442	57,006	222,448	165,442	57,006
ADMINISTRATORS							68,124	56,757	11,367	68,124	56,757	11,367
FINANCE AND ADMINISTRATION							3,245	3,140	105	3,245	3,140	105
CENTRAL PLAZA AUTHORITY							2,109	2,080	29	2,109	2,080	29
KENTUCKY VETERANS CENTER							2,216	2,216		2,216	2,216	
KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY							648	585	63	648	585	63
COUNTY COSTS - PUBLIC DEFENDER PROGRAM							9,446	9,446		9,446	9,446	
DEPARTMENT FOR ADMINISTRATION							13,467	12,062	1,405	13,467	12,062	1,405
OFFICE OF GOVERNMENTAL SERVICES CENTER							477	454	23	477	454	23
DEPARTMENT FOR FACILITIES MANAGEMENT							850	850		850	850	
TOTAL GENERAL GOVERNMENT	1,773	1,713	60	170,860	115,078	55,782	1,358,271	1,075,662	282,609	1,530,854	1,192,653	338,401

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, 1997  
 (Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
LEGISLATIVE AND JUDICIAL												
GENERAL ASSEMBLY - LONG TERM POLICY												
RESEARCH CENTER AND ETHICS COMMISSION												
LEGISLATIVE RESEARCH COMMISSION												
JUDICIAL FORM RETIREMENT SYSTEM												
COURT OF JUSTICE												
OPERATIONS AND ADMIN												
TOTAL LEGISLATIVE AND JUDICIAL												
COMMERCE												
ECONOMIC DEVELOPMENT												
OFFICE OF THE SECRETARY												
ADMINISTRATION AND SUPPORT												
FINANCIAL INCENTIVES												
COMMUNITY DEVELOPMENT												
TOURISM												
OFFICE OF THE SECRETARY												
TRAVEL DEVELOPMENT												
DEPARTMENT OF PARKS												
DEPARTMENT OF FISH AND WILDLIFE												
RESOURCES												
TOTAL COMMERCE												
EDUCATION AND HUMANITIES												
COMMISSION ON THE FUTURE AND HONOR OF HEARINGS												
ENVIRONMENTAL EDUCATION COUNCIL												
KENTUCKY HERITAGE COUNCIL												
KENTUCKY ARTS COUNCIL												
OFFICE OF THE SECRETARY												
EDUCATION												
EXECUTIVE POLICY AND MANAGEMENT												
MANAGEMENT SUPPORT SERVICES												
TECHNICAL SUPPORT SERVICES												
LEARNING SUPPORT SERVICES												
KENTUCKY EDUCATIONAL TELEVISION												
KENTUCKY HISTORICAL SOCIETY												
LIBRARIES AND ARCHIVES												
DIRECT LOCAL AID												
GENERAL OPERATIONS												
TEACHERS RETIREMENT SYSTEM												
WORKFORCE DEVELOPMENT												
OFFICE OF THE SECRETARY												
JOB TRAINING COORDINATING COUNCIL												
DEPARTMENT OF ADMINISTRATION AND PROGRAM SUPPORT												
BOARD OF PROFESSIONAL EDUCATION												
STATE ADVISORY COUNCIL FOR												
VOCATIONAL EDUCATION												
DEPARTMENT FOR THE BLIND												
OFFICE OF TRAINING AND REEMPLOYMENT												
DEPARTMENT FOR EMPLOYMENT SERVICES												
DEPARTMENT FOR TECHNICAL EDUCATION												
DEPARTMENT FOR ADULT EDUCATION & LITERACY												
DEPARTMENT OF VOCATIONAL REHABILITATION												
TOTAL EDUCATION AND HUMANITIES												
HUMAN RESOURCES												
CHR - EXECUTIVE OFFICE OF SUPPORT SERVICES												
CHR - DEPARTMENT FOR MENTAL HEALTH AND												
MENTAL RETARDATION SERVICES												
CHR - DEPARTMENT FOR HEALTH SERVICES												
CHR - COMMISSION FOR SPECIAL NEEDS CHILDREN												
CHR - DEPARTMENT FOR SOCIAL INSURANCE												
PROGRAMS												
BENEFITS												

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, 1997  
 (Expressed in Thousands)

	Transportation			Federal			Agency Revenue			Totals		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
CHR - DEPARTMENT FOR MEDICAID SERVICES PROGRAMS	8,640	8,640					2,630	2,630		11,270	11,270	
CHR - DEPARTMENT FOR SOCIAL SERVICES	796,853	796,853					24,613	24,613		821,466	821,466	
CHR - OFFICE OF FAMILY RES AND YOUTH SER	69,387	69,387					5,742	5,742		75,129	75,129	
CFC - ADMINISTRATIVE SERVICES	5,350	4,012	1,338				3,916	3,916	3,916	100	100	
CFC - DEPARTMENT FOR SOCIAL INSURANCE	78,057	62,800	15,257				20,966	6,017	9,286	99,023	75,739	23,274
CFC - TRANSITIONAL SUPPORT BENEFITS	92,490	78,045	14,445				4,774	2,347	9,284	99,352	88,022	11,330
CFC - DEPARTMENT FOR SOCIAL SERVICES SERVICES CENTERS	80,582	74,103	6,479				51,615	31,892	19,723	132,197	105,995	26,202
CHS - ADMINISTRATIVE SUPPORT	4,126	3,668	458				125	82	43	125	82	43
CHS - DEPARTMENT OF PUBLIC HEALTH	59,404	55,093	4,311				3,339	3,339	1,443	68,701	7,007	1,901
CHS - DEPARTMENT FOR MENTAL HEALTH AND MENTAL RETARDATION	26,506	18,108	8,398				7,297	6,642	655	61,735	61,735	4,866
CHS - DEPARTMENT FOR MEDICAID SERVICES	24,824	11,280	13,544				78,675	61,369	17,286	105,181	79,497	25,684
CHS - MEDICAID SERVICES BENEFITS	979,430	973,314	6,116				14,788	14,788	4,074	43,686	26,068	17,618
CHS - OFFICE OF CERTIFICATE OF NEED							173,943	2,544	2,544	1,155,917	1,147,257	8,660
CHS - COMMISSION FOR CHILDREN WITH SPECIAL HEALTH CARE NEEDS	2,731	2,425	306				185	30	155	4,423	4,130	293
TOTAL HUMAN RESOURCES	2,436,546	2,365,694	70,652	482,171	421,595	60,576	4,100	293	2,731	2,918,717	2,787,469	131,228
JUSTICE												
ADMINISTRATION							1,955	1,644	311	7,571	7,571	797
DEPARTMENT OF STATE POLICE	40,407	40,407					7,310	6,919	391	55,491	52,427	3,064
DEPARTMENT OF JUVENILE JUSTICE							3,699	1,132	2,567	11,558	6,380	4,878
DEPARTMENT OF CRIMINAL JUSTICE TRAINING							20,860	20,074	786	20,860	20,074	786
DEPARTMENT OF CORRECTIONS - MANAGEMENT							222	210	12	749	557	192
ADULT INSTITUTIONS							4,227	2,186	2,041	5,225	2,725	2,500
COMMUNITY SERVICE AND LOCAL FACILITIES							451	330	121	548	408	140
TOTAL JUSTICE	40,407	40,407		38,784	32,195	6,589				101,802	89,345	12,457
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION												
OFFICE OF THE SECRETARY							874	454	420	3,003	2,405	598
KENTUCKY RIVER AUTHORITY							1,303	869	434	1,303	869	434
ENVIRONMENTAL QUALITY COMMISSION							17	7	10	17	7	10
KENTUCKY NATURAL PRESERVES COMMISSION							652	507	145	682	524	158
DEPARTMENT FOR ENVIRONMENTAL PROTECTION							18,287	15,656	2,631	31,506	26,405	5,101
DEPARTMENT FOR NATURAL RESOURCES							5,599	3,232	2,367	8,226	4,811	3,415
RECLAMATION AND ENFORCEMENT - SURFACE MINING RECLAMATION & ENFORCEMENT							5,638	3,624	2,014	21,066	17,933	3,133
AMC RECLAMATION PRODUCTS										22,456	5,223	17,233
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION				32,370	24,349	8,021				88,259	58,177	30,082
PUBLIC PROTECTION AND REGULATION												
BOARD OF CLAIMS AND CRIME REPARATION COMMISSION							1,322	693	629	1,673	940	733
BACKSLIDE IMPROVEMENT COMMISSION							325	275	50	325	50	275
KENTUCKY RACING COMMISSION							14,954	11,380	3,574	14,954	11,380	3,574
PUBLIC SERVICE COMMISSION							788	781	7	1,004	997	7
DEPARTMENT FOR PUBLIC ADVOCACY							3,149	2,993	156	4,259	3,941	318
OF ALCOHOLIC BEVERAGE CONTROL							1,016	983	33	983	983	0
OF FINANCIAL INSTITUTIONS							9,233	9,186	47	9,233	9,186	47
OF HOUSING, BUILDING AND CONSTRUCTION							21,485	21,332	153	21,485	21,332	153
OF INSURANCE							17,793	16,733	1,060	19,773	18,673	1,100
FOR MINES AND MINERALS							1,737	1,737	0	3,101	2,473	628

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED/SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (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												
REVIEW COMMISSION		170			158							
WORKPLACE STANDARDS		2,791			2,640							
TOTAL PUBLIC PROTECTION AND REGULATION		5,401			4,945							
TRANSPORTATION												
ADMINISTRATION & SUPPORT	57,578	59,195	4,383									
AVIATION	255,671	195,728	59,943									
RAIL TRANSPORTATION		430,432	570,586	508	315	193						
HIGHWAYS PUBLIC TRANSPORTATION	1,001,018	430,432	570,586	996,218	286,125	710,093						
RAIL TRANSPORTATION				6,324	5,143	1,181						
VEHICLE REGULATION	23,893	22,270	1,623	314	280	34						
DIET SERVICES	160,964	160,963	1									
ROAD FUND JUDGEMENTS	6,146	6,146										
TRANSFERS TO CAPITAL CONSTRUCTION	26,956	26,916	338	3,880	1,866	2,012						
ROAD FUND JUDGEMENTS												
1990 ECONOMIC DEVELOPMENT BOND PROJECTS												
TOTAL TRANSPORTATION	1,532,226	895,352	636,874	1,007,244	293,731	713,513						
TOTAL EXPENDITURES	1,574,356	937,472	636,884	4,226,677	3,322,930	903,747						
EXCESS OF REVENUES OVER (UNDER)	(622,143)	23,577	645,720									
OTHER FINANCING SOURCES (USES)												
TURNPIKE AUTHORITY	1,257	1,257										
TOTAL OTHER FINANCING SOURCES (USES)	1,257	1,257										
EXCESS OF REVENUES AND OTHER FINANCING												
SOURCES OVER (UNDER) EXPENDITURES AND												
OTHER FINANCING USES	(620,886)	24,834	9,130									
FUND BALANCES AT JULY 1	623,110	623,110										
MOVED TO AGENCY REVENUE FUND												
MOVED FROM FEDERAL FUND												
MOVED TO FLEET MANAGEMENT FUND												
MOVED TO UNIVERSITIES												
NON BUDGETED ITEMS		(10)	(10)		(9,660)							
FUND BALANCES AT JUNE 30	2,224	647,934	645,710		11,625							

COMMONWEALTH OF KENTUCKY  
 BALANCE SHEET  
 DEBT SERVICE FUND  
 JUNE 30, 1997  
 (Expressed in Thousands)

**DEBT SERVICE FUND**

	June 30, 1997
<b>ASSETS</b>	
CASH AND CASH EQUIVALENTS	\$ 11,332
CASH WITH FISCAL AGENTS	23,726
INVESTMENTS, NET OF AMORTIZATION	314,456
RECEIVABLES, NET	85,908
INTERFUND RECEIVABLES	339
<b>TOTAL ASSETS</b>	<b>\$ 445,761</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
ACCOUNTS PAYABLE	\$ 345
INTERFUND PAYABLES	1,660
DEFERRED REVENUE	93,434
<b>TOTAL LIABILITIES</b>	<b>95,439</b>
<b>FUND BALANCE:</b>	
RESERVED FOR	
REVENUE BOND RETIREMENT	302,466
DEPOSIT WITH FISCAL AGENTS	19,272
UNRESERVED:	
DESIGNATED FOR DEBT SERVICE	28,564
<b>TOTAL FUND BALANCE</b>	<b>350,322</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 445,761</b>

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  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
REVENUES:	
CHARGES FOR SERVICES	2,735
INTEREST AND OTHER INVESTMENT INCOME	15,456
OTHER REVENUES	2,100
TOTAL REVENUES	20,291
EXPENDITURES:	
PRINCIPAL RETIREMENT	163,412
INTEREST AND FISCAL CHARGES	163,034
OTHER EXPENDITURES	5,681
TOTAL EXPENDITURES	332,127
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(311,836)
OTHER FINANCING SOURCES (USES):	
OPERATING TRANSFERS IN - GENERAL FUND	183,272
OPERATING TRANSFERS IN - CAPITAL PROJECTS FUND	1,727
OPERATING TRANSFERS IN - AGENCY RECEIPTS FUND	1,929
OPERATING TRANSFERS IN - OTHER SPECIAL REVENUE FUND	153,676
OPERATING TRANSFERS IN - STATE FAIR BOARD FUND	371
OPERATING TRANSFERS OUT - GENERAL FUND	(1,294)
TOTAL OTHER FINANCING SOURCES (USES)	339,681
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	27,845
FUND BALANCE AT JULY 1, AS RESTATED	322,477
FUND BALANCE AT JUNE 30	350,322

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  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 CAPITAL PROJECTS FUND  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
REVENUES	
INTERGOVERNMENTAL	\$ 11,161
INTEREST AND OTHER INVESTMENT INCOME	37,079
OTHER REVENUES	756
TOTAL REVENUES	48,996
EXPENDITURES	
CAPITAL OUTLAY	12,804
GENERAL GOVERNMENT	13
LEGISLATIVE AND JUDICIAL	52,356
COMMERCE	6,218
EDUCATION AND HUMANITIES	4,067
HUMAN RESOURCES	14,056
JUSTICE	5,492
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	538
PUBLIC PROTECTION AND REGULATION	4,211
TRANSPORTATION	89,755
TOTAL EXPENDITURES	(90,799)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	48,275
OTHER FINANCING SOURCES (USES):	(8,633)
OPERATING TRANSFERS IN	
OPERATING TRANSFERS OUT	
PROCEEDS FROM SALE OF BONDS:	
NEW ISSUES	7,413
TOTAL OTHER FINANCING SOURCES (USES)	47,065
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(3,704)
FUND BALANCE AT JULY 1, AS RESTATED	319,342
FUND BALANCE AT JUNE 30	315,638

COMMONWEALTH OF KENTUCKY  
 BALANCE SHEET  
 CAPITAL PROJECTS FUND  
 JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 50,995
INVESTMENTS, NET OF AMORTIZATION	278,789
RECEIVABLES, NET	13,464
INTERFUND RECEIVABLES	5,857
DUE FROM COMPONENT UNITS	37
TOTAL ASSETS	349,162
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
ACCOUNTS PAYABLE	16,350
INTERFUND PAYABLES	591
DEFERRED REVENUE	16,583
TOTAL LIABILITIES	33,524
FUND BALANCE:	
RESERVED FOR ENCUMBRANCES	62,509
CAPITAL OUTLAY UNRESERVED:	84,988
UNDESIGNATED	168,141
TOTAL FUND BALANCE	315,638
TOTAL LIABILITIES AND FUND BALANCE	349,162



COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF CONSTRUCTION IN PROGRESS  
 CAPITAL PROJECTS FUND - (BUDGETARY BASIS)  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Appropriations		Expenditures		Unexpended Balances
	To Date	Prior Years	Current Year	Totals	
GENERAL GOVERNMENT:					
CABINET OF THE GENERAL GOVERNMENT	\$ 151,370	\$ 31,481	\$ 11,022	\$ 42,503	\$ 108,867
REVENUE CABINET	750	186	869	749	1
FINANCE AND ADMINISTRATION CABINET	275,209	108,155	15,352	123,507	151,702
CABINET FOR UNIVERSITIES	2,578,280	781,262	60,418	841,680	1,736,610
TOTAL GENERAL GOVERNMENT	3,005,619	921,078	87,361	1,008,433	1,997,180
LEGISLATIVE AND JUDICIAL:					
LEGISLATIVE CABINET	3,524	3,203	13	3,216	308
TOTAL LEGISLATIVE AND JUDICIAL	3,524	3,203	13	3,216	308
COMMERCE:					
CABINET FOR ECONOMIC DEVELOPMENT	106,407	25,112	18,894	44,006	62,401
TOURISM CABINET	223,622	45,034	41,684	86,718	136,904
TOTAL COMMERCE	330,029	70,146	60,578	130,724	199,305
EDUCATION AND HUMANITIES:					
EDUCATION ARTS AND HUMANITIES CABINET	57,874	19,504	7,257	26,761	31,113
CABINET FOR WORKFORCE DEVELOPMENT	61,614	39,836	2,048	41,884	19,720
TOTAL EDUCATION AND HUMANITIES	119,488	59,340	9,305	68,645	50,843
HUMAN RESOURCES:					
CABINET FOR HUMAN RESOURCES	10,135	10,135		10,135	
CABINET FOR FAMILIES AND CHILDREN	13,801	3,861	1,385	5,246	10,555
CABINET FOR HEALTH SERVICES	23,569	19,217	2,959	22,216	3,353
TOTAL HUMAN RESOURCES	51,505	33,213	4,384	37,597	13,908
JUSTICE:					
JUSTICE CABINET	124,438	61,575	13,991	75,566	48,872
TOTAL JUSTICE	124,438	61,575	13,991	75,566	48,872
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION:					
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION CABINET	48,676	9,489	5,325	14,814	33,862
TOTAL NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION	48,676	9,489	5,325	14,814	33,862
PUBLIC PROTECTION AND REGULATION:					
PUBLIC PROTECTION AND REGULATION CABINET	6,440	825	96	921	5,519
LABOR CABINET	1,805	1,352	442	1,794	12
TOTAL PUBLIC PROTECTION AND REGULATION	8,246	2,177	538	2,715	5,531
TRANSPORTATION:					
TRANSPORTATION CABINET	38,327	19,784	4,352	24,136	14,191
TOTAL TRANSPORTATION	38,327	19,784	4,352	24,136	14,191
<b>TOTAL PROJECTS</b>	<b>\$ 3,729,852</b>	<b>\$ 1,180,005</b>	<b>\$ 185,847</b>	<b>\$ 1,365,652</b>	<b>\$ 2,364,000</b>

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.

