COMMONWEALTH OF KENTUCKY

Comprehensive Annual Financial Report

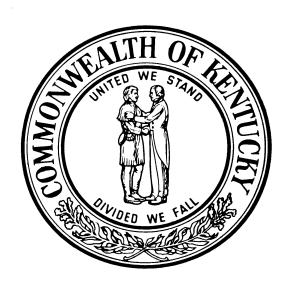
Fiscal Year Ended June 30, 2005





Commonwealth of Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

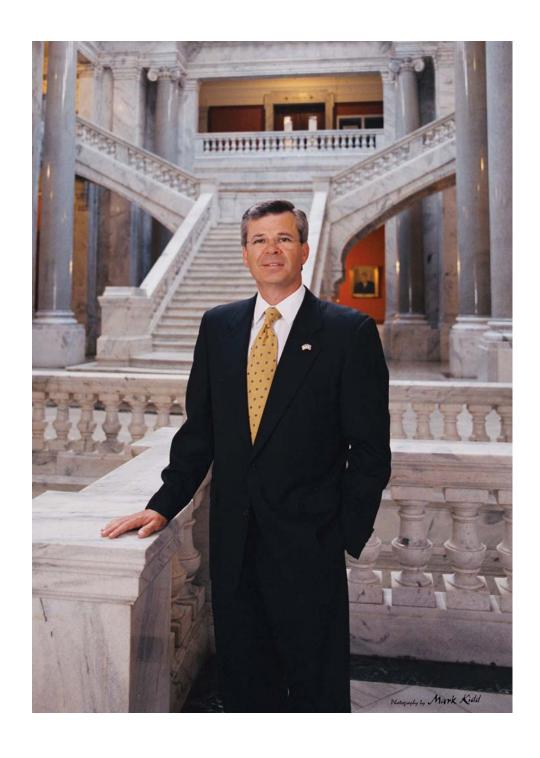
Ernie Fletcher, Governor



Prepared by: Finance and Administration Cabinet Robbie Rudolph, Secretary

Office of the Controller Edgar C. Ross, Controller

Statewide Accounting Services Stuart Weatherford, Assistant Controller



Ernie Fletcher Governor



ERNIE FLETCHER
GOVERNOR

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

December 22, 2005

My Fellow Kentuckians:

I am pleased to present the Commonwealth of Kentucky's Comprehensive Annual Financial Report for the Year Ended June 30, 2005. This report conforms to the highest standards of financial reporting and reflects our commitment to sound financial management and strengthening the financial condition of the Commonwealth.

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

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

Smcerely,

Ernie Fletcher

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INTRODUCTORY SECTION

1



ERNIE FLETCHER

GOVERNOR

OFFICE OF THE SECRETARY

Finance and Administration Cabinet 383 Capitol Annex Frankfort, Kentucky 40601 (502) 564-4240 (502) 564-6785 Fax ROBBIE RUDOLPH Secretary

December 22, 2005

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

Dear Governor Fletcher:

INTRODUCTION

Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.) requires the Finance and Administration Cabinet to submit a complete report of the financial transactions of the preceding year and of the financial condition of the Commonwealth as of the end of that fiscal year. In accordance with this statute, it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2005. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which assumes responsibility for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial position and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes the transmittal letters, the 2004 Certificate of Achievement award, organizational chart and list of principal officials. The financial section includes: the auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview and analysis to the "Basic Financial Statements"; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules. The statistical section includes such items as trend information, debt information and other selected economic and statistical data. Special attention should be given to the MD&A which is designed to accompany the letter of transmittal. The Commonwealth's MD&A is located in the Financial Section directly following the Auditors' Report.

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The independent auditor concluded that the Commonwealth of Kentucky's financial statements for the year ended June 30, 2005, are fairly presented in conformity with GAAP. The report of the independent auditor appears elsewhere in this report.

PROFILE OF THE COMMONWEALTH OF KENTUCKY

The Reporting Entity and Its Services

This report includes all funds and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's Statement 14 as amended by GASB 39. The component units which are blended into the Commonwealth's primary government and function as actual parts of the Commonwealth are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Retirement System, Judicial Form Retirement, Kentucky Tobacco Settlement Trust Corporation, and Kentucky Teachers' Retirement System.

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

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

The Commonwealth and Its Services

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

Budgetary Controls

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

ECONOMIC CONDITION AND OUTLOOK

National Economy

The U.S. economy experienced a short recession in 2001. However, unlike previous downturns which were quickly followed by robust growth in output and employment, the recovery that followed the last recession was slow in terms of employment gains. High productivity allowed output to increase, but kept job growth to a minimum. Some analysts

referred to it as the "job loss" recovery. The federal government addressed this phenomenon with aggressive tax cuts; and the Federal Reserve lowered the interest rate to encourage investment. These joint policy efforts finally paid off in sustained economic growth during FY 2005.

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 3.7 percent in FY 2005. During the next two years GDP growth is forecasted to be up by 3.4 percent in FY06 and 3.2 percent in FY07. The slight reduction of growth rate is from the impact of high energy prices.

The rapid growth in FY05 was from strong consumer demand. Consumption expenditures account for about two-thirds of real GDP. Real consumption was up 3.7 percent for the year. This was chiefly due to the demand for durable goods which was up 5.1 percent for the year. Low mortgage rates and a rise in real estate values resulted in refinancing with cash-outs that left consumers with more spending money. The lower rates also spurred a housing boom and the accompanying purchases to furnish the new houses. This phenomenon showed up in the 9.5 percent increase in furniture purchases for FY05. Increases in gasoline and food prices boosted nondurable-goods consumption by 4.4 percent in FY05. Services constitute a little over one-half of all consumption and about 35 percent of total GDP. The consumption of services increased by 3.0 percent in FY05 compared to 3.2 percent a year ago.

Real consumption (i.e. after inflation has been factored out) is expected to be up by 3.0 percent in FY06 followed by a slight increase to 3.4 percent in FY07. The slower growth in FY06 results primarily from higher interest rates and the resulting slide in automobile purchases.