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

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

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

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

COMMONWEALTH OF KENTUCKY  
COMBINING BALANCE SHEET  
ENTERPRISE FUNDS  
JUNE 30, 1997  
(Expressed in Thousands)

	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1997
<b>ASSETS</b>						
CASH AND CASH EQUIVALENTS	\$ 3,656	\$ 29,934	\$ 47	\$ 438	\$ 76,522	\$ 104,597
INVESTMENTS NET OF AMORTIZATION	890	36,250	277	190	24,250	36,250
RECEIVABLES, NET	222	18,747	18	20	1,033	42,164
INTERFUND RECEIVABLES	3,344	1,800	228	367	4,064	1,793
INTEREST RECEIVABLE	13	2,589	3	26	76	4,857
INVENTORIES	7,925	81,390	570	1,020	105,507	2,587
PREPAID EXPENSES	4,003	293,622	244	58	457,102	196,812
TOTAL CURRENT ASSETS	4,003	298,934	244	58	457,102	298,341
OTHER ASSETS	11,112	423	50	2,854		14,539
LAND IMPROVEMENTS OTHER THAN BUILDINGS	43,083	13,753		13,753		80,589
BUILDINGS	82,882	988	988	14,655		98,413
MACHINERY AND EQUIPMENT	8,621	43,532	151	2,421	1,313	56,038
LESS: ACCUMULATED DEPRECIATION	(68,865)	(39,374)	(798)	(19,277)	(687)	(129,001)
CONSTRUCTION IN PROGRESS	47,718	4,835		339		52,892
TOTAL FIXED ASSETS, NET	124,061	8,954	301	14,845	726	148,977
TOTAL ASSETS	\$ 135,889	\$ 308,278	\$ 1,205	\$ 15,872	\$ 563,736	\$ 1,026,139
<b>LIABILITIES AND FUND BALANCE</b>						
<b>CURRENT LIABILITIES:</b>						
ACCOUNTS PAYABLE	\$ 3,421	\$ 5,244	\$ 32	\$ 319	\$ 5,737	\$ 14,753
INTERFUND PAYABLES	1,121			81	185	1,387
CLAIMS LIABILITY					197,282	197,282
CLAIMS ADJUSTMENT LIABILITY				2	7,257	7,257
CAPITAL LEASE OBLIGATIONS	100	1,017				1,017
NOTES PAYABLE	1,969	55,310	23	226	899	58,327
LONG-TERM DEBT		533				533
COMPENSATED ABSENCES	24		3	61	727	815
DEFERRED REVENUE	6,575	62,104	58	689	212,087	281,513
TOTAL CURRENT LIABILITIES						
LONG-TERM LIABILITIES:						
CLAIMS LIABILITY					1,462,793	1,462,793
CLAIMS ADJUSTMENT LIABILITY					41,904	41,904
CAPITAL LEASE OBLIGATIONS	88					88
NOTES PAYABLE	2,016	5,770	29	171	516	2,852
COMPENSATED ABSENCES	1,135	294,389				295,518
OTHER LIABILITIES	3,259	300,153	29	171	1,505,272	1,808,925
TOTAL LONG-TERM LIABILITIES	9,871	362,557	87	860	1,717,360	2,090,438
TOTAL LIABILITIES						
FUND EQUITY:						
CONTRIBUTED CAPITAL	78,403			14,401		92,804
RETAINED EARNINGS	47,712	26,021	1,118	662	(1,153,625)	(1,078,172)
UNRESERVED	126,115	26,021	1,118	15,063	(1,153,625)	(985,308)
TOTAL FUND EQUITY	\$ 135,889	\$ 368,278	\$ 1,205	\$ 15,923	\$ 563,736	\$ 1,026,139

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1997  
(Expressed in Thousands)

	State Parks	Kentucky Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1997
OPERATING REVENUES	\$ 37,362	\$	\$ 1,620	\$ 3,733	\$ 253,061	\$ 295,796
CHARGES FOR SERVICES		569,055			36,820	36,820
INTEREST AND OTHER INVESTMENT INCOME					6,048	6,048
LOTTERY PROCEEDS	261			18		279
OTHER REVENUES	37,643	569,055	1,620	3,751	295,930	907,999
TOTAL OPERATING REVENUES						
OPERATING EXPENSES	40,272	9,429	1,125	3,289	23,161	77,278
PERSONAL EXPENSES	10,429	1,131	86	1,597	2,694	15,401
UTILITIES, RENTALS, AND OTHER SERVICES	20,347	234	870	1,297	1,881	24,639
COMMODITIES AND SUPPLIES	35		151			186
GRANTS AND SUBSIDIES	3,863	2,586	30	527	156	7,175
DEPRECIATION AND AMORTIZATION	351	596	1	10	632	1,596
TRAVEL	209				368,751	369,960
CLAIMS EXPENSE						
CLAIMS ADJUSTMENT EXPENSE		339,868				339,868
OTHER EXPENSES		53,160			256	53,416
TOTAL OPERATING EXPENSES	75,496	417,014	2,357	6,180	398,541	899,588
OPERATING INCOME (LOSS)	(37,853)	151,041	(737)	(2,429)	(102,611)	8,411
NONOPERATING REVENUES (EXPENSES)						
GAIR LOSS ON SALE OF FIXED ASSETS	(45)			4		(41)
INTEREST AND OTHER INVESTMENT INCOME	32	1,899		1	5,646	7,368
CHANGE IN ACTUARIAL ESTIMATE					21,006	21,006
INTEREST EXPENSE		(1)		(1)		(2)
OTHER REVENUES (EXPENSE)	2					2
TOTAL NONOPERATING REVENUES (EXPENSES)	(11)	1,898		3	26,652	28,282
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(37,864)	153,779	(736)	(2,426)	(75,929)	36,774
OPERATING TRANSFERS IN	33,985		880	1,752	37	36,654
OPERATING TRANSFERS OUT	(1,121)	(151,000)			(5,892)	(158,013)
NET INCOME (LOSS)	(5,000)	2,729	144	(674)	(81,794)	(84,566)
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL GRANTS	1,232			566		1,798
INCREASE (DECREASE) IN RETAINED EARNINGS	(3,768)	2,729	144	(108)	(81,794)	(82,787)
RETAINED EARNINGS AT JULY 1, AS RESTATED	51,480	23,292	974	770	(1,071,841)	(995,525)
RETAINED EARNINGS AT JUNE 30	\$ 47,712	\$ 26,021	\$ 1,118	\$ 662	\$ (1,153,625)	\$ (1,078,172)

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1997  
(Expressed in Thousands)

	State Parks	Lottery Corporation	Industries for the Blind	Horse Park	Insurance Administration	Totals June 30, 1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
CASH RECEIVED FROM CUSTOMERS - PUBLIC	36,938	572,241	414	3,848	263,995	877,436
CASH RECEIVED FROM CUSTOMERS - STATE	1,071	(68,214)	1,138	(2,308)	(6,410)	(78,911)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(40,294)	(8,429)	(1,124)	(3,281)	(284,798)	(78,970)
CASH PAYMENTS FOR CLAIMS AND BENEFITS	(208)	(139,668)	(1,124)	18	(5,194)	(64,814)
CASH PAYMENTS (TO) FROM OTHER SOURCES	263	(151)	(151)	(1,658)	(54,059)	(3,525)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(32,115)	162,730	(817)	(1,658)		74,083
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
OPERATING TRANSFERS IN FROM OTHER FUNDS	33,985	(151,000)	880	1,751	256	36,872
OPERATING TRANSFERS OUT TO OTHER FUNDS	(1,121)	(151,000)	880	1,751	(4,061)	(156,182)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	32,864	(151,000)	880	1,751	(3,805)	(119,310)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(919)	(207)	(7)	(166)	(1,299)	(1,299)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(500)	(1)	(1)	(1)	(3)	(500)
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS	320	(1)	(1)	(1)	(3)	(3)
PROCEEDS FROM SALE OF EQUIPMENT	(919)	(388)	(1)	(166)	(1,482)	(3,200)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,118)	(597)	(1)	(166)	(1,482)	(1,482)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
PURCHASE OF INVESTMENT SECURITIES	(2,448)	(38,283)	(124)	(43)	(954,371)	(995,279)
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES	31,711	3,169	1	(43)	928,463	960,174
INTEREST AND DIVIDENDS ON INVESTMENTS	32	(2,416)	(129)	(43)	(423)	(26,897)
NET CASH USED IN INVESTING ACTIVITIES	(714)	(38,530)	(152)	(86)	(954,371)	(1,019,745)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,566)	6,129	(61)	384	(58,453)	(54,927)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,242	17,805	108	134,975	134,975	196,524
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,676	23,934	47	135,359	76,522	141,597
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>						
OPERATING INCOME (LOSS)	(37,853)	152,041	(737)	(2,429)	(102,611)	8,411
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
DEPRECIATION	3,863	2,596	30	528	156	7,170
INTEREST AND OTHER INVESTMENT INCOME	3				(32,118)	(32,118)
MISCELLANEOUS NONOPERATING INCOME (EXPENSE)						
(INCREASE) DECREASE IN ASSETS						
RECEIVABLES (NET)	717	3,077	(74)	139	5,216	9,075
INVENTORIES	(108)	1,154	4	(18)	998	1,271
PREPAID EXPENSES	365	(117)	(24)	(55)	(9)	(108)
OTHER ASSETS	3	(2,260)		B		(2,260)
INCREASE (DECREASE) IN LIABILITIES						
ACCOUNTS PAYABLE	(97)	6,205	(19)	62	(651)	5,500
LIABILITIES	680		(1)	30	(6,611)	(5,861)
CLAIMS LIABILITY					65,045	65,045
COMPENSATED ABSENCES	354	34	2	18	(4,255)	803
OTHER LIABILITIES	18		2	61	(586)	(4,255)
DEFERRED REVENUE						667
NET CASH PROVIDED BY OPERATING ACTIVITIES	(32,115)	162,730	(817)	(1,658)	(54,059)	74,083

THROUGH CONTRIBUTED CAPITAL, STATE PARKS AND HORSE PARK ACQUIRED FIXED ASSETS COSTING \$30,236,000, AND \$781,000, RESPECTIVELY FOR THE LOTTERY CORPORATION, THE ACCRETION OF INTEREST ON GRAND PRIZE INVESTMENTS, WHICH ALSO INCREASED THE ESTIMATED PRIZE LIABILITY, TOTALLED APPROXIMATELY \$17,556,000 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, 1997  
 (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	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
CHARGES FOR SERVICES		38,269			1,608			3,923			151,078			194,878	
FINES AND PENALTIES		2									894			896	
INTEREST AND OTHER INVESTMENT INCOME		42									6,928			6,968	
OTHER REVENUES		306					27				5,359			5,692	
TRANSFERS IN (INTERFUND)		653									41,907			41,907	
TRANSFERS IN (INTRA-FUND)		39,272			1,608		3,950				173,499			174,152	
TOTAL REVENUES															
EXPENSES:															
GENERAL GOVERNMENT:															
OFFICE OF THE ATTORNEY GENERAL															
PERSONNEL CABINET															
FINANCE AND ADMINISTRATION															
COMMERCE															
EDUCATION AND HUMANITIES															
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION:															
DEPT FOR SURFACE MINING															
RECLAMATION & ENFORCEMENTS															
DEPARTMENT FOR SURFACE MINING															
RECLAMATION 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															
TOTAL EXPENSES															
EXCESS OF REVENUES OVER (UNDER) EXPENSES															
FUND BALANCES/FUND EQUITY AT JULY 1															
FIXED ASSET ALLOCATION															
NON BUDGETED ITEMS															
FUND BALANCES/FUND EQUITY AT JUNE 30															

## 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:

**Fleet Management Fund** - accounts for expenses incurred and reimbursements received by the Transportation Cabinet for the management and maintenance of the state's motor vehicle fleet.

**Computer Services Fund** - accounts for expenses incurred and reimbursements received by the 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, 1997

(Expressed in Thousands)

	Fleet Management	Computer Services	Central Stores	Telecom. municipalities	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1997
<b>ASSETS</b>									
CURRENT ASSETS:									
CASH AND CASH EQUIVALENTS	582	1,182	253	410	577	269	974	5,653	9,810
RECEIVABLES, NET	136	126	11	68	254	71	123	2,083	2,872
INTERFUND RECEIVABLES	842	2,940	28	776	2,888	903	910	76	9,963
INVENTORIES		467	1,483	5	2,955	305		649	5,215
PREPAID EXPENSES		254				1,548	2,007	8,371	903
TOTAL CURRENT ASSETS	1,560	4,969	1,775	1,229	6,674	2,366	2,007	14,687	28,163
OTHER ASSETS:									
LONG TERM INVESTMENTS	1,458	259	224	1,028	495	236	1,108	14,687	19,495
TOTAL OTHER ASSETS	1,458	259	224	1,028	495	236	1,108	14,687	19,495
FIXED ASSETS:									
LAND			40		768		269		1,077
IMPROVEMENTS OTHER THAN BUILDINGS			3	366	2,538		11		370
BUILDINGS		5,360	530	1,559	3,967	1,683	1,353		10,739
MACHINERY AND EQUIPMENT	39,442	45,950	62	15,277	(4,094)	(1,277)	(1,047)		107,734
LESS: ACCUMULATED DEPRECIATION	(6,548)	(43,685)	(465)	(16,177)	3,179	406	1,338		(73,283)
TOTAL FIXED ASSETS, NET	32,894	7,625	170	3,015	10,348	2,190	4,453		46,627
TOTAL ASSETS	35,912	12,853	2,169	3,302	10,348	2,190	4,453		84,285
<b>LIABILITIES AND FUND EQUITY</b>									
LIABILITIES:									
CURRENT LIABILITIES:									
ACCOUNTS PAYABLE	634	2,511	294	962	904	277	580	1,717	7,879
INTERFUND PAYABLES	27	1,353	16	223	70	402	55	2,810	4,956
CLAIMS LIABILITY								15,210	15,210
CAPITAL LEASE OBLIGATIONS	1,671	2,011	65	1	161	63	539	21	3,746
COMPENSATED ABSENCES	13	19	2	9	46	111	6	52	2,724
DEFERRED REVENUE					1,181	977	1,174	19,810	258
TOTAL CURRENT LIABILITIES	2,345	7,714	377	1,195	1,181	977	1,174	19,810	34,773
LONG TERM LIABILITIES:									
CLAIMS LIABILITY		866				71		60,282	60,282
CAPITAL LEASE OBLIGATIONS	5,111	1,661	2		151	149	461	6,048	6,048
COMPENSATED ABSENCES		2,527			151	220	461	60,282	2,424
TOTAL LONG TERM LIABILITIES	5,111	2,527	2		151	1,197	1,635	60,282	68,754
TOTAL LIABILITIES	7,456	10,241	379	1,195	1,332	1,197	1,635	80,092	103,527
FUND EQUITY:									
CONTRIBUTED CAPITAL	17,133				280		479		17,892
RETAINED EARNINGS:									
UNRESERVED	11,323	2,612	1,790	2,107	8,736	983	2,339	(57,034)	(27,134)
TOTAL FUND EQUITY	28,456	2,612	1,790	2,107	9,016	983	2,818	(57,034)	(9,242)
TOTAL LIABILITIES AND FUND EQUITY	35,912	12,853	2,169	3,302	10,348	2,190	4,453	23,058	84,285

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
 INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Fleet Management	Computer Services	Central Stores	Telecom-munications	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1997
OPERATING REVENUES:									
CHARGES FOR SERVICES	\$ 18,591	\$ 35,869	\$ 9,372	\$ 9,017	\$ 10,401	\$ 4,586	\$ 15,742	\$ 19,442	\$ 123,020
OTHER REVENUES	85	11		7			40	315	519
TOTAL OPERATING REVENUE	18,677	35,880	9,372	9,017	10,408	4,586	15,782	19,817	123,539
OPERATING EXPENSES:									
PERSONAL SERVICES	1,415	25,218	534	2,145	2,558	2,083	9,088	1,394	44,435
UTILITIES, RENTALS, AND OTHER SERVICES	1,192	3,725	374	6,484	761	899	7,424	1,235	22,114
COMMODITIES AND SUPPLIES	7,209	7,748	8,356	290	5,846	1,469	1,735	99	32,752
GRANTS AND SUBSIDIES					691				692
DEPRECIATION AND AMORTIZATION	6,548	2,538	17	114	287	181	147	19	9,832
TRAVEL	2	66		25	48	1	71		252
REINSURANCE EXPENSE								2,127	2,127
CLAIMS EXPENSE								21,852	21,852
TOTAL OPERATING EXPENSES	16,366	39,315	9,282	9,058	10,191	4,533	18,465	26,718	134,028
OPERATING INCOME (LOSS)	2,311	(3,435)	90	(41)	217	(47)	(2,683)	(6,901)	(10,489)
NONOPERATING REVENUES (EXPENSES):									
GAIN (LOSS) ON SALE OF FIXED ASSETS	1,769	(8)			(15)	(93)	5		1,658
INTEREST AND OTHER INVESTMENT INCOME	6	2	1	1	3	2	3		18
INTEREST EXPENSE	(393)	(160)				(14)			(557)
TOTAL NONOPERATING REVENUES AND EXPENSES	1,382	(166)	1	1	(12)	(105)	8		1,109
INCOME (LOSS) BEFORE OPERATING TRANSFERS	3,693	(3,601)	91	(40)	205	(152)	(2,675)	(6,901)	(9,380)
OPERATING TRANSFERS IN		5,906		238	190		2,196		30,446
OPERATING TRANSFERS OUT		(334)		(84)	(695)				(22,351)
NET INCOME (LOSS)	3,693	1,971	91	114	(541)	(235)	(519)	(5,659)	(1,265)
ADD DEPRECIATION ON FIXED ASSETS ACQUIRED BY CAPITAL GRANTS	4,332				47		26		4,405
INCREASE (DECREASE) IN RETAINED EARNINGS	8,025	1,971	91	114	(494)	(235)	(493)	(5,638)	3,140
RETAINED EARNINGS AT JULY 1, AS RESTATED	3,298	641	1,639	1,993	9,230	1,228	2,832	(51,196)	(33,972)
RESIDUAL EQUITY TRANSFER IN (OUT)	11,323	2,612	1,790	2,107	8,736	993	2,339	(57,034)	3,256
RETAINED EARNINGS AT JUNE 30	\$ 14,621	\$ 4,253	\$ 3,429	\$ 4,099	\$ 17,966	\$ 2,221	\$ 5,171	\$ (59,230)	\$ (27,139)

COMMONWEALTH OF KENTUCKY  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 1997  
(Expressed in Thousands)

	Fleet Management	Computer Services	Central Stores	Telecom-munications	Prison Industries	Central Printing	Property Management	Risk Management	Totals June 30, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:									
CASH RECEIVED FROM CUSTOMERS - PUBLIC	18,591	40	9,348	9,518	10,402	4,313	42	19,702	82
CASH RECEIVED FROM CUSTOMERS - STATE	(8,068)	(34,780)	(8,798)	(7,110)	(2,383)	(83)	15,360	(2,402)	(4,005)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(1,373)	(10,594)	(526)	(2,477)	(2,884)	(2,039)	(9,150)	(891)	(43,862)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	86	12	(1)	7	7		40	(15,240)	(15,240)
CASH PAYMENTS (TO) FROM OTHER SOURCES	3,216	(682)	23	(64)	617	451	(2,995)	(1,339)	(1,195)
NET CASH PROVIDED BY OPERATING ACTIVITIES:	3,298	5,906		164	7	451	(2,995)	(1,770)	6,789
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
RESIDUAL EQUITY TRANSFER IN	3,298						2,156	4,441	9,204
OPERATING TRANSFERS IN FROM OTHER FUNDS		(334)	(83)		(896)	(83)		(3,379)	6,985
OPERATING TRANSFERS OUT TO OTHER FUNDS	3,298	5,572		154	(746)	(83)	2,156	1,062	11,413
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES									
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(9,608)	(3,970)		(5)	(177)	(117)	(149)		(14,028)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(99)	(160)		(15)	(15)	(14)			(1,587)
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS	1,114			(5)	(192)	(131)	(149)		(567)
PROCEEDS FROM SALE OF EQUIPMENT	(10,474)	(4,130)		(5)		(131)			1,099
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(19,167)	(8,260)		(15)	(374)	(265)	(298)		(15,081)
CASH FLOW FROM INVESTING ACTIVITIES:									
PURCHASE OF INVESTMENT SECURITIES	(1,458)	92	(89)	(640)	(87)	(163)	(109)	(6,127)	(8,371)
PROCEEDS FROM SALE AND MATURITIES OF INVESTMENT SECURITIES		1		1	2	2		368	92
INTEREST AND DIVIDENDS ON INVESTMENTS	(1,458)	93	(88)	(630)	(87)	(163)	(105)	(5,759)	(8,204)
NET CASH USED IN INVESTING ACTIVITIES	(2,916)	185	(177)	(1,269)	(92)	(224)	(105)	(1,487)	(9,485)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	582	846	(65)	(554)	(408)	76	(893)	(4,867)	(6,063)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	562	336	318	964	1,667	193	1,667	10,430	14,850
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 562	\$ 1,182	\$ 253	\$ 410	\$ 577	\$ 269	\$ 574	\$ 5,563	\$ 8,787
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:									
OPERATING INCOME (LOSS)	\$ 2,311	\$ (3,435)	\$ 90	\$ (41)	\$ 217	\$ (47)	\$ (2,683)	\$ (6,901)	\$ (10,469)
ADJUSTMENTS TO OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:									
CASH PROVIDED BY OPERATING ACTIVITIES	6,548	2,538	17	114	287	181	147	(368)	9,832
DEPRECIATION AND AMORTIZATION	6	(8)			(12)				(683)
INTEREST AND OTHER INVESTMENT INCOME									553
MISCELLANEOUS NONOPERATING INCOME (EXPENSES)				72	(40)	(33)	(108)	(452)	804
CHANGE IN ASSETS AND LIABILITIES:									131
INVESTMENT ASSETS	(136)	17	(3)	422	20	(30)	(212)	(22)	300
RECEIVABLES, NET	(187)	892	(22)		(28)	74	259	(37)	
INTERFUND RECEIVABLES		108	(138)				59		
INVENTORIES		329							
PREPAID EXPENSES									
OTHER ASSETS									
INCREASE (DECREASE) IN LIABILITIES	634	660	57	(138)	406	103	56	573	2,351
ACCOUNTS PAYABLE	27	785	13	(197)	(306)	368	(123)	788	1,335
INTERFUND PAYABLE									6,223
CLAIMS LIABILITY				(302)	55	45	9	9	201
COMPENSATED ABSENCES									(3,221)
OTHER LIABILITIES	13	(9,231)	8	6	110	110	1	17	14
OTHER ASSETS		(140)		(64)	6	451	(2,995)	(170)	6,789
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,216	\$ (689)	\$ 23	\$ (64)	\$ 617	\$ 451	\$ (2,995)	\$ (170)	\$ 6,789

THROUGH CONTRIBUTED CAPITAL FLEET MANAGEMENT AND PROPERTY MANAGEMENT ACQUIRED ASSETS COSTING \$24,109,000, AND \$33,000, RESPECTIVELY, THROUGH CAPITAL LEASES FLEET MANAGEMENT ACQUIRED FIXED ASSETS COSTING \$27,000, WITH PRINCIPAL AND INTEREST PAYMENTS OF \$5,000 AND \$1,000, RESPECTIVELY, THROUGH CAPITAL LEASES COMPUTER SERVICES ACQUIRED FIXED ASSETS COSTING \$40,000, WITH PRINCIPAL AND INTEREST PAYMENTS OF \$10,000 AND \$1,000, RESPECTIVELY.



COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Budget	Actual	Variance
<b>TRANSPORTATION - FLEET MANAGEMENT</b>			
REVENUES:			
OTHER REVENUES	\$	\$ 19,705	\$
TOTAL REVENUES		19,705	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	20,890	20,798	92
FUND EQUITY AT JULY 1		(1,093)	
MOVED FROM AGENCY REVENUE FUND			
FUND EQUITY AT JUNE 30	\$	\$ 3,298	\$
REVENUES:			
GENERAL GOVERNMENT - COMPUTER SERVICES		2,205	
CHARGES FOR SERVICES		35,743	
FINES AND FORFEITS		1	
OTHER REVENUES		10	
TRANSFERS IN (INTERFUND)		1	
TOTAL REVENUES		35,765	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	36,002	35,945	57
FUND EQUITY AT JULY 1		(1,900)	
NON-BUDGETED ITEMS		13,984	
FIXED ASSET ALLOCATIONS		(132)	
FUND EQUITY AT JUNE 30	\$	\$ (2,134)	\$
REVENUES:			
GENERAL GOVERNMENT - CENTRAL STORES		11,338	
CHARGES FOR SERVICES		9,372	
TRANSFERS IN (INTERFUND)		201	
TOTAL REVENUES		9,573	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	9,801	9,389	512
FUND EQUITY AT JULY 1		184	
NON-BUDGETED ITEMS		713	
FIXED ASSET ALLOCATIONS		(201)	
FUND EQUITY AT JUNE 30	\$	\$ (51)	\$
REVENUES:			
GENERAL GOVERNMENT - TELECOMMUNICATIONS		645	
CHARGES FOR SERVICES		9,047	
OTHER REVENUES		(6)	
TRANSFERS IN (INTERFUND)		238	
TOTAL REVENUES		9,279	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	10,669	9,103	1,566
FUND EQUITY AT JULY 1		176	
FIXED ASSET ALLOCATIONS		2,937	
FUND EQUITY AT JUNE 30	\$	\$ (328)	\$
REVENUES:			
JUSTICE - PRISON INDUSTRIES		2,785	
CHARGES FOR SERVICES		10,778	
INTEREST AND OTHER INVESTMENT INCOME		2	
TRANSFERS IN (INTERFUND)		7	
TOTAL REVENUES		10,937	
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES	11,574	10,519	1,055
FUND EQUITY AT JULY 1		413	
NON-BUDGETED ITEMS		7,222	
FIXED ASSET ALLOCATIONS		(614)	
MOVED FROM AGENCY REVENUE FUND		(151)	
FUND EQUITY AT JUNE 30	\$	\$ 6,875	\$

	Budget	Actual	Variance
<b>GENERAL GOVERNMENT - CENTRAL PRINTING</b>			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 4,700	\$
TRANSFERS IN (INTERFUND)		9	
TOTAL REVENUES	5,293	4,709	828
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES		244	
FUND EQUITY AT JULY 1		1,658	
FIXED ASSET ALLOCATIONS		(203)	
FUND EQUITY AT JUNE 30	\$	\$ 1,689	\$
REVENUES:			
GENERAL GOVERNMENT - PROPERTY MANAGEMENT		15,741	
CHARGES FOR SERVICES		1	
FINES AND FORFEITS		45	
OTHER REVENUES		15,787	
TOTAL REVENUES	16,850	16,043	807
EXPENSES:			
EXCESS OF REVENUES OVER (UNDER) EXPENSES		(256)	
FUND EQUITY AT JULY 1		4,078	
FIXED ASSET ALLOCATIONS		204	
FUND EQUITY AT JUNE 30	\$	\$ 4,026	\$
REVENUES:			
GENERAL GOVERNMENT - RISK MANAGEMENT		14,081	
CHARGES FOR SERVICES		352	
OTHER REVENUES		4,910	
TRANSFERS IN (INTERFUND)		18,153	
TOTAL REVENUES	16,080	37,506	
EXPENSES:			
PERSONNEL CABINET		13,580	2,500
DEPARTMENT OF INSURANCE		52	35
TOTAL EXPENSES	16,642	14,107	2,535
EXCESS OF REVENUES OVER (UNDER) EXPENSES		23,399	
FUND EQUITY AT JULY 1		16,486	
NON-BUDGETED ITEMS		(24,912)	
FIXED ASSET ALLOCATIONS		16	
FUND EQUITY AT JUNE 30	\$	\$ 17,001	\$
TOTALS:			
REVENUES:			
CHARGES FOR SERVICES	\$	\$ 99,472	\$
FINES AND FORFEITS		2	
INTEREST AND OTHER INVESTMENT INCOME		24,871	
OTHER REVENUES		18,752	
TRANSFERS IN		143,251	
TOTAL REVENUES		20,798	82
EXPENSES:			
TRANSPORTATION		94,795	6,270
GENERAL GOVERNMENT		10,519	1,045
JUSTICE		527	35
PUBLIC PROTECTION AND REGULATION		22,882	7,482
TOTAL EXPENSES		47,068	
EXCESS OF REVENUES OVER (UNDER) EXPENSES		(24,059)	
FUND EQUITY AT JULY 1		(2,645)	
NON-BUDGETED ITEMS		3,298	
FIXED ASSET ALLOCATIONS		(46,574)	
MOVED FROM AGENCY REVENUE FUND			
FUND EQUITY AT JUNE 30	\$	\$	\$

## TRUST AND AGENCY FUNDS

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, 1997  
 (Expressed in Thousands)

	Expendable Trust Funds		Pension Trust
	Unemployment Compensation	Special Benefits	
ASSETS			
CASH AND CASH EQUIVALENTS	\$ 69	\$ 62,918	\$ 1,923,718
CASH WITH FISCAL AGENTS			
CASH ON DEPOSIT WITH FEDERAL GOVERNMENT	550,485		18,638,370
INVESTMENTS, NET OF AMORTIZATION	30,411	154,336	2,308
RECEIVABLES, NET	701	1,508	206,038
INTERFUND RECEIVABLES			192
PREPAID EXPENSES			2,745
BUILDINGS			
TOTAL ASSETS	\$ 581,656	\$ 232,366	\$ 20,770,563
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
ACCOUNTS PAYABLE	\$ 41,858	\$ 3,468	\$ 1,141,407
INTERFUND PAYABLES	554	3,438	
AMOUNTS HELD IN CUSTODY FOR OTHERS			
DEFERRED REVENUE	28,526	1,944	
OTHER LIABILITIES			691,255
TOTAL LIABILITIES	70,938	8,850	1,832,662
FUND EQUITY			
FUND BALANCE:			
RESERVED FOR:			
EMPLOYEE RETIREMENT SYSTEMS			18,399,327
RETIREES' HEALTH INSURANCE			538,574
UNRESERVED:			
UNDESIGNATED	510,728	223,516	18,937,901
TOTAL FUND EQUITY	510,728	223,516	18,937,901
TOTAL LIABILITIES AND FUND EQUITY	\$ 581,656	\$ 232,366	\$ 20,770,563

	Agency Funds					Totals June 30, 1997
	Deferred Compensation	Kentucky Health Purchasing Alliance	Commonwealth Choice Program	County Sinking Fund	Special Deposit Trust	
	\$ 945	\$ 4,615	\$ 3,648	\$ 18	\$ 109,383	\$ 2,096,531
	378,595			283		8,546
	1,508			50	78,526	550,485
				1	43	19,248,977
					212	240,309
						13,717
	\$ 381,048	\$ 4,615	\$ 3,648	\$ 352	\$ 188,244	\$ 2,745
	35					1,198,768
	381,013	4,615	3,648	352	188,226	4,010
						577,854
	381,048	4,615	3,648	352	188,244	691,255
						18,399,327
						538,574
						724,244
	\$ 381,048	\$ 4,615	\$ 3,648	\$ 352	\$ 188,244	\$ 19,872,145
						22,192,802

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF PLAN NET ASSETS  
 PENSION TRUST FUNDS  
 JUNE 30, 1997  
 (Expressed in Thousands)

	Kentucky Employees Retirement System		State Police Retirement System		County Employees Retirement System		Teachers' Retirement System		Judicial Retirement System		Legislators' Retirement System		Totals June 30, 1997
	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	
<b>ASSETS</b>													
CASH AND SHORT-TERM INVESTMENTS													
CASH	\$ 127	\$ 8	\$ 8	\$ 1	\$ 123	\$ 8	\$ 357	\$ 34,623	\$ 9,304	\$ 1	\$ 1	\$ 634	
SHORT-TERM INVESTMENTS	642,480	43,461	44,865	7,265	690,438	43,230	404,677	34,623	9,304	2,246	2,246	1,922,884	
TOTAL CASH AND SHORT-TERM INVESTMENTS	\$ 642,607	\$ 43,469	\$ 44,873	\$ 7,266	\$ 690,561	\$ 43,238	\$ 405,034	\$ 34,623	\$ 9,305	\$ 2,247	\$ 2,247	\$ 1,923,518	
RECEIVABLES													
INVESTMENTS - ACCOUNTS RECEIVABLE	\$ 1,629	\$ 90	\$ 95	\$ 15	\$ 2,220	\$ 88	\$ 60,130	\$ 1,827	\$ 1,293	\$ 269	\$ 269	\$ 64,287	
INTEREST RECEIVABLE	16,663	939	1,151	150	14,309	900	29,568	1,827	45	45	45	35,874	
ACCOUNTS RECEIVABLE	14,865	4,015	17,917	715	32,979	4,118	89,698	1,827	1,338	269	269	106,997	
TOTAL RECEIVABLES	\$ 33,157	\$ 5,044	\$ 19,163	\$ 930	\$ 49,508	\$ 5,104	\$ 89,698	\$ 1,827	\$ 1,338	\$ 269	\$ 269	\$ 206,038	
INVESTMENTS AT FAIR VALUE													
CORPORATE AND GOVERNMENT BONDS	\$ 918,421	\$ 50,030	\$ 61,770	\$ 7,871	\$ 781,180	\$ 48,027	\$ 3,752,760	\$ 4,892,578	\$ 60,823	\$ 13,795	\$ 13,795	\$ 5,684,877	
COMMON STOCKS	2,921,317	162,049	288,638	23,463	2,673,956	155,638	4,892,578	149,700	104,216	27,401	27,401	11,180,478	
MORTGAGES	211,716	11,960	14,127	1,586	147,729	11,453	149,700	184,580	7,269	3,356	3,356	554,926	
REAL ESTATE	178,716	11,960	14,127	1,586	158,816	11,453	184,580	184,580	7,269	3,356	3,356	524,034	
TOTAL INVESTMENTS AT FAIR VALUE	\$ 4,228,170	\$ 223,639	\$ 294,662	\$ 35,322	\$ 3,733,581	\$ 215,138	\$ 8,973,618	\$ 1,873,438	\$ 172,308	\$ 44,552	\$ 44,552	\$ 17,847,115	
INVESTED SECURITY COLLATERAL													
FIXED INCOME SECURITIES	\$ 4,903,934	\$ 272,152	\$ 358,723	\$ 43,513	\$ 4,493,750	\$ 263,460	\$ 10,168,542	\$ 36,450	\$ 182,951	\$ 47,068	\$ 47,068	\$ 691,285	
PRIME EXPENSES													
TOTAL ASSETS	\$ 4,903,934	\$ 272,152	\$ 358,723	\$ 43,513	\$ 4,493,750	\$ 263,460	\$ 10,168,542	\$ 36,450	\$ 182,951	\$ 47,068	\$ 47,068	\$ 691,285	\$ 20,779,562
LIABILITIES													
INVESTMENT - ACCOUNTS PAYABLE	\$ 505,620	\$ 30,714	\$ 32,499	\$ 4,910	\$ 486,957	\$ 29,806	\$ 2,392	\$ 11,329	\$ 2,392	\$ 2,392	\$ 2,392	\$ 1,090,506	
ACCOUNTS PAYABLE	6,471	212	19,156	8	7,467	42	3,784	11,329	42	3,784	3,784	47,117	
DISBURSEMENTS IN EXCESS OF CASH BALANCE													
OBLIGATIONS UNDER SECURITIES LENDING	512,091	30,926	51,695	4,918	494,124	29,848	697,431	11,329				691,255	
TOTAL LIABILITIES	\$ 1,024,182	\$ 61,852	\$ 103,350	\$ 9,736	\$ 988,551	\$ 59,502	\$ 3,176,602	\$ 22,687	\$ 2,434	\$ 6,176	\$ 6,176	\$ 1,852,662	
NET ASSETS HELD FOR:													
EMPLOYEE RETIREMENT BENEFITS	\$ 4,381,843	\$ 241,226	\$ 307,028	\$ 38,595	\$ 3,999,326	\$ 233,652	\$ 9,471,111	\$ 25,121	\$ 182,951	\$ 47,068	\$ 47,068	\$ 10,399,327	
RETIREES' HEALTH INSURANCE													