Another positive feature of FY05 was the sustained strength of business investments. Overall investments were up 9.0 percent for the fiscal year. Growth in investments is expected to be 7.2 percent in FY06 and 2.3 percent in FY07. During FY05 the strongest performance was in computer equipment and software which was up 13.3 percent. This is a critical sector because much of the recent prosperity in the U.S. economy is from gains in productivity driven by investment in computer equipment.

U.S. personal income was up 6.4 percent in FY 2005 and is forecasted to increase by 6.0 percent in FY 2006 and 6.2 percent in FY 2007. The employment picture has improved substantially during FY05. U.S. nonfarm employment was up 1.6 percent compared to just 0.3 percent in FY04. Employment is expected to grow by 1.6 percent in FY06 and 1.4 percent in FY07.

Kentucky's Economy

The strength of the national economy is typically gauged by increases in output as measured by real GDP. The performance of state economies is measured by personal income and employment. In terms of these two statistics the Kentucky economy edged into expansionary territory in FY04 when personal income grew by 4.6 percent and nonfarm employment was up by 0.2 percent. (Employment had actually been falling before that.) The slow recovery was primarily from increased productivity, with the resulting need for a smaller work force, and excess manufacturing capacity abroad.

In FY05, Kentucky's personal income is estimated to have increased by 5.9 percent to \$118.7 billion. Wages and salaries comprise about half of total income. These were up by 5.6 percent during the year. Personal income is forecasted to be up by 6.0 percent in FY06 and 5.6 percent in FY07. The corresponding growth rates for wages and salaries are 4.6 and 5.1 percent.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability and its impact on consumer spending and confidence. Nonfarm employment in Kentucky increased by a 0.8 percent in FY05 resulting in the addition of 15,800 jobs. Employment is expected to firm up during the next two years with growth rates of 1.3 and 1.4 percent.

The service-providing sectors posted the largest gains during the year with an increase of 1.1 percent compared to 0.7 percent for the goods-producing sector. Government jobs account for 17 percent of total nonfarm employment. There was a decline of 0.5 percent in this sector.

Kentucky's employment composition has changed over the last decade and has converged closer to the national average. However, employment is still dominated by manufacturing and construction. The goods-producing sector accounts for 21 percent of all jobs in Kentucky compared to the national average of 16 percent. In the last few years this has been to Kentucky's disadvantage as manufacturing facilities have moved to low-cost centers abroad, and the ones that remain have seen a surge in productivity.

In FY05 manufacturing employment was flat, but showed some gains near the end of the year with an increase of 0.8 percent in the fourth quarter. Manufacturing of transportation equipment accounts for over one-fifth of all manufacturing jobs and was up 0.7 percent. The largest percentage gain in manufacturing employment was from computer and electronic products with an increase of 5.1 percent. However, this sector accounts for 8,300 jobs or just 3 percent of total manufacturing employment. Wood product manufacturing and paper manufacturing posted strong growths of 3.8 percent each. These two industries have combined employment of 24,500. Employment in fabricated metal products also grew strongly by 1.9 percent. This industry provides for 8 percent of manufacturing jobs. The largest decline in terms of both levels and percentage was in the apparel industry. In FY05 apparel employment contracted by 13.5 percent with a loss of 1,200 jobs.

Business services had an employment increase of 2.7 percent for the year. The fastest-growing component was administrative and support with 60 percent of the jobs and a 6.7 percent increase in employment. Employment services account for 26 percent of total business services and grew by 5.1 percent. One third of the jobs are in professional, scientific, and technical services. These grew by just 0.2 percent in FY05.

Leisure and hospitality services comprise 10 percent of Kentucky's employment. During FY05 employment in this sector was up 2.7 percent. Employment growth was strongest in the arts and entertainment portion of this sector (up 3.5 percent). However, those account for a little over 10 percent of this sector. Close to 90 percent of the jobs are in the accommodation and food service industries which grew by 2.5 percent.

Employment outlook for the next two years is strong with most of the gains in business services (up 2.2 percent in FY06 and 3.1 percent in FY07); educational and health services (up 1.7 percent in FY06 and 1.6 percent in FY07); and leisure and hospitality (up 2.3 percent and 1.8 percent). High energy costs have spurred coal mining. In terms of percentage growth this sector forecasted to increase rapidly with employment increases of 3.8 percent in FY06 and 5.4 percent in FY07.

Long-Term Financial Planning

Kentucky has by statute (KRS 48.705) a set goal of maintaining a Budget Reserve Trust Fund (BRTF) balance of 5 percent of general fund revenues. As of June 30, 2005, the BRTF was approximately \$300 million short of this goal. It is the policy of the current administration to earmark a portion of any year-end surplus to replenish the BRTF in order to achieve the desired balance. To that end, and as authorized by House Bill 267, we are increasing the BRTF by \$90,250,000 for a total of \$119,015,000 beginning with FY 2006.

Major Initiatives

In March, 2005, the General Assembly enacted the Commonwealth's 2004-2006 biennial budget for the Executive Branch when meeting in Regular Session. Prior to that time, the Executive Branch of government had operated under quarterly Public Services Continuation Plans promulgated at the beginning of each fiscal quarter. This was the second consecutive biennium that the General Assembly did not pass an Executive Branch budget on time.

The quarterly Public Services Continuation Plans represented a continuation of current levels of activity exclusive for the operating budget. The Franklin County Circuit Court ruled that no capital projects could move forward without an enacted budget. The Circuit Court also ruled that the spending plan could not include spending on new programs or an amount for existing programs greater than the General Assembly approved in its last budget. Outside of these requirements, the Circuit Court did not issue an injunction barring the Executive Branch from implementing the quarterly Public Services Continuation Plans, and ruled that the spending plans expire at the end of the fiscal year absent legislative action.

In October, 2004, Governor Fletcher called the General Assembly into Special Session to address funding for the public health insurance program which covers state employees, local school district employees, and public retirees. The General Assembly appropriated funds for this purpose as well as funds for the state school system.

In March, 2005, the 2005 Session of the General Assembly enacted the remainder of the Executive Branch budget. Within the budget bill, the General Assembly ratified all of the actions the Executive Branch took pursuant to the Public Services Continuation Plans.