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 EXPENDABLE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Unemployment Compensation	Special Benefits	Totals June 30, 1997
REVENUES			
TAXES	\$ 249,420	\$ 90	\$ 249,510
LICENSES, FEES, AND PERMITS	16,325	43	16,368
GOVERNMENTAL	8	5,083	5,091
CHARGES AND SERVICES	34,101	1	34,102
INTEREST AND OTHER INVESTMENT INCOME	1,890	5,527	7,417
OTHER REVENUES	301,744	4,623	306,367
TOTAL REVENUES		15,367	317,111
EXPENDITURES:			
GENERAL GOVERNMENT			
LEGISLATIVE AND JUDICIAL		21,510	21,510
EDUCATION AND HUMANITIES	226,450	11	226,461
HUMAN RESOURCES		36,995	36,995
TOTAL EXPENDITURES	226,450	3,812	230,262
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	75,294	(46,961)	28,333
OTHER FINANCING SOURCES (USES):			
OPERATING TRANSFERS IN	700	165,629	166,329
OPERATING TRANSFERS OUT	(2,616)	(21,316)	(23,932)
TOTAL OTHER FINANCING SOURCES (USES)	(1,916)	144,313	142,397
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	73,378	97,352	170,730
FUND BALANCES AT JULY 1	437,350	126,164	563,514
FUND BALANCES AT JUNE 30	510,728	223,516	734,244

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
 PENSION TRUST FUNDS  
 JUNE 30, 1997  
 (Expressed in Thousands)

	Kentucky Employees Retirement System		State Police Retirement System		County Employees Retirement System		Teachers' Retirement System		Judicial Retirement System		Legislators' Retirement System		Totals June 30, 1997
	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	Pension Benefits	Healthcare Benefits	
<b>ADDITIONS</b>													
CONTRIBUTIONS													
EMPLOYER	\$ 118,119	\$ 43,989	\$ 9,638	\$ 5,126	\$ 145,356	\$ 40,809	\$ 293,734	\$ 34,873	\$ 5,634	\$ 1,737	\$ 698,975		
EMPLOYEE	69,025	43,989	2,958	5,126	79,312	181,085	181,085	29,487	1,044	197	365,188		
TOTAL CONTRIBUTIONS	187,144	87,978	12,596	10,252	224,668	40,809	474,819	64,360	6,678	1,934	1,064,163		
INVESTMENT INCOME													
NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	671,710	32,154	47,643	5,153	627,866	30,900	1,179,662	1,422	27,766	6,858	2,629,732		
INTEREST	59,812	6,189	6,996	1,018	79,895	5,989	265,739	1,422	1,834	1,145	469,849		
DIVIDENDS	56,746	2,431	4,244	397	54,205	2,382	86,537	15,989	4,994	424	214,360		
REAL ESTATE OPERATING INCOME, NET	10,953		829		9,647		27,200				37,418		
SECURITIES LENDING INCOME											27,030		
TOTAL INVESTMENT INCOME	841,221	40,774	59,712	6,568	771,633	39,281	1,575,127	1,422	34,394	8,427	3,378,559		
LESS: INVESTMENT EXPENSE	19,173	796	1,337	128	17,113	771	3,573		105	12	43,008		
LESS: SECURITIES LENDING EXPENSE	822,048	39,978	58,375	6,440	754,520	98,510	1,545,051		34,289	8,415	3,309,048		
NET INVESTMENT INCOME	1,009,242	83,967	70,961	11,566	979,188	79,319	2,021,870	63,782	40,967	10,549	4,373,211		
<b>TOTAL ADDITIONS</b>													
173,952			14,682		124,187		431,597		5,844	1,615	751,277		
BENEFIT PAYMENTS	8,262		57		9,167		33,318	2	4	21	50,831		
REFUNDS	2,701		52		3,909		3,497	2,996	160	96	13,411		
ADMINISTRATIVE EXPENSES	43,968		5,126	2,160	40,816	19,757	64,864	64,864	6,008	1,732	198,829		
OTHER DEDUCTIONS, NET	228,303		19,917	2,160	178,079	19,757	468,412	67,964	6,008	1,732	1,014,342		
TOTAL DEDUCTIONS	780,939	61,957	51,044	9,406	801,109	59,562	1,553,458	(2,182)	34,959	8,617	3,349,869		
NET INCREASE (DECREASE)													
NET ASSETS HELD IN TRUST													
BEGINNING OF YEAR	3,657,447	179,269	257,799	28,881	3,151,674	174,070	7,027,591	27,303	147,992	38,451	14,890,477		
ADJUSTMENTS TO NET ASSETS	(46,543)		(1,815)	308	46,543		890,062				800,555		
END OF YEAR	\$ 4,391,843	\$ 241,226	\$ 307,028	\$ 38,595	\$ 3,899,328	\$ 233,632	\$ 9,471,111	\$ 25,121	\$ 182,951	\$ 47,068	\$ 18,937,901		

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Balance July 1, 1996	Additions	Deductions	Balance June 30, 1997
<b>KENTUCKY PUBLIC EMPLOYEES DEFERRED COMPENSATION SYSTEM</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 1,045	\$ 35	\$ 135	\$ 945
INVESTMENTS	332,741	62,204	16,350	378,595
CONTRIBUTIONS RECEIVABLE	892	516		1,508
<b>TOTAL ASSETS</b>	<b>\$ 334,778</b>	<b>\$ 62,755</b>	<b>\$ 16,485</b>	<b>\$ 381,048</b>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE	\$ 35	\$ 35	\$ 35	\$ 35
AMOUNTS HELD IN CUSTODY FOR OTHERS	334,743	62,720	16,450	381,013
<b>TOTAL LIABILITIES</b>	<b>\$ 334,778</b>	<b>\$ 62,755</b>	<b>\$ 16,485</b>	<b>\$ 381,048</b>

<b>KENTUCKY HEALTH PURCHASING ALLIANCE</b>				
<b>ASSETS</b>				
CASH WITH FISCAL AGENTS	\$ 16,671	\$ 441,311	\$ 453,367	\$ 4,615
<b>TOTAL ASSETS</b>	<b>\$ 16,671</b>	<b>\$ 441,311</b>	<b>\$ 453,367</b>	<b>\$ 4,615</b>
<b>LIABILITIES</b>				
AMOUNTS HELD IN CUSTODY FOR OTHERS	\$ 16,671	\$ 441,311	\$ 453,367	\$ 4,615
<b>TOTAL LIABILITIES</b>	<b>\$ 16,671</b>	<b>\$ 441,311</b>	<b>\$ 453,367</b>	<b>\$ 4,615</b>

<b>COMMONWEALTH CHOICE PROGRAM</b>				
<b>ASSETS</b>				
CASH WITH FISCAL AGENTS	\$ 2,307	\$ 9,801	\$ 8,450	\$ 3,648
<b>TOTAL ASSETS</b>	<b>\$ 2,307</b>	<b>\$ 9,801</b>	<b>\$ 8,450</b>	<b>\$ 3,648</b>
<b>LIABILITIES</b>				
AMOUNTS HELD IN CUSTODY FOR OTHERS	\$ 2,307	\$ 9,801	\$ 8,450	\$ 3,648
<b>TOTAL LIABILITIES</b>	<b>\$ 2,307</b>	<b>\$ 9,801</b>	<b>\$ 8,450</b>	<b>\$ 3,648</b>

<b>COUNTY SINKING FUND</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 48	\$ 438	\$ 468	\$ 18
CASH WITH FISCAL AGENTS	283			283
INVESTMENTS	21	50	20	51
ACCOUNTS RECEIVABLE		1		1
<b>TOTAL ASSETS</b>	<b>\$ 352</b>	<b>\$ 489</b>	<b>\$ 498</b>	<b>\$ 353</b>
<b>LIABILITIES</b>				
AMOUNTS HELD IN CUSTODY FOR OTHERS	\$ 352	\$ 365	\$ 364	\$ 353
<b>TOTAL LIABILITIES</b>	<b>\$ 352</b>	<b>\$ 365</b>	<b>\$ 364</b>	<b>\$ 353</b>

	Balance July 1, 1996	Additions	Deductions	Balance June 30, 1997
<b>SPECIAL DEPOSIT TRUST FUND</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 132,115	\$ 1,526,562	\$ 1,549,314	\$ 109,363
INVESTMENTS	56,445	68,660	48,499	76,606
ACCOUNTS RECEIVABLE	551	1,318	1,826	43
INTERFUND RECEIVABLES	307	364	459	212
<b>TOTAL ASSETS</b>	<b>\$ 191,418</b>	<b>\$ 1,596,924</b>	<b>\$ 1,600,098</b>	<b>\$ 186,224</b>
<b>LIABILITIES</b>				
INTERFUND PAYABLES	\$ 816	\$ 18	\$ 816	\$ 18
AMOUNTS HELD IN CUSTODY FOR OTHERS	190,602	1,351,319	1,353,095	186,226
<b>TOTAL LIABILITIES</b>	<b>\$ 191,418</b>	<b>\$ 1,351,337</b>	<b>\$ 1,354,311</b>	<b>\$ 186,244</b>
<b>ALL AGENCY FUNDS</b>				
<b>ASSETS</b>				
CASH & CASH EQUIVALENTS	\$ 133,208	\$ 1,327,035	\$ 1,549,917	\$ 110,226
CASH WITH FISCAL AGENTS	19,281	451,112	461,827	8,546
INVESTMENTS	391,207	130,904	64,869	457,272
ACCOUNTS RECEIVABLE	551	1,319	1,826	44
CONTRIBUTIONS RECEIVABLE	892	516		1,508
INTERFUND RECEIVABLES	307	364	459	212
<b>TOTAL ASSETS</b>	<b>\$ 545,526</b>	<b>\$ 2,111,280</b>	<b>\$ 2,078,968</b>	<b>\$ 577,806</b>
<b>LIABILITIES</b>				
ACCOUNTS PAYABLE	\$ 35	\$ 35	\$ 35	\$ 35
INTERFUND PAYABLES	816	18	816	18
AMOUNTS HELD IN CUSTODY FOR OTHERS	544,675	1,865,518	1,832,336	577,655
<b>TOTAL LIABILITIES</b>	<b>\$ 545,526</b>	<b>\$ 1,865,569</b>	<b>\$ 1,833,187</b>	<b>\$ 577,806</b>

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, 1997  
 (Expressed in Thousands)

	Unemployment Compensation		
	Budget	Actual	Variance
REVENUES:			
INTERGOVERNMENTAL			
CHARGES FOR SERVICES	\$	\$ 16,325	\$
INTEREST AND OTHER INVESTMENT INCOME		8	
EMPLOYER CONTRIBUTIONS		34,101	
OTHER REVENUES		249,414	
TAXES		1,641	
TRANSFERS IN (INTERFUND)		6	
TOTAL REVENUES		302,195	
EXPENDITURES:			
WORKFORCE DEVELOPMENT			
DEPARTMENT FOR EMPLOYMENT SERVICES			
UNEMPLOYMENT INSURANCE BENEFITS	246,100	236,838	9,262
TOTAL WORKFORCE DEVELOPMENT	246,100	236,838	9,262
TOTAL EXPENDITURES	246,100	236,838	9,262
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		65,357	
FUND BALANCE AT JULY 1		485,612	
NON-BUDGETED ITEMS		(438)	
FUND BALANCE AT JUNE 30	\$	\$ 550,531	\$

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.

GENERAL FIXED ASSETS ACCOUNT GROUP



COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE  
 JUNE 30, 1997  
 (Expressed in Thousands)

	June 30, 1997
GENERAL FIXED ASSETS:	
LAND	\$ 78,247
BUILDINGS	678,337
MACHINERY AND EQUIPMENT	287,677
CONSTRUCTION IN PROGRESS	167,473
TOTAL GENERAL FIXED ASSETS	\$ 1,211,734
INVESTMENT IN GENERAL FIXED ASSETS FROM:	
GENERAL FUND REVENUES	\$ 70,041
SPECIAL REVENUE FUNDS REVENUE	236,937
DONATIONS	60,727
OTHER	14,454
CAPITAL PROJECTS FUND:	
STATE APPROPRIATIONS	47,645
REVENUE BONDS	360,464
FEDERAL GRANTS	36,852
OTHER	3,049
FIXED ASSETS ACQUIRED PRIOR TO JULY 1, 1984 (A)	381,545
TOTAL INVESTMENT IN GENERAL FIXED ASSETS	\$ 1,211,734

(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, 1997  
 (Expressed in Thousands)

	Land	Buildings	Machinery and Equipment	Totals June 30, 1997
FUNCTION AND ACTIVITY				
GENERAL GOVERNMENT:				
CABINET FOR GENERAL GOVERNMENT (B) (C)	\$ 5,933	\$ 77,563	\$ 8,291	\$ 81,787
REVENUE CABINET (B)			5,156	5,156
FINANCE & ADMINISTRATION (B)	7,814	121,833	3,694	133,341
PERSONNEL CABINET (B)			635	635
TOTAL GENERAL GOVERNMENT	13,747	199,396	17,776	230,919
LEGISLATIVE & JUDICIAL (B)	55		12,951	13,006
COMMERCE:				
ECONOMIC DEVELOPMENT CABINET (B)	15,186	21,507	252	36,945
TOURISM CABINET (B)	23,534	6,870	13,489	43,873
TOTAL COMMERCE	38,720	28,377	13,721	80,818
EDUCATION & HUMANITIES:				
EDUCATION & HUMANITIES CABINET (B)	398	25,442	15,022	40,862
WORKFORCE DEVELOPMENT CABINET (A) (B)	4,852	97,990	35,221	138,063
TOTAL EDUCATION & HUMANITIES	5,250	123,432	50,243	178,925
HUMAN RESOURCES (A) (B)	2,874	78,596	17,945	93,415
JUSTICE (A) (B)	3,835	189,236	41,165	234,234
NATURAL RESOURCES & ENVIRONMENTAL PROTECTION (B)	8,253	925	24,149	33,327
PUBLIC PROTECTION & REGULATION:				
PUBLIC PROTECTION & REGULATION CABINET (B)	47	221	2,489	2,757
LABOR CABINET (B)			1,897	1,897
TOTAL PUBLIC PROTECTION & REGULATION	47	221	4,386	4,654
TRANSPORTATION (B)	5,468	58,154	105,531	169,153
TOTAL GENERAL FIXED ASSETS ALLOCATED TO FUNCTIONS	78,247	678,337	287,677	1,044,261
CONSTRUCTION IN PROGRESS		167,473		167,473
TOTAL GENERAL FIXED ASSETS	\$ 78,247	\$ 845,810	\$ 287,677	\$ 1,211,734

(A) FIXED ASSETS TOTALING \$16,768,000 WERE PREVIOUSLY REPORTED WITHIN THE HUMAN RESOURCES FUNCTION.

THIS AMOUNT IS NOW REPORTED IN THE FOLLOWING CABINETS: JUSTICE \$10,437,000, AND WORKFORCE DEVELOPMENT \$6,331,000.

(B) THE FIXED ASSET REPORTING LEVEL WAS CHANGED FROM \$500.00 TO \$5,000.00 FOR MACHINERY AND EQUIPMENT. THIS RESULTED IN A

DECREASE IN BEGINNING ASSET BALANCE OF \$178,474,000. THESE AMOUNTS WERE IN THE ABOVE FUNCTIONS AS FOLLOWS:

\$6,827,000, \$5,969,000, \$4,237,000, \$301,000, \$13,620,000, \$667,000, \$6,194,000, \$16,174,000, \$47,206,000, \$33,452,000, \$24,604,000, \$10,244,000.

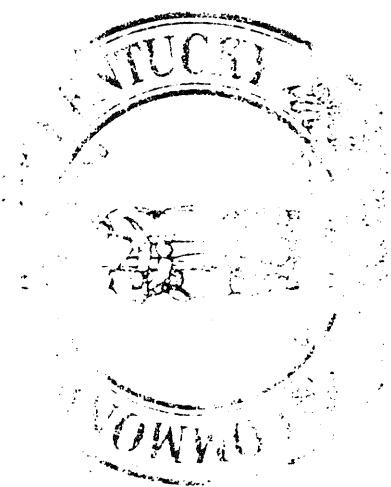
\$4,596,000, \$2,393,000, RESPECTIVELY

(C) FIXED ASSETS (BUILDINGS) TOTALING \$43,170,000 WERE PREVIOUSLY OMITTED IN ERROR

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION AND ACTIVITY  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Balance June 30, 1996	Additions	Retirements	Balance June 30, 1997
GENERAL GOVERNMENT:				
CABINET FOR GENERAL GOVERNMENT (B) (C)	\$ 88,042	\$ 4,127	\$ 362	\$ 91,787
REVENUE CABINET (B)	5,111	346	301	5,156
FINANCE & ADMINISTRATION (B)	132,659	729	47	133,341
PERSONNEL CABINET (B)	588	61	14	635
TOTAL GENERAL GOVERNMENT	226,400	5,263	744	230,919
LEGISLATIVE & JUDICIAL (B)	12,770	1,012	776	13,006
COMMERCE:				
ECONOMIC DEVELOPMENT CABINET (B)	33,451	3,507	13	36,945
TOURISM CABINET (B)	41,037	3,890	1,054	43,873
TOTAL COMMERCE	74,488	7,397	1,067	80,818
EDUCATION & HUMANITIES:				
EDUCATION & HUMANITIES CABINET (B)	38,469	2,552	559	40,462
WORKFORCE DEVELOPMENT CABINET (A)(B)	135,553	3,761	1,251	138,063
TOTAL EDUCATION & HUMANITIES	174,022	6,713	1,810	178,925
HUMAN RESOURCES (A)(B)	93,604	5,872	61	99,415
JUSTICE (A)(B)	231,669	6,723	4,158	234,234
NATURAL RESOURCES & ENVIRONMENTAL PROTECTION (B)	32,100	4,167	2,940	33,327
PUBLIC PROTECTION & REGULATION:				
PUBLIC PROTECTION & REGULATION CABINET (B)	2,554	330	127	2,757
LABOR CABINET (B)	1,168	505	66	1,607
TOTAL PUBLIC PROTECTION & REGULATION	3,722	835	193	4,364
TRANSPORTATION	260,061	7,093	97,901	169,253
TOTAL GENERAL FIXED ASSETS ALLOCATED TO FUNCTIONS	1,108,836	45,075	109,650	1,044,261
CONSTRUCTION IN PROGRESS	162,092	20,303	14,922	167,473
TOTAL GENERAL FIXED ASSETS	\$ 1,270,928	\$ 65,378	\$ 124,572	\$ 1,211,734

(A) FIXED ASSETS TOTALING \$16,768,000 WERE PREVIOUSLY REPORTED WITHIN THE HUMAN RESOURCES FUNCTION THIS AMOUNT IS NOW REPORTED IN THE FOLLOWING CABINETS: JUSTICE \$10,437,000, AND WORKFORCE DEVELOPMENT \$6,331,000.  
 (B) THE FIXED ASSET REPORTING LEVEL WAS CHANGED FROM \$500,000 TO \$5,000,000 FOR MACHINERY AND EQUIPMENT. THIS RESULTED IN A DECREASE IN BEGINNING ASSET BALANCE OF \$178,474,000. THESE AMOUNTS WERE IN THE ABOVE FUNCTIONS AS FOLLOWS  
 \$8,827,000, \$5,965,000, \$4,237,000, \$301,000, \$13,620,000, \$677,000, \$6,194,000, \$15,174,000, \$47,206,000, \$33,452,000, \$24,604,000, \$10,244,000, \$4,596,000, \$2,395,000, RESPECTIVELY.  
 (C) FIXED ASSETS (BUILDINGS) TOTALING \$43,170,000 WERE PREVIOUSLY OMITTED IN ERROR



## 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.

**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, 1997  
(Expressed in Thousands)

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, 1997  
(Expressed in Thousands)

	Governmental Fund Types	Proprietary Fund Types	University and College Funds	Totals
	June 30, 1997	June 30, 1997	June 30, 1997	June 30, 1997
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
CASH AND CASH EQUIVALENTS	\$ 487,871	\$ 440,879	\$ 928,750	
RESTRICTED CASH	54,091	103,277	157,368	
RECEIVABLES, NET	57,268	274,637	331,905	
DUE FROM COMPONENT UNITS	131,347	131,347	262,694	
INVESTMENT RECEIVABLE	17,800	24,218	42,018	
INVENTORIES	1,755	25,973	27,728	
PREPAID EXPENSES	1,476	260,340	261,816	
OTHER ASSETS	4	1,180,607	1,180,611	
<b>TOTAL CURRENT ASSETS</b>	<b>56</b>	<b>620,248</b>	<b>1,800,831</b>	
<b>OTHER ASSETS:</b>				
LONG-TERM INVESTMENTS	183,622	790,091	973,713	
LONG-TERM RECEIVABLES	1,443,078	606,469	2,049,547	
DEFERRED CHARGES	53,001	21,127	74,128	
RESERVED FOR	1,710,828	688,469	2,399,297	
OTHER ASSETS				
<b>TOTAL OTHER ASSETS</b>	<b>2</b>	<b>688,469</b>	<b>2,399,297</b>	
<b>FIXED ASSETS:</b>				
LAND	14,955	66,725	81,680	
IMPROVEMENTS OTHER THAN BUILDINGS	206,002	62,663	268,665	
BUILDINGS	47,869	1,835,814	1,883,683	
MACHINERY AND EQUIPMENT	(116,860)	579,188	462,328	
LESS ACCUMULATED DEPRECIATION	(116,860)	(116,860)	(233,720)	
CONSTRUCTION IN PROGRESS	161,706	146,825	308,531	
OTHER ASSETS	2	2,693,225	2,695,227	
<b>TOTAL FIXED ASSETS, NET</b>	<b>58</b>	<b>4,478,301</b>	<b>6,971,161</b>	
<b>TOTAL ASSETS</b>	<b>220</b>	<b>6,321,602</b>	<b>10,741,153</b>	
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES:</b>				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	64,653	104,095	168,748	
DEFERRED REVENUES	37	64,653	64,690	
DUE TO COMPONENT UNITS	1,413	131,347	132,760	
DUPLICATE CHECKS	5,200		5,200	
CAPITAL LEASE OBLIGATIONS	86,800		86,800	
NOTES PAYABLE	831		831	
COMPAENSATED ABSENCES	34,805	34,805	69,610	
DEFERRED REVENUE	12,162	46,967	59,129	
AMOUNT HELD IN CUSTODY FOR OTHERS	6,010	3,571	9,581	
DEPOSITS AND ADVANCE PAYMENTS	5,142	5,142	10,284	
OTHER LIABILITIES	2,575	62,047	64,622	
<b>TOTAL CURRENT LIABILITIES</b>	<b>220</b>	<b>405,570</b>	<b>563,932</b>	
LONG-TERM LIABILITIES:				
CAPITAL LEASE OBLIGATIONS	19,027	94,520	113,547	
NOTES PAYABLE	7,788	7,788	15,576	
BONDS PAYABLE	1,566,719	748,342	2,315,061	
COMPAENSATED ABSENCES	1,543		1,543	
OTHER LONG-TERM LIABILITIES	507	850,650	1,358,157	
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>230</b>	<b>1,765,928</b>	<b>3,052,378</b>	
<b>TOTAL LIABILITIES</b>				
FUND EQUITY AND OTHER CREDITS:				
RESERVED FOR:				
REVENUE BOND RETIREMENT	92,930	2,102,349	2,195,279	
UNRESERVED	286,029	345,965	631,994	
RESERVED FOR:				
ENCUMBRANCES	10,290		10,290	
CAPITAL OUTLAY	207,257		207,257	
UNRESERVED GIFTS, GRANTS, AND CONTRACTS	664,790		664,790	
UNRESERVED	237,395		237,395	
DESIGNATED FOR UNIVERSITIES AND COLLEGES	(162)		(162)	
UNDESIGNATED	726,864	3,222,081	3,948,945	
<b>TOTAL FUND EQUITY</b>	<b>58</b>	<b>4,478,301</b>	<b>6,971,161</b>	



COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (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
OPERATING REVENUES:					
CHARGES FOR SERVICES	24,839	3,017	1,100	724	1,469
RENTALS			24	10,193	2,042
AMORTIZATION OF PREMIUM ON LEASES	2,724	133	2,124	17	8,402
OTHER REVENUES	27,563	3,150	3,248	10,934	11,913
TOTAL OPERATING REVENUES	57,856	9,357	6,500	21,868	23,826
OPERATING EXPENSES:					
PERSONAL SERVICES	14,984	4,487	8,610	820	5,929
UTILITIES, RENTALS AND OTHER SERVICES	10,078	421	2,167	367	2,052
COMMODITIES AND SUPPLIES	848	373	208		710
GRANTS AND SUBSIDIES	5,246	1,209	2,247	73	32,219
DEPRECIATION AND AMORTIZATION		64	175	4,656	646
TRAVEL	92	64	175	12	122
OTHER EXPENSES	31,248	7,979	21,755	8,246	44,414
TOTAL OPERATING EXPENSES	63,498	16,667	34,030	13,187	83,836
OPERATING INCOME (LOSS)	(5,642)	(7,310)	(17,530)	8,681	(45,010)
NONOPERATING REVENUES (EXPENSES):					
INTERGOVERNMENTAL REVENUES	1,574				390
GRANTS AND DONATIONS	551	4,002			
MEMBERSHIP REVENUE	317		10		
KENTUCKY CENTER FOR THE ARTS ENDOWMENT	(18)				
CHARITABLE CONTRIBUTIONS	(18)				
INTEREST AND OTHER INVESTMENT INCOME	131		(1,378)		(893)
OTHER REVENUE (EXPENSES)	876	(181)	(1,430)		(503)
TOTAL NONOPERATING REVENUE (EXPENSES)	1,007	3,042	1,204		(503)
INCOME (LOSS) BEFORE OPERATING TRANSFERS AND EXTRAORDINARY ITEM	(4,635)	(4,268)	(16,326)	8,681	(45,513)
TRANSFERS FROM PRIMARY GOVERNMENT					
TRANSFERS FROM COMPONENT UNITS	407	2,507	15,761		30,098
TRANSFERS TO PRIMARY GOVERNMENT	(371)		(1)		(358)
TRANSFERS TO COMPONENT UNITS					
NET INCOME (LOSS)	(4,600)	(1,761)	(1,566)	8,681	(45,773)
ADD DEPRECIATION ON FIXED ASSETS	4,510	789			
ACQUIRED BY CAPITAL GRANTS	1,866	1,509	(1,543)	4,688	(745)
INCREASE (DECREASE) IN RETAINED EARNINGS	1,776	537	(529)	13,369	(46,518)
RETAINED EARNINGS AT JULY 1, AS RESTATED	43,713	3,634	(4,532)	108,500	52,067
RETAINED EARNINGS AT JUNE 30	45,581	5,143	(6,075)	113,188	51,325

	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	Totals June 30, 1997
	32,848		8,164	453	88	4,944		44,798
	2,873		72,853	15,079	249	1,064		134,372
	35,721		81,017	15,926	337	6,124		189,933
		54	7,136	1,435	31			43,486
		68	1,791					8,444
		1	3,329		13			3,544
	1,100		1,407	406		784		36,431
	18,322		52,306	12,575		62		12,426
		2	286			2,108		86,997
	9,562	211	9,114			41		31,639
	29,014	336	75,793	14,416	44	2,995		234,240
	6,702	(336)	5,224	1,510	293	3,129		(30,307)
				35,536				1,574
								40,717
								317
								720
								(18)
								222
					2			(2,271)
								(1,049)
					2			39,974
	6,707	(336)	4,910	37,046	293	3,129		1,667
		336		10,201	(2)			59,310
	(2,500)							2,300
	4,207		4,910	47,247				(710)
								(2,500)
				47,247				60,267
	4,207		4,910	47,247	291	3,129		5,299
								85,566
	4,207		4,910	47,247	291	3,129		568,368
	46,491		188,086	148,576	4,077	(23,757)		668,368
	50,698		193,396	185,873	515	(20,626)		833,934

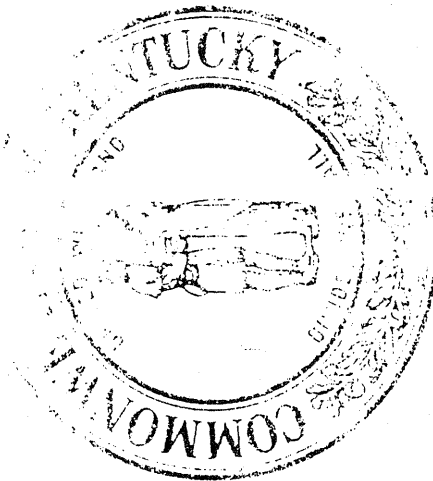
COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF CASH FLOWS  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Kentucky State Fair Board	Kentucky Center For The Arts	Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	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	Totals June 30, 1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>													
CASH RECEIVED FROM CUSTOMERS - PUBLIC	\$ 26,595	\$ 3,037	\$ 7,659	\$ 4,715									\$ 135,444
PROCEEDS FROM SALES OF INVESTMENT SECURITIES				21,089									230,758
PROGRAM LOANS ISSUED				(8,453)									(23,000)
CASH PAYMENTS TO SUPPLIERS FOR GOODS AND SERVICES	(14,101)	(3,187)	(11,804)	(8,453)									(182,853)
CASH PAYMENTS FOR EMPLOYEE SALARIES AND BENEFITS	(11,734)	(3,133)	(8,811)	(820)									(41,188)
CASH PAYMENTS (TO) FROM OTHER SOURCES				(483)									(7,438)
NET CASH PROVIDED BY OPERATING ACTIVITIES	760	(3,327)	(12,956)	16,028									(101,822)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>													
PROCEEDS FROM BOND ISSUANCE													205,947
PROCEEDS FROM SALE OF REVENUE BONDS FOR COST OF ISSUANCE													(1,398)
PRINCIPAL PAYMENT ON DEBT	990	2,997	15,761	(4,612)									(109,281)
DEBT RELATED EXPENSES		2,507											(88,065)
SUBSIDIES RECEIVED													84,485
OPERATING TRANSFERS OUT TO OTHER FUNDS													38,431
OPERATING TRANSFERS OUT TO OTHER FUNDS													(2,859)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	990	5,504	15,761	(4,612)									204,852
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>													
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(4,079)	(1,848)	(1,616)										(8,715)
PRINCIPAL PAID ON REVENUE BOND MATURITIES AND EQUIPMENT CONTRACTS	(371)		(1,239)										(2,650)
RESTRICTED INCOME - CONSTRUCTION ACCOUNT	(8,316)												(8,316)
RESTRICTED INCOME - CONSTRUCTION ACCOUNT	282												(8,220)
INTEREST PAID ON REVENUE BOND AND EQUIPMENT CONTRACTS													(1,280)
CONTRIBUTED CAPITAL	8,355												8,355
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(2,115)	(1,848)	(4,135)										(11,714)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>													
PROCEEDS FROM SALES OF INVESTMENT SECURITIES	(1,906)	(156)	(978)	(136,600)									(1,348,614)
PROCEEDS FROM SALES OF INVESTMENT SECURITIES	131	230	1,136	117,769									1,335,778
INTEREST AND DIVIDENDS ON INVESTMENTS		89		5,952									48,818
NET CASH USED IN INVESTING ACTIVITIES	(1,775)	163	158	(12,879)									(28,873)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,012	(332)	(1,172)	(1,462)									128,052
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				2,031									380,868
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,822	\$ 1,328	\$ 1,254	\$ 569									\$ 487,871
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>													
OPERATING INCOME (LOSS)	\$ (3,865)	\$ (4,829)	\$ (18,507)	\$ 4,688									\$ (38,307)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:													
PROVISION FOR UNCOLLECTIBLE ACCOUNTS													5,958
DEPRECIATION	5,246	1,209	2,247	(6,126)									14,130
INTEREST AND OTHER INVESTMENT INCOME													4,130
INTEREST EXPENSE													(239)
MISCELLANEOUS NONOPERATING INCOME (EXPENSES)													(654)
CHANGE IN ASSETS AND LIABILITIES (INCREASE) DECREASE IN ASSETS													12,578
INVESTMENTS, NET	(414)	20	(144)	12,700									(27,069)
INVENTORIES	147	(3)	63										71
PREPAID EXPENSES													(260)
OTHER ASSETS													(49)
INCREASE (DECREASE) IN LIABILITIES													173
ACCOUNTS PAYABLE													71
OTHER LIABILITIES													(49)
COMMITMENTS PAYABLE	20	268	732										3,943
DEFERRED REVENUE	(554)		193										(1,480)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (35,596)	\$ (3,327)	\$ (12,956)	\$ 16,028									\$ (101,822)

THROUGH CONTRIBUTED CAPITAL, STATE FAIR BOARD ACQUIRED FIXED ASSETS COSTING \$2,038,000

COMMONWEALTH OF KENTUCKY  
 SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY  
 BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED COMPONENT UNIT  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	Budget	Actual	Variance
<b>COMMERCE-STATE FAIR BOARD</b>			
REVENUES	\$	\$	\$
CHARGES FOR SERVICES		24,957	
FINES AND FORFEITS		1	
OTHER REVENUES		2	
TRANSFERS IN (INTERFUND)		45	
TRANSFERS IN (INTRA-FUND)		371	
TOTAL REVENUES		25,376	
EXPENSES	23,226	23,222	4
EXCESS OF REVENUES OVER (UNDER) EXPENSES		2,154	
FUND EQUITY AT JULY 1		90,938	
NON-BUDGETED ITEMS		(2,075)	
FIXED ASSET ALLOCATION		27,095	
FUND EQUITY AT JUNE 30	\$	\$	\$
		118,112	





COMMONWEALTH OF KENTUCKY  
 COMBINING BALANCE SHEET  
 COMPONENT UNITS - ALL UNIVERSITY AND COLLEGE FUNDS  
 JUNE 30, 1997  
 (Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS	\$ 301,647	\$ 66,889	\$ 42,177
CASH HELD IN TRUST		49,186	
INVESTMENTS, NET OF AMORTIZATION	352,111	112,419	20,488
RECEIVABLES, NET			
AGENCIES	400		2,704
OTHERS	151,046	69,462	9,799
INTERFUND RECEIVABLES	117,046	7,445	7,799
INVENTORIES	13,814	1,281	245
LAND	26,254	22,209	3,037
IMPROVEMENTS OTHER THAN BUILDINGS	37,324	9,786	9,786
BUILDINGS	805,711	383,463	148,638
VEHICLES AND EQUIPMENT	319,312	88,663	48,372
LIBRARY BOOKS	79,518	51,446	24,423
LIVESTOCK			938
CONSTRUCTION IN PROGRESS	82,329	2,915	1,932
OTHER ASSETS	6,949	853,886	315,719
<b>TOTAL ASSETS</b>	<b>\$ 2,303,599</b>	<b>\$ 853,886</b>	<b>\$ 315,719</b>