One of the more notable initiatives in the budget was the unprecedented size of the capital programs financed mainly through the issuance of debt. Education spending held the highest priority in the budget; it was increased by 12 percent, and the Postsecondary Education budget was increased by 9 percent. The capital budget for the Executive Branch included \$1,456,315,300 in bond funded capital projects (exclusive of road and bridge construction) including \$1,204,589,300 supported from General Fund debt service with the remainder (\$251,726,000) to be financed with agency/restricted fund debt service. The largest proportion of new project activity, including bond-financed activity, was directed to Postsecondary Education. These efforts reflect support for the top capital construction priorities at each of the eight public universities and the Kentucky Community and Technical College System (KCTCS). The second largest commitment of support is for local school construction which was previously authorized and encouraged, but not fully funded. The School Facilities Construction Commission (SFCC), which aids local school districts in new construction and renovation projects, received \$166 million in new bonds from the 2005 General Assembly to support offers of assistance to local school districts.

The General Assembly also enacted Tax Modernization legislation, the JOBS for Kentucky program. The tax bill was revenue neutral over a five-year period. The legislation included a major restructuring of corporate and business taxes; repealing the corporate license tax, broadening the base of entities paying the corporate income tax, and lowering the corporation income tax rate. The personal income tax rate was reduced, a low-income tax credit was established, the intangible property tax was repealed, the cigarette tax was raised, wholesale alcohol taxes were increased, communications taxes were restructured, and a number of tax credits were established.

In May, 2005, the Kentucky Supreme Court ruled on the budget lawsuit. The Court ruled that absent legislative appropriations the Executive Branch may only expend funds in certain instances, among which were: constitutional mandates, authorized bonded indebtedness, statutorily based appropriations, and federal mandates.

The Commonwealth ended FY 2005 with a surplus in the General Fund of \$622 million, including the Budget Reserve Trust Fund and \$37 million in the Transportation Fund. The General Fund surplus was due to higher revenue receipts than anticipated combined with the lapse of unexpended funds. The Transportation Fund surplus was mostly the result of the lapse of unexpended funds. Governor Fletcher devoted \$90 million of the General Fund surplus, the maximum allowed by the budget bill, to the Commonwealth's Budget Reserve Trust Fund, or Rainy Day fund.

FINANCIAL INFORMATION

The Accounting System

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

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

Debt Administration

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2005 are:

Ratio to Total

Debt Service (thousands)

General Governmental Expenditures

Debt Per Capita

General Bonded Debt \$464,089

2.9%

\$776

No general obligation bonds were authorized or outstanding at June 30, 2005.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2005 is presented in Note 15.

OTHER INFORMATION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2004. This is the eighteenth consecutive year the Commonwealth has received this prestigious award.

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

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

Acknowledgments

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

Respectfully submitted,

R.B. Rudolph, Jr., Secretary

Bhudofph, Jr.

Finance and Administration Cabinet



Governor
ROBBIE RUDOLPH
Secretary

Finance and Administration Cabinet

Office of the Controller

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

December 22, 2005

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

Dear Secretary Rudolph:

Pursuant to Section 48.800 (3) of the <u>Kentucky Revised Statutes</u>, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2005, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB).

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

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

Respectfully submitted,

Edgar C. Ross, Controller

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, 2004

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.



Carla E ferge
President

Executive Director

COMMONWEALTH OF KENTUCKY **ELECTORATE OF KENTUCKY** "United We Stand, Divided We Fall" **LEGISLATIVE EXECUTIVE BRANCH** JUDICIAL BRANCH **BRANCH** Attorney General Lieutenant Governor Stephen B. Pence Greg Stumbo **GOVERNOR** Ernie Fletcher Auditor of Public Secretary of State Accounts Crit Luallen Trey Grayson Commissioner of Agriculture Richie Farmer Jonathan Miller Transportation Health and Family Services Justice and Public Safety Finance and Administration Acting Secretary Bill Nighbert James Holsinger, Jr. MD. Robbie Rudolph Stephen B. Pence Environmental and Public Economic Development Protection Marvin E. Strong Virginia G. Fox W. James Host LaJuana S. Wilcher The Adjutant General Erwin Roberts MG. Donald C. Storm

FINANCIAL SECTION



CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Certain portions of the Governmental Funds including:

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

Certain portions of the Proprietary Funds including:

- Kentucky Lottery Corporation
- Within the Insurance Administration Fund:
 - o Kentucky Coal Workers' Pneumoconiosis Fund
 - o Kentucky Workers' Compensation Fund
 - o Petroleum Storage Tank Environmental Assurance Fund

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

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

Certain Fiduciary Funds including:

· Pension Trust Funds

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To the People of Kentucky
The Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
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Component Units:

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

Component Units - Colleges and Universities and related entities:

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

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

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government - Governmental Activities	2.23%	0.42%
Primary Government - Business-Type Activities	50.52%	67.18%
Component Units	98.94%	96.95%
Fund Financial Statements:		
Governmental Funds - Non-Major Funds	41.33%	6.42%
Proprietary Funds - Business-Type Activities - Enterprise Funds	50.36%	65.48%
Proprietary Funds - Governmental Activities - Internal Service Funds	4.48%	16.91%
Fiduciary Funds - Pension Trust Funds	100.00%	100.00%
Component Units	98.94%	96.95%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The audit report for Kentucky State University has not been released as of the date of this report and therefore those financial statements have not been audited. Kentucky State University's financial activities have been included in the basic financial statements as a discretely presented component unit and represent .80 percent of assets, 1.20 percent of net assets and .99 percent of revenues, of the Commonwealth's aggregate discretely presented component units.

The Management's Discussion and Analysis on pages 16 through 23, budgetary comparison schedules and corresponding notes on pages 108 through 127, and information about infrastructure assets reported using the modified approach on pages 128 and 129, and claims development information for entity risk pools on page 130, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky's basic financial statements. The combining fund statements and individual schedules - non-major funds, presented in this report on pages 134 through 177 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 1 through 10 and 180 through 190 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we will also issue our report on our consideration of the Commonwealth of Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should considered in assessing the results of our audit.

Respectfully submitted,

Crit Luallen

Auditor of Public Accounts

December 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2005. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

The assets of the Commonwealth's governmental activities exceeded its liabilities at fiscal year ending June 30, 2005 by \$17.4 billion, an increase of \$850 million related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$8 million, an increase in net assets of \$77 million related to current year activity. Total net assets increased by \$927 million to \$17.4 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2005 by \$5.30 billion, an increase of \$364 million related to current year activity.