LIABILITIES AND FUND EQUITY

<b>LIABILITIES:</b>			
ACCOUNTS PAYABLE:			
STATE AGENCIES			105
OTHERS	304	44,633	2,722
ACCRUED LIABILITIES	48,754		1,408
INTERFUND PAYABLES	47,824	5,921	245
CAPITAL LEASE OBLIGATIONS	117,048	7,501	5,943
NOTES PAYABLE	38,548	3,500	
OTHERS	77	177,962	62,270
AMOUNTS HELD IN CUSTODY FOR OTHERS	316,478		503
DEPOSITS AND ADVANCE PAYMENTS	2,266	1,808	1,808
DEFERRED REVENUE	12,666	11,954	2,437
OTHER LIABILITIES	47,130	11,385	2,300
<b>TOTAL LIABILITIES</b>	<b>633,566</b>	<b>264,744</b>	<b>78,461</b>

FUND EQUITY

PERMANENT IN FIXED ASSETS	996,264	390,161	167,984
FUND BALANCE:			
RESERVED FOR:			
ENCUMBRANCES	1,349	4,769	1,703
CAPITAL OUTLAY	60,691	30,909	19,867
RESTRICTED GIFTS, GRANTS, AND CONTRACTS	452,738	80,768	47,589
UNRESERVED DESIGNATED FOR UNIVERSITIES AND COLLEGES	106,971	82,535	105
<b>TOTAL FUND EQUITY</b>	<b>1,670,013</b>	<b>589,142</b>	<b>237,258</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 2,303,599</b>	<b>\$ 853,886</b>	<b>\$ 315,719</b>

	Watson Kentucky University	Morehead State University	Murray State University	Northem Kentucky University	Kentucky State University	<b>Total</b> June 30, 1997
CASH AND CASH EQUIVALENTS	\$ 3,093	\$ 9,764	\$ 4,473	\$ 6,060	\$ 6,776	\$ 440,879
CASH HELD IN TRUST		10,260	20,767	19,162	16,999	49,186
INVESTMENTS, NET OF AMORTIZATION	54,263					606,469
RECEIVABLES, NET						
AGENCIES	482	343	458	522	4,737	4,909
OTHERS	482	4,882	6,439	3,910	1,559	269,728
INTERFUND RECEIVABLES	1,078	1,097	4,911	888	621	131,347
INVENTORIES	1,185	1,975	1,429	1,091	821	24,218
LAND	1,508	7,231	2,878	2,970	86	67,625
IMPROVEMENTS OTHER THAN BUILDINGS	3,885	113,550	93,370	114,139	68,353	1,856,814
BUILDINGS	18,865	26,340	25,671	21,960	15,970	579,196
VEHICLES AND EQUIPMENT	32,910	10,355	18,133	16,773	6,326	228,412
LIBRARY BOOKS	19,436					396
LIVESTOCK						
CONSTRUCTION IN PROGRESS	27,647	13,291	13,291	1,183	20,870	148,825
OTHER ASSETS	6,009	50	13,910	1,861	106	33,532
<b>TOTAL ASSETS</b>	<b>\$ 269,373</b>	<b>\$ 186,432</b>	<b>\$ 214,271</b>	<b>\$ 193,185</b>	<b>\$ 141,836</b>	<b>\$ 4,478,301</b>

ACCOUNTS PAYABLE:						
STATE AGENCIES	15			13		465
OTHERS	1,179	1,190	1,869	2,054	1,029	103,840
ACCRUED LIABILITIES	2,692	2,878	3,896	2,984	2,861	84,863
INTERFUND PAYABLES	1,097	1,097	4,911	15,092	155	131,347
CAPITAL LEASE OBLIGATIONS	7,173	15,744	4,911	15,092	865	94,520
NOTES PAYABLE		15,744	4,911	15,092		865
OTHERS		400	400	3,313		7,738
AMOUNTS HELD IN CUSTODY FOR OTHERS	57,017	31,825	25,065	53,940	21,665	748,342
DEPOSITS AND ADVANCE PAYMENTS	897	595	180	880	125	3,571
DEFERRED REVENUE	3,339	13	278	179	259	5,142
OTHER LIABILITIES	34	375	880	2,915		34,865
<b>TOTAL LIABILITIES</b>	<b>73,424</b>	<b>54,717</b>	<b>41,991</b>	<b>82,394</b>	<b>26,903</b>	<b>82,047</b>

PERMANENT IN FIXED ASSETS	130,192	110,634	133,862	87,364	83,868	2,102,349
FUND BALANCE:						
RESERVED FOR:						
ENCUMBRANCES						10,909
CAPITAL OUTLAY	1,744	7,081	454	271	22,426	207,237
RESTRICTED GIFTS, GRANTS, AND CONTRACTS	25,854	13,238	27,825	11,946	8,639	664,700
UNRESERVED DESIGNATED FOR UNIVERSITIES AND COLLEGES	22,037					237,258
<b>TOTAL FUND EQUITY</b>	<b>163,322</b>	<b>131,715</b>	<b>172,260</b>	<b>110,791</b>	<b>114,933</b>	<b>3,222,081</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 269,373</b>	<b>\$ 186,432</b>	<b>\$ 214,271</b>	<b>\$ 193,185</b>	<b>\$ 141,836</b>	<b>\$ 4,478,301</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, 1997  
 (Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northwest Kentucky University	Kentucky State University	Totals June 30, 1997
REVENUES:									
TUITION AND FEES	\$ 129,794	\$ 63,956	\$ 31,655	\$ 29,719	\$ 19,537	\$ 22,927	\$ 31,071	\$ 6,086	\$ 333,196
STATE GRANTS AND CONTRACTS	34,683	23,925	21,088	15,021	24,754	7,354	4,762	11,294	142,881
STATE COLLEGE GRANTS AND CONTRACTS	9,291	4,367	7,638	3,687	3,621	2,801	2,272	1,195	37,126
PRIVATE GIFTS, GRANTS AND CONTRACTS	96,063	10,166	771	1,517	1,057	472	864	484	108,336
ENDOWMENT INCOME	4,473			6,108	846	2,621	977	3,820	59,029
SALES AND SERVICES OF EDUCATION ACTIVITIES	43,947	449	4,081	6,108	8,553	13,177	6,079	8,249	424,249
SALES AND SERVICES OF AUXILIARY ENTERPRISES AND HOSPITALS	308,558	25,412	15,989	12,481	2,432	3,460	2,298	950	145,205
OTHER REVENUES	33,712	39,634	4,357	4,363					77,066
TOTAL CURRENT REVENUES	652,521	220,319	85,560	73,136	60,800	53,885	48,123	22,349	1,216,693
EXPENDITURES AND TRANSFERS:									
EDUCATIONAL AND GENERAL	243,959	129,046	48,022	46,221	25,379	31,900	26,562	10,229	561,926
RESEARCH	52,418	24,269	4,688	1,449	275	1,488	1,449	3,265	65,460
PUBLIC SERVICE	110,124	49,971	8,851	8,073	4,291	3,168	1,911	2,953	189,968
ACADEMIC SUPPORT	35,020	22,096	18,078	5,012	2,886	2,433	3,416	2,355	95,473
LIBRARIES	23,507	11,037	3,678	4,750	6,664	6,307	5,497	3,751	50,947
STUDENT SERVICES	26,107	9,996	7,336	11,900	6,874	7,284	9,722	4,334	75,189
INSTITUTIONAL SUPPORT	43,257	24,741	10,426	11,700	25,797	11,700	7,961	3,865	118,628
STUDENT FINANCIAL AID	39,264	18,275	11,281	12,243	8,558	8,558	5,892	3,416	152,340
OTHER EXPENDITURES	801	307,479	122,171	110,009	80,863	77,835	65,907	34,359	1,000,360
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	633,138	307,479	122,171	110,009	80,863	77,835	65,907	34,359	1,431,481
MANDATORY TRANSFERS FOR:									
PRINCIPAL AND INTEREST	29,606	13,703	4,639	4,267	3,377	3,756	4,907	2,833	67,268
LOAN FUND	88	41	6	16		1	19		171
UNEXPENDED PLANT FUND	2,054						165		2,054
RETIREMENT OF INDEBTEDNESS									
NON-MANDATORY TRANSFERS FOR:									
CURRENT FUND - UNRESTRICTED	(18,266)			(447)		(181)		(45)	(18,900)
LOAN FUND	(3,865)			90					(3,865)
ENDOWMENT AND SIMILAR FUNDS	10	506		1,790	57	231	446	224	747
UNEXPENDED PLANT FUND	37,668	16,367		1,790		2,046		1,100	57,552
RENEWAL AND REPLACEMENT				115,725	84,297	84,468	71,344	38,471	1,559,870
TOTAL EDUCATIONAL AND GENERAL	600,433	338,096	127,016	115,725	84,297	84,468	71,344	38,471	1,559,870
AUXILIARY ENTERPRISES AND HOSPITALS									
EXPENDITURES:									
MANDATORY TRANSFERS FOR:									
PRINCIPAL AND INTEREST	308,143	41,045	14,579	10,170	7,160	12,675	4,304	3,259	401,356
RENEWAL AND REPLACEMENT	4,726	1,400	1,641	2,211	2,128	584	320	81	13,030
RETIREMENT OF INDEBTEDNESS							1,117		1,117
NON-MANDATORY TRANSFERS:									
CURRENT FUND - UNRESTRICTED	6,273	488		77		77	260		6,390
AUXILIARY ENTERPRISES AND HOSPITALS - UNRESTRICTED	(6,253)								(6,253)
LOAN FUND	1,793								1,793
RENEWAL AND REPLACEMENT	315,419	42,973	16,220	12,381	9,372	13,442	6,028	3,259	410,054
TOTAL AUXILIARY ENTERPRISES AND HOSPITALS	395,832	381,029	143,216	128,106	93,669	97,930	77,372	41,730	1,958,824
TOTAL EXPENDITURES AND TRANSFERS	1,028,970	688,505	265,287	238,135	174,462	172,403	143,279	76,109	2,385,051
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):									
TRANSFERS FROM PRIMARY GOVERNMENT	349,697	148,790	57,991	54,649	33,892	41,700	31,566	19,579	737,884
TRANSFERS TO PRIMARY GOVERNMENT	(3,240)	(3)	(5)	(10)	(368)	(5)	(1)	(3,634)	(3,634)
EXCESS OF RESTRICTED RECEIPTS OVER TRANSFERS TO REVENUE	25,010	13,523	82	769	284	284	181	169	5,374
INDIRECT COST RECOVERED		3,971		(81)		(24)	(32)		(624)
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			(55)		455	(629)	2,578	136	1,025
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 28,136	\$ 6,145	\$ 337	\$ 395	\$ 1,140	\$ (629)	\$ 2,578	\$ 136	\$ 38,238

COMMONWEALTH OF KENTUCKY  
 COMBINING STATEMENT OF CHANGES IN FUND BALANCE  
 COMPONENT UNITS - ALL UNIVERSITY AND COLLEGE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 1997  
 (Expressed in Thousands)

	University of Kentucky	University of Louisville	Eastern Kentucky University	Western Kentucky University	Morhead State University	Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 1997
REVENUES AND OTHER ADDITIONS:									
EDUCATIONAL AND GENERAL REVENUES	\$ 250,148	\$ 158,919	\$ 41,399	\$ 40,230	\$ 22,815	\$ 27,725	\$ 31,086	\$ 18,466	\$ 582,768
AUXILIARY ENTERPRISES AND HOSPITALS REVENUES	338,658	28,891	15,734	12,769	8,353	13,284	8,181	3,863	443,303
INDIRECT COST RECOVERED		3,971		769		284	181		4,203
RESTRICTED GIFTS AND CONTRACTS	161,358	38,736	28,009	18,708	29,433	10,257	7,466	6	293,973
INVESTMENT INCOME	32,762	25,620	3,615	2,517		2,155	1,696		68,365
INTEREST AND DIVIDEND INCOME	4,441	8,822		1,612	251	3,005	532	640	4,441
EXPENSES FOR PLANT FACILITIES	44,905	32,182	5,579	6,049	5,248	10,180	6,154	1,475	61,013
RETIREMENT OF INDEBTEDNESS	38,110	8,131	4,820	3,859	3,767	3,142	3,759	1,461	164,977
OTHER REVENUES AND ADDITIONS	2,988	21,474	1,866	873	2,706	2,768	4,372	683	49,998
TOTAL REVENUES AND OTHER ADDITIONS	1,029,167	316,756	102,068	86,745	72,773	72,889	61,825	28,556	1,121,716
EXPENDITURES AND OTHER DEDUCTIONS:									
EDUCATIONAL AND GENERAL EXPENDITURES	633,138	307,479	121,295	110,009	80,863	77,635	65,807	34,358	1,430,584
AUXILIARY ENTERPRISES AND HOSPITALS EXPENDITURES	308,143	41,045	14,579	10,710	7,180	12,675	4,304	3,259	401,355
REFUNDS TO GRANTORS	10		55	81		24	36		206
DEPRECIATION, COLLECTION, AND LITIGATION COSTS	155		68	161	8	64	69	205	730
LOAN CANCELLATIONS	127	254		275	77	71	27		1,010
PAYMENT TO BENEFICIARIES	619		156						619
EXPENSES FOR PLANT FACILITIES	76,108	29,483	619	637	5,055	4,795	2,195	1,350	120,068
RETIREMENT OF INDEBTEDNESS	21,869	8,131	1,484	3,927	3,782	3,142	3,729	1,350	44,798
INTEREST PAYMENTS	18,867	9,183	3,729	3,310	2,892	3,142	4,278	1,480	44,798
DISPOSAL OF PLANT FACILITIES	34,865	1,962	2,815	393	23	3,937	865	73	45,053
NOTES ISSUED					733		3,710		4,443
OTHER EXPENDITURES	154,003	1,788	6,473	1,288	356	1,292	176	19	187,395
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	1,247,185	399,325	158,093	129,701	101,184	105,003	84,708	40,787	2,262,966
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS):									
NON-MANDATORY TRANSFERS FOR:									
TRANSFERS FROM PRIMARY GOVERNMENT	374,777	150,074	61,991	58,648	33,822	41,770	33,163	19,379	773,885
TRANSFERS TO PRIMARY GOVERNMENT	(3,263)	(3)	(5)	(121)	(66)	(658)	(1)		(4,419)
TOTAL TRANSFERS AMONG FUNDS	371,514	150,071	61,986	58,527	33,756	41,112	33,162	19,379	769,466
INCREASE (DECREASE) IN FUND BALANCE	154,096	67,502	5,961	15,572	5,143	8,758	10,079	5,368	272,479
FUND BALANCE AT JULY 1, AS RESTATED	1,515,917	521,640	211,297	180,377	126,572	163,522	100,712	109,565	2,949,602
FUND BALANCE AT JUNE 30	\$ 1,670,013	\$ 589,142	\$ 217,258	\$ 195,949	\$ 131,715	\$ 172,280	\$ 110,791	\$ 114,933	\$ 3,222,081

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

SOURCES	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Taxes</b>										
Sales & Gross Receipts	\$ 1,608,557	\$ 1,750,337	\$ 1,793,125	\$ 1,931,992	\$ 2,259,985	\$ 2,442,419	\$ 2,539,056	\$ 2,728,553	\$ 2,873,176	\$ 3,018,770
Individual Income	1,003,287	1,149,519	1,228,462	1,642,691	1,629,676	1,676,283	1,670,896	1,964,960	2,090,418	2,201,574
Corporation Income	255,704	310,793	279,434	319,338	271,022	254,797	269,046	340,913	268,508	291,536
Property	270,087	281,886	303,347	323,378	339,590	353,711	370,200	386,389	409,173	440,373
License & Privilege	85,430	94,096	101,174	110,046	111,315	117,471	114,052	137,578	130,778	145,178
Severance	186,667	182,966	196,945	188,924	185,020	180,704	181,340	177,826	185,019	185,744
Inheritance & Estate	48,785	53,752	67,013	68,597	77,241	71,040	76,173	79,531	82,673	93,962
Miscellaneous	51,618	104,639	111,662	118,327	116,892	125,536	120,036	117,077	104,819	109,451
<b>Total Taxes</b>	<b>3,510,135</b>	<b>3,928,188</b>	<b>4,081,222</b>	<b>4,703,293</b>	<b>4,990,547</b>	<b>5,222,041</b>	<b>5,440,011</b>	<b>5,943,927</b>	<b>6,155,565</b>	<b>6,487,188</b>
<b>Intergovernmental Revenue</b>	<b>1,613,119</b>	<b>1,624,227</b>	<b>1,814,810</b>	<b>2,158,400</b>	<b>2,520,376</b>	<b>2,687,598</b>	<b>2,657,925</b>	<b>3,307,199</b>	<b>3,394,888</b>	<b>3,625,241</b>
Charges for Services	205,426	149,195	172,827	167,144	140,798	147,817	192,659	222,209	271,165	262,366
Licenses, Fees & Permits	91,739	114,074	119,750	126,640	136,877	161,510	134,161	160,375	163,331	164,587
Fines & Forfeitures	35,164	33,792	40,530	41,106	38,229	39,972	36,563	40,720	40,485	48,536
Interest & Investments	111,309	93,473	115,831	108,962	112,519	107,210	90,931	112,124	148,908	155,878
Other Income	82,360	76,944	90,050	136,338	80,241	123,951	93,683	133,566	133,524	183,206
<b>Total Non Tax Income</b>	<b>2,199,137</b>	<b>2,091,705</b>	<b>2,350,796</b>	<b>2,738,796</b>	<b>3,032,040</b>	<b>3,267,858</b>	<b>3,207,922</b>	<b>3,976,773</b>	<b>4,158,301</b>	<b>4,449,786</b>
<b>Total Revenues</b>	<b>\$ 5,649,272</b>	<b>\$ 6,019,893</b>	<b>\$ 6,432,018</b>	<b>\$ 7,442,089</b>	<b>\$ 8,022,587</b>	<b>\$ 8,489,899</b>	<b>\$ 8,747,933</b>	<b>\$ 9,920,700</b>	<b>\$ 10,313,867</b>	<b>\$ 10,936,974</b>

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

FUNCTIONS	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>General Government</b>	<b>\$ 285,298</b>	<b>\$ 374,224</b>	<b>\$ 338,573</b>	<b>\$ 300,969</b>	<b>\$ 236,096</b>	<b>\$ 444,901</b>	<b>\$ 452,393</b>	<b>\$ 418,256</b>	<b>\$ 494,599</b>	<b>\$ 583,500</b>
Legislative & Judicial	93,075	93,813	103,564	111,920	119,345	120,008	128,975	128,421	147,563	150,804
Commerce	30,051	42,043	48,225	49,485	41,512	37,279	37,856	42,430	42,704	44,406
Education & Humanities	1,631,568	1,669,905	1,935,653	2,302,807	2,511,764	2,578,179	2,663,797	2,835,250	2,962,449	3,076,843
Energy	11,097	1,974	0	0	0	0	0	0	0	0
Human Resources	1,640,146	1,732,736	2,010,819	2,495,859	2,916,968	3,129,059	3,077,162	3,818,430	3,819,907	4,220,603
Justice	78,228	89,452	79,958	98,068	101,291	229,972	232,221	256,424	282,999	340,100
Natural Resources and Environmental Protection	54,373	59,217	64,349	98,517	56,919	83,481	105,920	110,509	96,094	103,356
Corrections	100,953	111,557	128,093	150,637	158,260	0	0	0	0	0
Public Protection and Regulation	64,414	64,445	66,341	72,138	73,888	83,322	79,816	86,411	94,124	105,763
Transportation	929,712	727,519	734,592	813,903	976,826	874,160	843,456	980,083	1,061,589	1,092,563
Capital Outlay	116,415	75,912	89,042	125,600	201,665	149,910	79,707	82,040	79,245	99,755
Debt Service	221,712	240,029	275,743	334,487	413,450	264,323	357,122	416,756	392,130	332,127
<b>Total Expenditures</b>	<b>\$ 5,351,062</b>	<b>\$ 5,282,836</b>	<b>\$ 5,876,952</b>	<b>\$ 6,945,930</b>	<b>\$ 7,806,004</b>	<b>\$ 8,014,622</b>	<b>\$ 8,058,025</b>	<b>\$ 9,177,980</b>	<b>\$ 9,473,403</b>	<b>\$ 10,139,872</b>

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

STATISTICAL SECTION

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

## DESCRIPTION OF TAX SOURCES - ALL GOVERNMENTAL FUND TYPES

JUNE 30, 1997

**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 1997, 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. HB 379 enacted by the 1996 General Assembly revised the allocations to 28% for 96-97 and 31% for 97-98.)

**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 receipts tax that was repealed in 1936. After repeal, a special 3 percent tax on motor vehicles was enacted. This tax is based on the "retail price" of the motor vehicles as defined by statute. The tax was increased to 5 percent 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 appointment 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 weight tags 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, 1995, 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 standard deduction of \$650 was adopted in 1976. The standard deduction increases to \$900 for 1997, \$1,200 for 1998, \$1,500 for 1999, and \$1,700 for tax years 2000 and later. A low income tax credit of 5% to 100% for single persons or married couples with adjusted gross income

## COMMONWEALTH OF KENTUCKY

of \$25,000 or less was enacted in 1990. A child and dependent care credit equal to 20% of the Federal credit is also allowed.

**CORPORATION INCOME TAX** - The corporate income tax was enacted to first apply to calendar year 1936 income. The rate was 4% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to 5% of the first \$25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4% of the first \$25,000 and 5.8% on the excess. Tax rates beginning on January 1, 1980, were: first \$25,000 at 4%; next \$50,000 at 5%; and next \$100,000 at 6%. The 1985 Special Session of the General Assembly passed the Kentucky Equity Tax Act (KETA) into law. KETA mandated a State depreciation system separate from the federal system. This new Kentucky system allowed corporate taxpayers to recover the entire cost of property through depreciations compared to recovery of 71% of cost using the Accelerated Cost Recovery System (ACRS) as adjusted for under prior Kentucky Law. KETA also added a new graduated rate of 7.25% of taxable income in excess of \$250,000 of taxable income effective August 1, 1985.

The 1990 General Assembly replaced the Kentucky depreciation system with the depreciation and expense deductions allowed by Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 1989, effective for property placed in service after December 31, 1989. The tax rates beginning on January 1, 1990 are: first \$25,000 at 4%; next \$25,000 at 5%; next \$50,000 at 6%; next \$150,000 at 7%; and all over \$250,000 at 8.25%.

The 1994 General Assembly amended KRS 141.0101 to make Kentucky depreciation rules consistent with federal depreciation rules for all assets, regardless of when placed in service, effective for taxable years beginning after December 31, 1993. To account for this change in depreciation rules, each taxpayer must determine the amount of any difference in Kentucky adjusted basis and federal adjusted basis (transition amount) as of the first day of the first taxable year beginning after December 31, 1993. The transition amount must be added to or subtracted from gross income in the first taxable year beginning after December 31, 1993, if the amount does not exceed \$100,000 or in equal amounts over 4 years if the amount exceeds \$100,000 or the taxpayer so elects.

The 1996 General Assembly amended KRS 141.120 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept and allows affiliated corporations to elect to file consolidated Kentucky income tax

returns, with such election being binding for 96 consecutive calendar months.

Effective for tax years beginning after December 31, 1995, net income is computed using the Internal Revenue code in effect on December 31, 1995.

**PROPERTY TAX** - Kentucky has levied a property tax since the creation of the state in 1772. Prior to 1934, the property tax was the State's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from 30 cents to 5 cents per \$100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five cents to 1.5 cents and on tangible property from 50 cents to 15 cents. House Bill 4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from 1.5 cents to 31.5 cents per \$100 of assessed value and the tax rate on tangible personal property from 15 cents to 45 cents per \$100 of assessed value. This increase in the State property tax rate was accompanied by a 30 cents per \$100 of assessed value decrease in local school tax rates. The tax rate on intangible personal property, which is not subject to local rates, remained at 25 cents per \$100. House Bill 44, enacted by the 1979 extraordinary legislative session, established a new rate setting mechanism, which limited the increase in aggregate revenues for all taxing districts in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 50.2% from 31.5 cents per \$100 in 1978 to 15.7 cents per \$100 in 1997.

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 its fair cash value at the times of their deaths. The original exemption was \$500. In 1936, 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,

COMMONWEALTH OF KENTUCKY

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 for Class A beneficiaries over a four year period and is applicable to individuals dying after June 30, 1995. Class A includes parents, children (natural, adopted and step), grandchildren, brothers, sisters, 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, 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 items or 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 rate is 1% for the period July 1, 1997, through June 30, 1998; and 0.5% for July 1, 1998, through June 30, 1999. The tax on physician services 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 1987 - 1996  
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1987	\$ 57,408,207	\$ 61,263,936	\$ 98,039,467	\$ 98,039,467	\$ 155,448,674	\$ 158,305,003	97.6%
1988	61,308,019	65,320,574	101,100,506	101,100,506	162,408,525	166,421,080	97.6%
1989	63,730,630	72,468,699	117,635,547	117,635,547	181,366,237	190,102,248	95.4%
1990	69,798,688	80,228,607	124,398,999	124,398,999	194,197,887	204,627,608	94.9%
1991	74,626,422	84,802,752	132,552,992	132,552,992	207,179,014	217,355,344	95.3%
1992	78,150,012	87,869,602	140,218,154	140,218,154	218,389,186	228,028,156	95.8%
1993	82,268,682	89,422,480	141,750,516	141,750,516	224,019,198	231,172,998	97.7%
1994	89,570,464	95,287,728	153,225,083	153,225,083	242,795,547	248,512,811	97.7%
1995	94,573,246	100,616,219	161,791,401	161,791,401	256,370,647	262,407,620	97.7%
1996	101,534,494	108,015,419	152,832,883	152,832,883	254,367,477	260,848,402	97.5%

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 1987 - 1996  
(Expressed in Thousands, Except for Percentages)

For the Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1987	\$ 284,271	\$ 239,541	84.3%	\$ 11,768	\$ 251,309	88.4%
1988	290,148	258,673	89.2%	11,239	269,912	93.0%
1989	282,001	270,216	95.8%	11,673	281,889	96.8%
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	387,350	357,996	92.4%	12,204	370,200	95.6%
1995	412,789	377,710	91.5%	17,615	395,325	95.8%
1996	424,471	391,977	92.3%	17,200	409,177	96.4%

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	Ratio to Assessed Value	Per Capita
1988	3,680	\$ 162,408,825	\$ 2,205,049	1.4%	599
1989	3,677	181,366,237	2,243,965	1.2%	610
1990	3,687	194,197,887	2,292,249	1.2%	622
1991	3,715	207,179,014	2,790,549	1.3%	751
1992	3,753	218,369,166	2,819,240	1.3%	751
1993	3,794	224,019,198	3,144,038	1.4%	829
1994	3,808	242,795,547	3,098,553	1.3%	810
1995	3,857	256,370,647	3,133,332	1.2%	812
1996	3,884	254,367,477	3,134,342	1.2%	807
1997	3,941	Projected	3,000,858	1.3%	761

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 Long-Term Debt Service	Total Expenditures	Ratio
1988	\$ 217,848	\$ 5,257,062	4.1%
1989	230,626	5,282,538	4.4%
1990	260,347	5,876,932	4.4%
1991	334,467	6,945,190	4.8%
1992	413,450	7,888,004	5.3%
1993	284,323	8,014,622	3.5%
1994	357,122	8,098,025	4.4%
1995	416,756	9,177,980	4.5%
1996	382,130	9,473,403	4.1%
1997	332,127	10,159,672	3.3%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report

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

For the Year Ended June 30	Unrestricted Current Funds Beginning Balance	Unrestricted Current Funds Revenue and Additions	Unrestricted Current Funds Expenditures and Transfers	Net Revenue Available for Debt Service Requirements	Debt Service Requirements	Coverage
1988	\$ 121,257	\$ 970,955	\$ 954,275	\$ 137,937	\$ 50,693	2.72
1989	137,898	1,047,740	1,062,968	122,650	57,345	2.14
1990	122,650	1,125,850	1,115,634	132,866	57,802	2.30
1991	132,486	1,268,409	1,262,373	138,522	64,195	2.16
1992	139,539	1,377,263	1,372,630	144,192	73,783	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	1,567,982	271,153	84,791	2.96
1997	251,153	1,763,331	1,743,647	270,837	84,962	3.19

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

COMMONWEALTH OF KENTUCKY  
DEMOGRAPHIC STATISTICS  
FOR CALENDAR YEARS 1987-1996

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
1987	3,683,330	\$ 12,469	8.8%
1988	3,680,002	13,201	7.9%
1989	3,677,316	14,215	6.2%
1990	3,686,891	15,105	5.9%
1991	3,715,011	15,765	7.5%
1992	3,752,558	16,757	6.9%
1993	3,793,968	17,304	6.2%
1994	3,825,816	17,943	5.4%
1995	3,856,877	18,860	5.4%
1996	3,883,723	19,797	5.6%

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 1987-1996  
(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	Number of Units	Value
1987	8,684	\$ 630,533	13,223	\$ 740,010	27,990,271	\$ 29,906,656
1988	8,318	662,821	13,363	786,711	29,906,656	31,711,423
1989	8,354	626,716	12,656	779,383	31,711,423	33,487,743
1990	7,823	655,650	11,810	771,010	33,487,743	34,076,826
1991	7,908	582,450	11,961	764,108	34,076,826	34,882,000
1992	8,437	677,181	14,689	1,023,682	34,882,000	35,112,000
1993	8,932	797,365	15,907	1,175,971	35,112,000	1,370,011
1994	10,924	801,728	18,554	37,352,000	1,370,011	1,276,432
1995	10,025	1,247,662	17,625	1,276,432	37,893,000	1,484,079
1996	See Note	See Note	18,778	1,484,079	39,749,000	

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

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

COMMONWEALTH OF KENTUCKY  
SOURCES OF PERSONAL INCOME  
FOR CALENDAR YEARS 1987-1996

Source	1987		1988		1989		1990		1991	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 688,023	2.1%	\$ 688,299	1.9%	\$ 1,041,550	2.8%	\$ 960,168	2.5%	\$ 982,549	2.4%
Agriculture Services										
Forestry, Fisheries and Others	210,197	0.6%	228,087	0.7%	228,599	0.6%	252,155	0.6%	282,032	0.7%
Mining	1,802,150	5.5%	1,653,967	4.8%	1,539,587	4.2%	1,872,377	4.3%	1,516,241	3.7%
Manufacturing	7,513,846	23.0%	8,028,107	23.2%	8,479,029	22.9%	8,963,022	23.0%	8,940,688	22.1%
Construction	2,003,341	6.1%	2,066,377	6.0%	2,182,157	5.8%	2,204,377	5.6%	2,164,841	5.3%
Wholesale and Retail Trade	5,110,350	15.6%	5,362,697	15.5%	5,630,723	15.2%	5,881,745	15.0%	6,142,471	15.2%
Finance, Insurance and Real Estate	1,429,844	4.4%	1,513,601	4.4%	1,634,011	4.4%	1,741,932	4.5%	1,803,691	4.5%
Transportation and Public Utilities	2,432,715	7.4%	2,527,672	7.3%	2,650,779	7.2%	2,810,563	7.2%	2,982,636	7.4%
Services	6,027,184	18.4%	6,734,587	19.4%	7,394,411	20.0%	7,937,785	20.3%	8,468,830	20.9%
Government and Government Enterprises	5,499,784	16.8%	5,854,794	16.9%	6,168,571	16.7%	6,644,978	17.0%	7,206,843	17.8%

Source	1992		1993		1994		1995		1996	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,189,147	2.6%	\$ 1,011,315	2.2%	\$ 1,008,405	2.1%	\$ 668,006	1.3%	\$ 1,085,183	2.0%
Agriculture Services										
Forestry, Fisheries and Others	296,803	0.7%	310,551	0.7%	321,403	0.7%	342,510	0.7%	365,946	0.7%
Mining	1,508,979	3.4%	1,470,087	3.2%	1,479,336	3.0%	1,387,952	2.7%	1,348,202	2.5%
Manufacturing	9,716,135	22.0%	10,346,564	22.3%	11,088,127	22.8%	11,595,248	22.8%	12,016,319	22.4%
Construction	2,428,217	5.5%	2,646,143	5.7%	2,843,673	5.8%	2,899,729	5.7%	3,106,547	5.9%
Wholesale and Retail Trade	6,388,659	14.9%	6,924,875	15.0%	7,383,557	15.2%	7,886,715	15.5%	8,250,372	15.4%
Finance, Insurance and Real Estate	2,050,433	4.6%	2,325,727	5.0%	2,319,690	4.8%	2,484,723	4.9%	2,673,166	5.0%
Transportation and Public Utilities	3,184,837	7.2%	3,333,532	7.2%	3,558,347	7.3%	3,719,748	7.3%	3,904,875	7.3%
Services	9,345,203	21.2%	9,950,752	21.5%	10,469,582	21.5%	11,272,878	22.2%	12,008,576	22.3%
Government and Government Enterprises	7,870,328	17.8%	7,990,304	17.3%	8,242,943	16.9%	8,615,843	16.9%	8,945,274	16.8%

SOURCE: U.S. Bureau of Economic Analysis, Regional Economic Information System, September, 1996.