Fund Highlights:

As of the close of the fiscal year 2005, the Commonwealth's governmental funds reported combined ending fund balances of \$2.62 billion, an increase of \$682 million in comparison with the prior year. Of this total amount, \$741 million was reserved and the balance of approximately \$1.88 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$593 million at June 30, 2005.

Enterprise funds reported net assets of \$(8) million, of which \$625 million was restricted or invested in capital assets, and the balance of \$(633) million was unrestricted.

Long-Term Debt:

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$198 million to \$3.61 billion during the current fiscal year. This increase is due to the issuance of new debt by the Commonwealth's Primary Government during fiscal year 2005. Additional details of these activities can be found in Note 15 beginning on Page 93.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

These three types of activities are:

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

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

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

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

Fund Financial Statements

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

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

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

	Government-Wide Financial Statements								
		Governmental	Proprietary	Fiduciary					
Scope	Entire government (except	The activities of the	Activities of the	Instances where the					
	fiduciary funds) and the	Commonwealth that are not	Commonwealth that are	Commonwealth is the					
	Commonwealth's	proprietary or fiduciary.	similar to private	trustee for someone else's					
	component units.		businesses.	resources.					
Required Financial	Statement of Net Assets	Balance Sheet	Statement of Net Assets	Statements of Fiduciary Net					
Statements				Assets					
	Statement of Activities	Statement of Revenues,	Statement of Revenues,	Statement of Changes in					
		Expenditures and Changes in	Expenses, and Changes in	Fiduciary Net Assets					
		Fund Balances	Net Assets						
			Statement of Cash Flows						
A a a a un din a Da air an d	A1	Madified assemble assembles		A 1					
Accounting Basis and Measurement Focus	Accrual accounting and economic resources	Modified accrual accounting and current financial	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus					
Measurement Focus			economic resources focus	economic resources focus					
T	measurement All assets and liabilities,	resources focus	All assets and liabilities,	All assets and liabilities,					
Type of Asset/Liability Information	,	Only assets expected to be		1					
Information	both financial and capital,	used up and liabilities that	both financial, and capital,	both short-term and long-					
	and short-term and long-	come due during the year or	and short-term and long-	term					
	term	soon thereafter, no capital assets included	term						
Type of Inflore	All marranges and armanass		All marranges and armanas	A 11 may amy ag and ay mangag					
Type of Inflow –	_	Revenues for which cash is	All revenues and expenses	All revenues and expenses					
Outflow Information	of when cash is received	received during or soon after		during the year, regardless of when cash is received or					
		the end of the year and							
	or paid	expenditures when goods or	paid	paid					
		services have been received							
		and payment is due during the							
ĺ		year or soon thereafter.							

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$17.4 billion at the end of 2005, as compared to \$16.6 billion at the end of the previous year.

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

The second largest portion of the Commonwealth's net assets, totaling \$1.46 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$1.45 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2004 and June 30, 2005, derived from the government-wide Statement of Net Assets.

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

		Governmen	mental Activities			Business-Ty	ctivities	Total				
	_	2005		2004		2005		2004		2005		2004
Current Assets	\$	4,063,002	\$	3,526,169	\$	571,300	\$	600,698	\$	4,634,302	\$	4,126,867
Capital Assets		18,739,343		18,424,452		247,726		257,858		18,987,069		18,682,310
Other Assets		1,363,178		1,237,855		579,593		509,248		1,942,771		1,747,103
Total Assets		24,165,523		23,188,476		1,398,619		1,367,804		25,564,142		24,556,280
Non Current Liabilities		4,385,486		4,271,975		1,330,894		1,374,578		5,716,380		5,646,553
Other Liabilities		2,330,199		2,245,937		75,555		75,137		2,405,754		2,321,074
Total Liabilities		6,715,685		6,517,912		1,406,449		1,449,715		8,122,134		7,967,627
Invested in Capital Assets												
Net of Related Debt		17,188,142		17,156,329		249,728		257,794		17,437,870		17,414,123
Restricted		1,081,388		994,827		375,488		382,173		1,456,876		1,377,000
Unrestricted		(819,692)		(1,480,592)		(633,046)		(721,878)		(1,452,738)		(2,202,470)
Total Net Assets	\$	17,449,838	\$	16,670,564	\$	(7,830)	\$	(81,911)	\$	17,442,008	\$	16,588,653

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during fiscal year 2005. The Commonwealth received program revenues of \$7.8 billion and general revenues (including transfers) of \$9.3 billion for total revenues of \$17.0 billion during fiscal year 2005. Expenses for the Commonwealth during fiscal year 2005 were \$16.1 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$927 million, net of contributions, transfers and special items.