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



COMMONWEALTH OF KENTUCKY  
SCHEDULE OF MISCELLANEOUS STATISTICS  
JUNE 30, 1997

COMMONWEALTH OF KENTUCKY  
LARGEST MANUFACTURERS  
(Ranked by Number of Employees - 800 or more)  
1997

Company	Number of Plants	Number of Employees	Company	Number of Plants	Number of Employees
General Electric Company	7	13,120	Mahlr, Incorporated	1	1,300
Ford Motor Company	2	8,200	Ashland Oil, Incorporated	3	1,209
Toyota Motor Corporation	1	6,800	General Tire Incorporated	1	1,200
Fruit of the Loom, Incorporated	3	6,150	Corning Incorporated/Dow Chemical	3	1,191
Lextrak International, Incorporated	1	5,000	Nine West Group Incorporated	4	1,184
Johnson Controls, Incorporated	11	4,260	Square D Company	1	1,175
Emerson Electric Company	10	3,846	Matsushita Electric Industries Company	3	1,165
R.R. Donnelly and Sons Company	2	2,995	Ozark	3	1,165
Philip Morris Companies, Incorporated	1	2,282	World Color Press	1	1,150
Sumitomo Electric Ind./Sumitomo Wiring	3	2,100	Garnett Company, Incorporated	1	1,133
General Motors Corporation	3	2,050	N.S. Group, Incorporated	2	1,114
Flynn Enterprises Incorporated	5	2,010	COMALCO	1	1,100
Jones Plastic and Engineering Corporation	5	1,935	Hudson Foods, Incorporated	1	1,100
Covagra, Incorporated	4	1,866	Mid South Industries, Incorporated	2	1,100
Courtauld P.L.C.	2	1,865	Continental Metal Specialty Incorporated	4	1,096
Alcan Aluminum Corporation	4	1,852	Seaboard Farms	1	1,075
Molten Metal Corporation	1	1,800	American Brands, Incorporated	4	1,023
Edison Corporation	3	1,789	Kentucky Apparel and Laundry Co Inc	6	1,016
Brown-Forman Corporation	5	1,768	Hitachi Limited	1	990
Dea Corporation	5	1,699	Oshkosh B'Gosh, Incorporated	2	985
Publishers Printing Company	2	1,695	Raytheon	1	970
AK Steel Company	1	1,600	Palm Beach Company	2	970
American Greetings Corporation	2	1,500	Phelps Dodge Corporation	2	945
Carhart Incorporated	7	1,510	Gibbs Die Casting Aluminum Corporation	1	900
Jockey International, Incorporated	4	1,505	Dalgety	1	900
Liggett and Platt, Incorporated	6	1,479	United Catalysts, Incorporated	1	900
American Standard, Incorporated	2	1,460	Willamette Industries	5	895
Duro Bag Manufacturing Company	3	1,374	Southwire Company	2	887
Reynolds Metals Company	5	1,341	Kendall Company	1	800
Louisville Bedding Company	2	1,340	Tecumseh Products Company	1	800

SOURCE: 1997 Kentucky Directory of Manufacturers, published by the Department of Economic Development

Adoption of Kentucky Constitution 1792  
Form of Government 39,650  
Land Area (Square miles) 73,172  
Miles of Highways, Roads and Streets

Police Protection 16  
Statewide Jurisdiction 946  
Number of Kentucky State Police Posts 6  
Number of Sworn Officers 640  
Number of Other Statewide Agencies  
County Jurisdictions  
Number of Sheriffs 120  
Number of Deputies 1,104  
Number of County Departments 11  
Number of County Officers 609  
Local Jurisdictions  
Number of Departments 237  
Number of Sworn Officers 3,481  
College and Universities  
Number of Departments 11  
Number of Sworn Officers 180

Higher Education:  
State Supported Universities and Community Colleges  
Number of Campuses 22  
Number of Full-Time Instructional Faculty 5,242  
Number of Students, Fall 1996 149,338  
Private Colleges and Universities  
Number of Campuses 21  
Number of Full-Time Instructional Faculty 1,293  
Number of Students, Fall 1996 24,451

State Supported Recreation:  
Number of Resort Parks 15  
Number of Recreation Parks 24  
Number of Historic Sites 10  
Area of State Parks (acres) 44,000  
Number of 1996 Overnight Visitors 1,146,300  
Permanent Full-Time Executive Branch Employees 33,832

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

COMMONWEALTH OF KENTUCKY  
 ENTITY RISK POOLS  
 CLAIMS DEVELOPMENT INFORMATION  
 FOR THE LAST SEVEN YEARS  
 (Expressed in Thousands)

	Fiscal and Policy Year Ended						
	1991	1992	1993	1994	1995	1996	1997
Earned Premiums	\$ 7,687	\$ 9,263	\$ 13,426	\$ 14,032	\$ 12,991	\$ 14,470	\$ 14,095
Earned Investment Income	7,687	9,263	13,426	14,032	12,991	14,470	14,095
Total	15,374	18,526	26,852	28,064	25,982	28,940	28,190
Administrative Expense	609	668	821	669	401	542	554
Incurred Claims as Originally Estimated	9,057	11,109	11,013	15,531	12,727	14,709	14,902
Claims Paid (Cumulative) as of:							
End of Fiscal Year	2,654	3,076	3,129	3,441	3,093	3,010	2,615
One Year Later	5,634	5,628	6,308	6,492	5,797	5,882	
Two Years Later	7,034	7,034	8,163	8,207	7,368		
Three Years Later	8,781	8,781	9,743	9,152			
Four Years Later	9,415	8,569	10,664				
Five Years Later	9,945	8,857					
Six Years Later	10,348						
Re-estimation of Incurred Claims							
End of Fiscal Year	9,057	11,109	11,013	15,531	12,727	14,709	14,902
One Year Later	15,496	10,420	12,589	15,277	12,865	14,502	
Two Years Later	13,099	10,956	13,269	16,075	13,266		
Three Years Later	13,152	10,859	13,659	15,324			
Four Years Later	13,837	11,373	14,421				
Five Years Later	14,008	11,688					
Six Years Later	14,124						
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation as of the End of the Most Recent Fiscal Year	5,067	559	3,408	(207)	538	(207)	

SOURCE: Per Completions Report

COMMONWEALTH OF KENTUCKY  
 ENTITY RISK POOLS  
 CLAIMS DEVELOPMENT INFORMATION  
 FOR THE LAST NINE YEARS  
 (Expressed in Thousands)

	Fiscal and Policy Year Ended								
	1989	1990	1991	1992	1993	1994	1995	1996	1997
Earned Premiums	\$ 57,750	\$ 92,522	\$ 111,010	\$ 136,636	\$ 155,314	\$ 133,365	\$ 139,325	\$ 114,962	\$ 107,551
Earned Investment Income	1,339	2,966	3,448	3,289	3,322	3,990	8,994	6,293	4,645
Total	59,089	95,488	114,458	139,925	158,636	137,355	146,319	121,257	112,196
Administrative Expense	3,035	4,663	5,193	5,887	5,833	5,579	3,361	4,780	
Incurred Claims as Originally Estimated	46,870	78,871	95,210	117,570	128,942	143,133	144,479	131,132	135,922
Claims Paid (Cumulative) as of:									
End of Fiscal Year	31,920	62,673	76,254	96,279	110,178	123,990	116,761	111,943	114,232
One Year Later	46,807	77,552	95,956	113,587	126,314	144,658	141,537	125,868	
Two Years Later	48,051	78,565	95,956	116,819	126,476	145,097	141,918		
Three Years Later	48,051	78,565	95,976	116,819	126,476	145,097			
Four Years Later	48,051	78,565	95,976	116,819	126,476				
Five Years Later	48,051	78,565	95,976	116,819					
Six Years Later	48,051	78,565	95,976						
Seven Years Later	48,051	78,565							
Eight Years Later	48,051	78,565							
Re-estimation of Incurred Claims									
End of Fiscal Year	46,870	78,871	94,646	117,570	128,943	143,133	144,479	131,132	135,922
One Year Later	46,870	78,915	96,132	117,739	128,066	145,044	143,371	128,159	
Two Years Later	48,051	78,565	95,976	116,819	127,486	145,062	141,918		
Three Years Later	48,051	78,565	95,976	116,819	126,476	145,097			
Four Years Later	48,051	78,565	95,796	116,819	126,476				
Five Years Later	48,051	78,565	95,796	116,819					
Six Years Later	48,051	78,565							
Seven Years Later	48,051	78,565							
Eight Years Later	48,051	78,565							
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation as of the End of the Most Recent Fiscal Year	1,181	(306)	766	(751)	(2,466)	1,964	(2,561)	(2,973)	

SOURCE: Per Completions Report

## ACKNOWLEDGMENTS

The Commonwealth of Kentucky's Comprehensive Annual Financial Report was prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Accounts, Financial Reporting Branch and the Fixed Assets Branch:

*Becky Young  
Bernard Woods  
Ricky Spaulding  
Robert Scott  
Phil Nally  
Joe Leone  
Richard Iooos  
William Hill  
Jackie Green  
Linda Eads*

Special acknowledgment goes to:

All fiscal and accounting personnel throughout Kentucky State Government, along with the Auditor of Public Accounts staff, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.

Christy Citles, Office of the Controller, who provided desktop publishing services.

Finance and Administration Cabinet, Department for Administration, Division of Printing staff who provided printing services.

Also, we wish to acknowledge Donna Smith Clements, Audit Manager, who died January 21, 1998. Mrs. Clements was a 24-year career employee with the Commonwealth of Kentucky and greatly contributed to the audit of the Commonwealth's financial statements during her distinguished service with the Auditor of Public Accounts.



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**EXHIBIT C**

**PRINCIPAL AND INTEREST REQUIREMENTS OF THE PROJECT NO. 60 BONDS**

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>GROSS SEMI-ANNUAL TOTAL</u>	<u>NET FISCAL YEAR TOTAL</u>
Oct. 1, 1998	\$680,000.00	\$950,411.46	\$1,630,411.46	
April 1, 1999		1,127,913.75	1,127,913.75	\$2,587,251.14
Oct. 1, 1999	3,760,000.00	1,127,913.75	4,887,913.75	
April 1, 2000		1,043,313.75	1,043,313.75	5,931,227.50
Oct. 1, 2000	260,000.00	1,043,313.75	1,303,313.75	
April 1, 2001		1,037,983.75	1,037,983.75	2,341,297.50
Oct. 1, 2001	275,000.00	1,037,983.75	1,312,983.75	
April 1, 2002		1,032,208.75	1,032,208.75	2,345,192.50
Oct. 1, 2002	825,000.00	1,032,208.75	1,857,208.75	
April 1, 2003		1,014,471.25	1,014,471.25	2,871,680.00
Oct. 1, 2003	820,000.00	1,014,471.25	1,834,471.25	
April 1, 2004		996,533.75	996,533.75	2,831,005.00
Oct. 1, 2004	280,000.00	996,533.75	1,276,533.75	
April 1, 2005		990,373.75	990,373.75	2,266,907.50
Oct. 1, 2005	295,000.00	990,373.75	1,285,373.75	
April 1, 2006		983,736.25	983,736.25	2,269,110.00
Oct. 1, 2006	315,000.00	983,736.25	1,298,736.25	
April 1, 2007		976,491.25	976,491.25	2,275,227.50
Oct. 1, 2007	330,000.00	976,491.25	1,306,491.25	
April 1, 2008		968,736.25	968,736.25	2,275,227.50
Oct. 1, 2008	7,720,000.00	968,736.25	8,688,736.25	
April 1, 2009		762,886.25	762,886.25	9,451,622.50
Oct. 1, 2009	8,130,000.00	762,886.25	8,892,886.25	
April 1, 2010		544,405.00	544,405.00	9,437,291.25
Oct. 1, 2010	8,570,000.00	544,405.00	9,114,405.00	
April 1, 2011		313,440.00	313,440.00	9,427,845.00
Oct. 1, 2011	9,030,000.00	313,440.00	9,343,440.00	
April 1, 2012		71,702.50	71,702.50	9,415,142.50
Oct. 1, 2012	415,000.00	71,702.50	486,702.50	
April 1, 2013		61,327.50	61,327.50	548,030.00
Oct. 1, 2013	435,000.00	61,327.50	496,327.50	
April 1, 2014		50,235.00	50,235.00	546,562.50
Oct. 1, 2014	455,000.00	50,235.00	505,235.00	
April 1, 2015		38,632.50	38,632.50	543,867.50
Oct. 1, 2015	480,000.00	38,632.50	518,632.50	
April 1, 2016		26,392.50	26,392.50	545,025.00
Oct. 1, 2016	505,000.00	26,392.50	531,392.50	
April 1, 2017		13,515.00	13,515.00	544,907.50
Oct. 1, 2017	<u>530,000.00</u>	<u>13,515.00</u>	<u>543,515.00</u>	
April 1, 2018				<u>543,515.00</u>
Total	<u>\$44,110,000.00</u>	<u>\$25,059,008.96</u>	<u>\$69,169,008.96</u>	<u>\$68,997,934.90</u>

**PRINCIPAL AND INTEREST REQUIREMENTS OF THE PROJECT NO. 61 BONDS**

<u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>GROSS SEMI-ANNUAL TOTAL</u>	<u>NET FISCAL YEAR TOTAL</u>
Oct. 1, 1998	\$320,000.00	\$67,228.13	\$375,127.06	
April 1, 1999		74,273.75	74,273.75	\$449,400.81
Oct. 1, 1999	305,000.00	74,273.75	379,273.75	
April 1, 2000		68,173.75	68,173.75	447,447.50
Oct. 1, 2000	320,000.00	68,173.75	388,173.75	
April 1, 2001		61,453.75	61,453.75	449,627.50
Oct. 1, 2001	330,000.00	61,453.75	391,453.75	
April 1, 2002		54,358.75	54,358.75	445,812.50
Oct. 1, 2002	345,000.00	54,358.75	399,358.75	
April 1, 2003		46,768.75	46,768.75	446,127.50
Oct. 1, 2003	365,000.00	46,768.75	411,768.75	
April 1, 2004		38,556.25	38,556.25	450,325.00
Oct. 1, 2004	380,000.00	38,556.25	418,556.25	
April 1, 2005		29,816.25	29,816.25	448,372.50
Oct. 1, 2005	400,000.00	29,816.25	429,816.25	
April 1, 2006		20,416.25	20,416.25	450,232.50
Oct. 1, 2006	415,000.00	20,416.25	435,416.25	
April 1, 2007		10,560.00	10,560.00	445,976.25
Oct. 1, 2007	<u>440,000.00</u>	<u>10,560.00</u>	<u>450,560.00</u>	
April 1, 2008				<u>450,560.00</u>
Total	<u>\$3,620,000.00</u>	<u>\$875,983.13</u>	<u>\$4,495,983.13</u>	<u>\$4,483,882.06</u>

## EXHIBIT D

### FORM OF BOND COUNSEL OPINION FOR PROJECT NO. 60 BONDS

[Date of Delivery]

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "Commission"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 60 (the "Bonds") in the aggregate principal amount of \$44,110,000, issued for the purpose of providing funds (i) to refund certain outstanding bonds of the Commission (the "Prior Bonds"), (ii) to refund certain outstanding notes issued by the Kentucky Asset/Liability Commission and to provide long-term financing for certain projects financed on an interim basis with such notes, (iii) to finance certain projects, and (iv) to pay costs of issuing the Bonds, all for the benefit of the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "Act"), H.B. 379 of the General Assembly of the Commonwealth of Kentucky, 1996 Regular Sessions, and H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session (collectively, the "Budget Act"), and a resolution adopted by the Commission on April 28, 1998 (the "Bond Resolution"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "Project") have been leased to the Cabinet, pursuant to the Lease dated as of May 1, 1998, by and between the Commission, as lessor, and the Cabinet, as lessee (the "Lease").

The Bonds are dated May 1, 1998, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered R and numbered from 1 upwards, mature on October 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

Maturity October 1	Principal Amount	Interest Rate	Maturity October 1	Principal Amount	Interest Rate
1998	\$ 680,000	3.700%	2008	\$1,720,000	4.750%
1999	3,760,000	4.500	2008	6,000,000	5.500
2000	260,000	4.100	2009	1,630,000	4.875
2001	275,000	4.200	2009	6,500,000	5.500
2002	825,000	4.300	2010	1,570,000	4.900
2003	820,000	4.375	2010	7,000,000	5.500
2004	280,000	4.400	2011	2,635,000	5.000
2005	295,000	4.500	2011	6,395,000	5.500
2006	315,000	4.600	2012	415,000	5.000
2007	330,000	4.700	2017	2,405,000	5.100

The Bonds are subject to optional and mandatory redemption prior to maturity as set forth therein and as set forth in the Bond Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for the issue of the Bonds under the laws of the Commonwealth of Kentucky now in force. In that connection, we have examined (i) the Act, (ii) the Budget Act, (iii) a certified copy of the Bond Resolution, (iv) an executed counterpart of the Lease, (v) the form of Bond, and (vi) such other proceedings, documents, instruments, showings and matters of law as we have deemed necessary to render this opinion.

Based on the foregoing, and in reliance thereon, it is our opinion that the Bond Resolution has been duly adopted by the Commission, and constitutes a valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. It is also our opinion that the Lease has been duly authorized, executed and delivered by the Commission and the Cabinet, and constitutes a valid and binding obligation of the Commission and the Cabinet, enforceable against the Commission and the Cabinet in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky.

It is also our opinion that, subject to compliance by the Commission and the Cabinet with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the alternative minimum tax for certain corporations and in computing the "branch profits tax" imposed on certain foreign corporations. Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

It is also our opinion, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. No opinion is expressed with respect to any other taxes imposed by the Commonwealth of Kentucky or any political subdivisions thereof. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of Deloitte & Touche LLP with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations.



## FORM OF BOND COUNSEL OPINION FOR PROJECT NO. 61 BONDS

[Date of Delivery]

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "Commission"), authorizing the issuance by the Commission of its Revenue and Revenue Refunding Bonds, Project No. 61 (the "Bonds") in the aggregate principal amount of \$3,620,000, issued for the purpose of providing funds to refund certain outstanding bonds of the Commission (the "Prior Bonds") and to pay costs of issuing the Bonds.

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "Act"), and a resolution adopted by the Commission on April 28, 1998 (the "Bond Resolution"). The project to be refinanced with the proceeds of the Bonds (the "Project") has been leased to the Finance and Administration Cabinet (the "Cabinet"), pursuant to the Lease dated as of May 1, 1998, by and between the Commission, as lessor, and the Cabinet, as lessee (the "Lease").

The Bonds are dated May 1, 1998, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered R and numbered from 1 upwards, mature on October 1 of each of the years and in the amounts, and bear interest at the rates per annum, as follows:

Maturity October 1	Principal Amount	Interest Rate	Maturity October 1	Principal Amount	Interest Rate
1998	\$320,000	4.000	2003	\$365,000	4.500
1999	305,000	4.000	2004	380,000	4.600
2000	320,000	4.200	2005	400,000	4.700
2001	330,000	4.300	2006	415,000	4.750
2002	345,000	4.400	2007	440,000	4.800

The Bonds are subject to optional and mandatory redemption prior to maturity as set forth therein and as set forth in the Bond Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for the issue of the Bonds under the laws of the Commonwealth of Kentucky now in force. In that connection, we have examined (i) the Act, (ii) the Budget Act, (iii) a certified copy of the Bond Resolution, (iv) an executed counterpart of the Lease, (v) the form of Bond, and (vi) such other proceedings, documents, instruments, showings and matters of law as we have deemed necessary to render this opinion.

Based on the foregoing, and in reliance thereon, it is our opinion that the Bond Resolution has been duly adopted by the Commission, and constitutes a valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. It is also our opinion that the Lease has been duly authorized, executed and delivered

by the Commission and the Cabinet, and constitutes a valid and binding obligation of the Commission and the Cabinet, enforceable against the Commission and the Cabinet in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond prescribed for said issue and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Cabinet pursuant to the Lease, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky.

It is also our opinion that, subject to compliance by the Commission and the Cabinet with certain covenants, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, except for interest on any Bond for any period during which such Bond is owned by a person who is a substantial user of the Project or any person considered to be related to such person (within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code")). Failure to comply with certain of such covenants could cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

It is also our opinion, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. No opinion is expressed with respect to any other taxes imposed by the Commonwealth of Kentucky or any political subdivisions thereof. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the respective knowledge of the Commission and the Cabinet relating to the application of the Bonds and the Prior Bonds and upon the report of Deloitte & Touche LLP with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations.

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