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

	Gov	2005 vernmental	G	2004 overnmental	Bus	2005 siness-Type	Bu	2004 siness-Type		2005		2004
<u>-</u>		Activities		Activities		Activities		Activities		Total		Total
Revenues:												
Program Revenues:												
•	\$	1,025,399	\$	849,146	\$	1,268,185	\$	1,243,204	\$	2,293,584	\$	2,092,350
Operating Grants and												
Contributions		4,915,115		4,528,038		49,509		130,212		4,964,624		4,658,250
Capital Grants and												
Contributions		520,194		524,936		33		586		520,227		525,522
General Revenues:						_						
Income Taxes		3,536,798		3,102,016		0				3,536,798		3,102,016
Sales Taxes		4,031,452		3,780,204		0				4,031,452		3,780,204
Property Taxes		479,815		462,062		0				479,815		462,062
Other Taxes		627,285		555,625		0				627,285		555,625
Investment Earnings		31,858		24,368		36,782		21,259		68,640		45,627
Other		458,572		537,093		47,881		66,784		506,453		603,877
Total Revenues		15,626,488	_	14,363,488		1,402,390		1,462,045	_	17,028,878	_	15,825,533
Expenses:												
Governmental Activities:												
General Government		2,234,111		2,322,043						2,234,111		2,322,043
Legislative and Judicial		282,389		268,001						282,389		268,001
Commerce		81,639		128,548						81,639		128,548
Education and Humanities		4,092,896		3,824,742						4,092,896		3,824,742
Human Resources		5,897,619		5,630,683						5,897,619		5,630,683
Justice		702,796		564,202						702,796		564,202
Natural Resources and		. 02,. 00		00.,202						. 02,. 00		001,202
Environmental Protection		164,498		150,380						164,498		150,380
Public Protection and				.00,000						,		.00,000
Regulation		68.956		111,928						68.956		111,928
Transportation		1,191,512		1,020,786						1,191,512		1,020,786
Interest Expense		201,564		200,315						201,564		200,315
Business-type Activities:		201,001		200,0.0						201,001		200,0.0
State Parks						92,193		92.287		92,193		92,287
Kentucky Lottery Corporation						552,410		554,880		552,410		554,880
Kentucky Horse Park						9,387		11,732		9,387		11,732
Insurance Administration						101,312		77,241		101,312		77,241
Unemployment Compensation						429,007		556,870		429,007		556,870
Total Expenses		14,917,980	_	14,221,628	_	1,184,309	_	1,293,010	_	16,102,289	_	15,514,638
Total Expenses	_	14,917,900	_	14,221,020	_	1,104,309		1,293,010	_	10,102,209		13,314,030
Increase (Decrease) in Net												
Assets Before Transfers		708,508		141,860		218,081		169,035		926,589		310,895
Transfers		141,338		201,712		(141,338)		(201,712)				
Change in Net Assets		849,846	_	343,572		76,743		(32,677)	_	926,589	_	310,895
Net Assets, Beginning of Year		16,599,992		16,326,992		(84,573)		(49,234)		16,515,419		16,277,758
Net Assets, End of Year	\$	17,449,838	\$	16,670,564	\$	(7,830)	\$	(81,911)	\$	17,442,008	\$	16,588,653
· · · · · · · · · · · · · · · · · · ·			<u> </u>		_	,	_		<u> </u>		_	

Governmental Activities:

As a result of the improving economy during the fiscal year, the net assets of governmental activities increased by \$850 million or 5.10 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 35 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

Table 4

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 2,234,111	\$ 621,685	\$ 1,612,426
Legislative and Judicial	282,389	13,374	269,015
Commerce	81,639	47,840	33,799
Education and Humanities	4,092,896	921,636	3,171,260
Human Resources	5,897,619	3,933,688	1,963,931
Justice	702,796	68,387	634,409
Natural Resources and Environmental			
Protection	164,498	85,368	79,130
Public Protection and Regulation	68,956	63,372	5,584
Transportation	1,191,512	705,358	486,154
Totals	\$ 14,716,416	\$ 6,460,708	\$ 8,255,708

Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities increased the Commonwealth's net assets by \$77 million. Program revenues generated by the operations State Parks, Kentucky Horse Park, and Unemployment Insurance were insufficient to cover program expenses. General revenues were not needed to support expenses.

Table 5

State Programs	Prog	ram Expenses	Progi	ram Revenues	ogram Expenses (Revenue)
State Parks	\$	92,193	\$	51,160	\$ 41,033
Kentucky Lottery Corporation		552,410		707,260	(154,850)
Kentucky Horse Park		9,387		5,824	3,563
Insurance Administration		101,312		133,380	(32,068)
Unemployment Insurance		429,007		420,103	8,904
Totals	\$	1,184,309	\$	1,317,727	\$ (133,418)

Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2005 include the following:

- The assets of the State's governmental activities continue to exceed liabilities (net assets) at the close of the fiscal year by \$17.4 billion and the condition of the State's business-type activities improved so that liabilities exceed their assets by only \$(8) million.
- The State's total net assets increased during the year by \$927 million. Net assets of governmental activities increased by \$850 million, while net assets of business-type activities increased by \$77 million.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.62 billion, an increase of \$682 million in comparison with the prior year. The unreserved portion of fund balance (\$1.88 billion), which is the portion of fund balance available for spending in the coming year, has increased to 72% of the total fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending.

General Fund

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, total fund balance reached \$670 million, with an unreserved balance of \$593 million. This compares to a General Fund unreserved Fund Balance of \$304 million as of June 30, 2004. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance, of the Commonwealth's general fund, increased by \$284 million during the current fiscal year. This is a 72.8 percent increase in net assets from the prior year. The contributing factors to this increase were continuing spending reduction efforts, an improving economy and tax reform. The following governmental funds experienced significant changes during the year:

Transportation Fund

Fund balance at June 30, 2005 totaled \$317 million, an increase of \$83 million during the fiscal year. The increase primarily relates to completion of an accelerated program which funded the construction of road projects with current available resources.

Capital Projects Fund

Fund balance at June 30, 2005 totaled \$219 million, a decrease of \$89 million during the fiscal year. The decrease is due primarily to the financing of projects with currents resources prior to the issuance of new debt for capital projects.

Agency Revenue Fund

The increase in assets is the result of the issuance of approximately \$140 million in notes to be used to fund highway projects. The notes will be repaid from the Commonwealth's share of Federal Highway Trust receipts. The revenues will be accounted for in this fund as they are for specific purposes.

Proprietary Funds - The Commonwealth's proprietary funds reported net assets of \$118 million, which included \$(8) million in the enterprise funds and \$126 million in the internal service funds. This is a total increase in net assets of \$65 million from the previous year.

Two proprietary funds that experienced significant changes during the year were the Insurance Administration Fund and Unemployment Compensation. The Insurance Administration Fund's net assets at June 30, 2005 totaled (\$644) million, an increase of \$104 million during the fiscal year. The increase primarily relates to a reduction in the amount of claims liability reported in the special fund of the Division of Workers' Compensation. Unemployment Compensation's net assets at June 30, 2005 totaled \$349 million, a decrease of \$19 million for the year. This is due in large part to an increase in the payments of claims throughout the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues exceeded the original budgetary estimates by approximately \$199 million. As a result, appropriations and allotments were not adjusted from the original budgetary estimates. Actual expenditures for the year were approximately \$138 million less than the budgeted amount. These factors increased Commonwealth's General fund balance, which enabled the budget stabilization "rainy day fund" to be increased in the new fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$19.8 billion, with accumulated depreciation of \$859 million, leaving a net book value of \$19.0 billion. This investment in capital assets includes land, improvements, buildings, equipment, construction in

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

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 1.6 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$2.3 billion for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$80.5 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the "Notes to the Financial Statements" of this report.

Infrastructure Assets – The Commonwealth has elected to utilize the "Modified Approach" option as it relates to guidelines set forth in the GASB (Government Accounting Standards Board), Statement Number 34. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 62,193 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

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

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

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

The Commonwealth of Kentucky's bonded debt increased by \$11 million to \$3,236,766, a .35% increase during the current fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2005. The key factor in this increase was the issuance of new debt during fiscal year 2005.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Kentucky is currently 5.7 percent, which is slightly higher than a year ago. This compares to the nation's average unemployment rate of 5.0 percent.

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

A comprehensive budgetary dissertation is located in the "Letter of Transmittal – Major Initiatives" section of this report.

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

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

			Prima	ry Government				
		vernmental		siness-Type				Component
A	Activities			Activities		Total	Units	
Assets Cash and cash equivalents (Note 5)	\$	1,534,607	\$	98,577	\$	1,633,184	\$	1,131,15
Cash with fiscal agents (Note 5)	Ψ	36,821	Ψ	30,377	Ψ	36,821	Ψ	1,101,10
Restricted cash (Note 5)		,		177		177		
Investments, net of amortization (Note 5)		1,363,178		579,593		1,942,771		1,915,670
Invested security collateral		631,431		0,000		631,431		1,010,010
Receivables, net (Note 4)		1,622,749		170,194		1,792,943		3,307,97
Notes receivable		25,358		,		25,358		0,001,011
Capital lease receivable (Note 4)		120,780				120,780		
Internal balances		3,902		(3,902)		.20,.00		
Inventories		45,226		3,324		48,550		25,33
Prepaid expenses		9,550		592		10,142		7,97
Deferred charges		30,692		002		30,692		52,86
Restricted assets:		00,002				00,002		02,00
Temporarily restricted:								
Cash and cash equivalents (Note 5)				293,770		293,770		229,928
Investments (Note 5)				917		917		564,934
Capital assets (Note 6):				317		917		304,33
Land		112,530		19,627		132,157		172,220
				90,491		101,564		119,00
Improvements other than buildings		11,073		,		1,211,343		,
Buildings Machinery and aguinment		1,006,752		204,591 52,919		, ,		3,670,85° 1,256,888
Machinery and equipment		518,031		52,919		570,950		,,
Other capital assets Easements and other intangibles		47 E40		2,322		40.070		1,045
ĕ		47,548		2,322		49,870		
Less: Accumulated depreciation and amortization		(604.404)		(464.220)		(050 704)		(2.426.62
		(694,491)		(164,230)		(858,721)		(2,426,633
Construction in progress		1,787,832		42,006		1,829,838		282,397
Infrastructure		15,950,068		0.47.700		15,950,068		0.075.70
Total Capital Assets		18,739,343		247,726		18,987,069		3,075,780
Other assets		1,886		7,651		9,537		181,699
Total Assets		24,165,523		1,398,619		25,564,142		10,493,298
Liabilities								
Accounts payable (Note 4)		1,425,693		36,037		1,461,730		284,327
Tax refunds payable		252,451				252,451		
Unearned revenue		20,555		39,342		59,897		136,898
Other liabilities		69		176		245		76,438
Liabilities from restricted assets								18,449
Obligations under securities lending		631,431				631,431		
Noncurrent liabilities:								
Due within one year (Note 15)		404,534		175,540		580,074		290,917
Due in more than one year (Note 15)		3,980,952		1,155,354		5,136,306		4,384,132
Total Liabilities		6,715,685		1,406,449		8,122,134		5,191,161
Net Assets								
Invested in capital assets,								
net of related debt		17,188,142		249,728		17,437,870		2,302,81
Restricted for:				,		. ,		, ,
Debt service		314,554				314,554		262,43
Capital projects		218,793		394		219,187		67,168
Highways		548,041				548,041		,.0
Unemployment benefits		0,0		348,767		348,767		
Other purposes (Note 1)				26,327		26,327		2,037,68
Unrestricted		(819,692)		(633,046)		(1,452,738)		632,039
Total Net Assets	\$	17,449,838	\$	(7,830)	\$	17,442,008	\$	5,302,137

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

COMMONWEALTH OF KENTUCKY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

(Expressed in Thousands)

					Prog	ram Revenues		
Functions/Programs		Expenses	Charges for Services		C	Operating Grants and ontributions	Capital Grants and Contributions	
Primary Government:								
Governmental Activities:								
General government	\$	2,234,111	\$	355,890	\$	220,930	\$	44,865
Legislative and judicial	·	282.389	•	11,314	·	2,060	·	,
Commerce		81,639		35,002		12,796		42
Education and humanities		4,092,896		106,059		815,577		
Human resources		5,897,619		181,921		3,749,108		2,659
Justice		702,796		22,790		42,728		2,869
Natural resources and		,		,		,		,
environmental protection		164,498		31,094		54,274		
Public protection and regulation		68,956		53,629		9,743		
Transportation		1,191,512		227,700		7,899		469,759
Interest expense		201,564		221,100		1,000		100,700
Total Governmental Activities		14,917,980		1,025,399	-	4,915,115		520,194
Total Governmental Activities		14,517,500		1,020,000		4,515,115		320,134
Business-Type Activities:								
State Parks		92,193		50,655		505		
Lottery Corporation		552,410		707,260				
Kentucky Horse Park		9,387		5,791				33
Insurance Administration		101,312		133,380				
Unemployment Compensation		429,007		371,099		49,004		
Total Business-Type Activities		1,184,309		1,268,185		49,509		33
Total Primary Government	\$	16,102,289	\$	2,293,584	\$	4,964,624	\$	520,227
Component Units:								
Authorities:	_		_		_		_	
Kentucky Housing Corporation	\$	228,216	\$	100,529	\$	138,964	\$	
Kentucky Higher Education Assistance								
Authority		292,651		143,264		155,785		
Kentucky School Facilities Construction								
Commission		39,653		35,191				
Universities, Colleges, & Related Entities:								
University of Kentucky		1,468,205		861,047		325,931		18,915
University of Louisville		631,210		286,758		192,080		9,887
Kentucky Community and								
Technical College System		414,795		71,854		155,947		
Other component units		1,243,104		421,261		350,779		22,394
Total Component Units	\$	4,317,834	\$	1,919,904	\$	1,319,486	\$	51,196

General Revenues (Note 1):

Sales and gross receipt tax

Individual income tax

Corporate income tax

Property tax

License and privilege tax

Severance tax

Inheritance and estate tax

Miscellaneous taxes

Unrestricted grants and contributions

Unrestricted investment earnings

Gain on sale of capital assets

Miscellaneous general

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at July 1, as Restated (Note 2)

Net Assets at June 30

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

		Net (Ex Primary Govern		ue and Changes	s in Net Assets		
	Governmental	,				_	Component
,	Activities	Business-Ty Activities			Totals	•	Units
	Activities	Activities			Totals		Offics
\$	(1,612,426)	\$		\$	(1,612,426)		
Ψ	(269,015)	Ψ		Ψ	(269,015)		
	(33,799)				(33,799)		
	(3,171,260)				(3,171,260)		
	(1,963,931)				(1,963,931)		
	(634,409)				(634,409)		
	(79,130)				(79,130)		
	(5,584)				(5,584)		
	(486,154)				(486,154)		
	(201,564)				(201,564)		
	(8,457,272)				(8,457,272)		
			(41,033)		(41,033)		
			154,850		154,850		
			(3,563)		(3,563)		
			32,068		32,068		
-			(8,904) 133,418	-	(8,904)		
-	(8,457,272)		133,418	-	133,418 (8,323,854)		
	(0,401,212)		100,410	-	(0,020,004)		
						\$	11,277
							6,398
							(4,462)
							(262,312)
							(142,485)
							(186,994)
							(448,670) (1,027,248)
		-					(1,027,240)
	4,031,452				4,031,452		
	3,060,274				3,060,274		
	476,524				476,524		
	479,815				479,815		
	142,962				142,962		
	237,512				237,512		
	66,766				66,766		
	180,045				180,045		
	1,836		00.700		1,836		147,649
	31,858		36,782		68,640		131,621
	456,736		61 47,820		61 504,556		408 1,111,174
	141,338	1	47,620 141,338)		304,330		1,111,174
	9,307,118		(56,675)		9,250,443	-	1,390,852
	849,846		76,743	-	926,589		363,604
	16,599,992		(84,573)		16,515,419		4,938,533
•	17,449,838	\$	(7,830)	•	17,442,008	\$	5,302,137

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Major Funds

General Fund

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

Transportation Fund

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

Federal Fund

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

Agency Revenue Fund

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

Capital Projects Fund

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

Non-Major Funds

	General	Transpo	ortation		Federal		Agency Revenue		Capital Projects		Non-Major overnmental Funds	Go	Total overnmental Funds
Assets Cash and cash equivalents (Note 5)	\$ 1,071,486	\$	34.884	\$	7,350	\$	64,447	\$	11,505	\$	315,149	\$	1.504.821
Cash with fiscal agents (Note 5)	• 1,011,100	*	0 1,00 1	•	.,000	•	· .,	•	, 0 0 0	*	22,148	•	22,148
Restricted cash (Note 5) Investments, net of			750				13,923				,		14,673
amortization (Note 5)	88,219		219,832				335,884		200,791		494,549		1,339,275
Invested security collateral	213,872								173,134		244,425		631,431
Receivables, net (Note 4)	782,130		117,272		599,735		65,991		13,303		62,196		1,640,627
Notes receivable							4,859						4,859
Capital lease receivable (Note 4)											120,780		120,780
Interfunds receivable (Note 7)	23,493		2,746		65,999		55,123		3,805		42,303		193,469
Interfund loans receivable			34,186				34						34,220
Inventories	5,783		31,066		147		4,234				43		41,273
Total Assets	\$ 2,184,983	\$	440,736	\$	673,231	\$	544,495	\$	402,538	\$	1,301,593	\$	5,547,576
Liabilities and Fund Balances Liabilities:													
Accounts payable (Note 4)	\$ 797,566	\$	48,996	\$	444,462	\$	31,572	\$	10,172	\$	29,005	\$	1,361,773
Judgements payable	12,262		1,636		4		295						14,197
Tax refunds payable	252,451												252,451
Interfunds payable (Note 7)	52,192		42,184		50,305		25,923		61		21,279		191,944
Interfund loans payable					24,819		8,821				579		34,219
Obligations under securities													
lending (Note 15)	213,872								173,134		244,425		631,431
Deferred revenue	186,663		31,080		67,494		16,503		378		140,394		442,512
Total Liabilities	1,515,006		123,896		587,084		83,114	Ξ	183,745		435,682		2,928,527
Fund Balances:													
Reserved for:			400.000						47.500				040 500
Encumbrances	44.057		193,002						47,500				240,502
Statutory obligations	41,957		55,202										97,159
Budget stabilization Inventories	28,765 5,783		31,066		147		4,234				43		28,765 41,273
	5,763		31,000		147						43		
Long-term receivables							4,859 13,923				22,148		4,859 36,071
Deposit with fiscal agents							13,923				22,140		36,071
Compensating balance			750										750
with depositories			750						201 201				750
Capital outlay Unreserved, reported in:									291,391				291,391
General fund	593,472												593,472
Special revenue funds	595,47Z		36,820		86,000		438,365				551,314		1,112,499
Debt service fund			50,020		00,000		430,303				292,406		292,406
									(120,000)		292,400		
Capital projects fund	660.077		216 040		06 1 17		464 204		(120,098)		96E 044		(120,098)
Total Fund Balances Total Liabilities and Fund	669,977		316,840		86,147		461,381	_	218,793		865,911		2,619,049
Balances	\$ 2,184,983	\$	440,736	\$	673,231	\$	544,495	\$	402,538	\$	1,301,593	\$	5,547,576

RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2005

(Expressed in Thousands)

Total Fund Balances - Governmental Funds	9	\$ 2,619,049
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land and other non-depreciable assets Buildings, equipment, and other depreciable assets Infrastructure Accumulated depreciation Construction in progress	96,520 1,205,601 15,950,068 (487,570) 1,769,779	18,534,398
Certain revenues are earned but not available, and therefore, are deferred in the funds.		425,107
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		36,351
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		126,005
Capital lease obligations Compensated absences Judgements and contingencies Net pension obligations	(26,083) (219,949) (19,387) (213,778)	(479,197)
Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds payable Notes payable Unamortized premiums and discounts Less deferred amounts on refundings Accrued interest payable	(3,236,767) (373,990) (158,379) 14,951 (57,690)	(3,811,875)
Net Assets of Governmental Activities		17,449,838

COMMONWEALTH OF KENTUCKY STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 7,383,936	\$ 993,723	\$	\$ 279,350	\$	\$ 88,349	\$ 8,745,358
Licenses, fees, and permits	30,507	118,882		124,596		13,060	287,045
Intergovernmental	16,416	11	5,279,609	27,059	25,624	3,111	5,351,830
Charges for services	56,843	15,129	61	501,007	292	155,666	728,998
Fines and forfeits	49,260	6	٠.	8,732		28,773	86,771
Interest and other							
investment income	26,783	6,726	888	4,618	13,428	31,563	84,006
Increase (decrease) in fair							
value of investments	171	10,996		(3,831)	291	1,781	9,408
Securities lending income	5,701				4,615	6,515	16,831
Other revenues	167,774	2,781	148,449	183,873	13,319	95,770	611,966
Total Revenues	7,737,391	1,148,254	5,429,007	1,125,404	57,569	424,588	15,922,213
Expenditures Current:							
General government	1,722,219		102,413	92,634		213,742	2,131,008
Legislative and judicial	262,385		3,432	11,963		12	277,792
Commerce	25,082		10,471	30,738		318	66,609
Education and humanities	3,128,735		825,050	40,223		97,127	4,091,135
Human resources	1,472,137		3,858,843	828,642		28,728	6,188,350
Justice Natural resources and	525,855		44,234	63,173		400	633,662
environmental protection	70,802		50,212	32,282		8,603	161,899
Public protection and regulation	16,040		9,293	48,535		0,000	73,868
Transportation	3,896	947,522	472,826	45,569		50,558	1,520,371
•	3,090	941,322	472,020	45,509		50,556	1,320,37 1
Debt service:						0.47.000	0.47.000
Principal retirement						247,290	247,290
Interest and fiscal charges						190,225	190,225
Other expenditures						26,574	26,574
Securities lending expense	5,290				4,283	6,046	15,619
Capital outlay:					270.052		279,953
Buildings	=				279,953		
Total Expenditures	7,232,441	947,522	5,376,774	1,193,759	284,236	869,623	15,904,355
Excess (Deficiency) of Revenues over (under) Expenditures	504,950	200,732	52,233	(68,355)	(226,667)	(445,035)	17,858
Other Financing Sources (Head)							
Other Financing Sources (Uses) Transfers in	007.050	407	40.750	440.077	00.450	4 000 700	4 704 440
	267,356	437	18,759	418,377	83,452	1,002,762	1,791,143
Transfers out	(496,652)	(126,289)	(25,655)	(330,685)	(45,223)	(620,639)	(1,645,143)
Capitalized leases Proceeds from the sale of bonds:	7,897	7,857	137	2,762		252	18,905
New issues						213,750	213,750
Refunding issues						257,685	257,685
Premiums				11,569	5,914	36,001	53,484
Proceeds from notes				139,635	93,125	30,001	232,760
				139,033	93,123		232,700
Payments to refunded bond						(050 550)	(050 550)
escrow agent						(258,550)	(258,550)
Total Other Financing							
Sources (Uses)	(221,399)	(117,995)	(6,759)	241,658	137,268	631,261	664,034
Net Change in Fund Balances	283,551	82,737	45,474	173,303	(89,399)	186,226	681,892
Fund Balances at July 1,							
as Restated (Note 2)	388,154	228,367	40,593	288,125	308,192	679,690	1,933,121
Increase (decrease) in inventories	(1,728)	5,736	80	(47)		(5)	4,036
Fund Balances at June 30	\$ 669,977	\$ 316,840	\$ 86,147	\$ 461,381	\$ 218,793	\$ 865,911	\$ 2,619,049

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

(Expressed in Thousands)

Net change in fund balances-total governmental funds	\$	681,892
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period: Assets disposed of, net book value Donated assets, fair market value Buildings, equipment, and other depreciable assets Infrastructure Accumulated depreciation	(51,164) 2,058 55,567 308,408 (52,886)	261,983
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		59,380
Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities: Prepaid Expenses Inventories	3,771 4,036	7,807
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities.		(11,495)
Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities. Excess contributions to pension funds Capital lease payments Compensated absence payments Litigation payments	(75,423) 8,916 1,283 217,174	151,950
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond proceeds and premiums received Repayment of bond principal Payment to refunded bond escrow agent Accrued interest Deferred issue costs	(757,679) 247,290 258,550 (48,140) 1,804	(201 671)
Loss on refundings Change in not assets of governmental activities	(3,496)	(301,671)
Change in net assets of governmental activities	\$	849,846

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Enterprise Funds (All Major)

State Parks Fund

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

Kentucky Lottery Corporation

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

Kentucky Horse Park Fund

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

Insurance Administration Fund

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

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

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

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

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

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

Unemployment Compensation Fund

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

Internal Service Funds

Individual fund statements for the Intern	al Service Funds, wh	nose combined totals	are presented on t	his
statement, begin on page				144

			Business-Type Activities-
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets: Cash and cash equivalents (Note 5) Cash on deposit with the Federal government (Note 5)	\$ 6,436	\$ 18,983	\$ 655
Restricted cash (Note 5) Investments, net of amortization (Note 5)		27,651	62
Receivables, net (Note 4)	381	21,623	468
Interfunds receivable (Note 7) Inventories	97 2,623	152	549
Prepaid expenses Total Current Assets	32 9,569	560 68,969	1,734
Noncurrent assets:			
Restricted investments (Note 5) Investments, net of amortization (Note 5) Receivables, net	6,931	187,549 5,358	358 17
Capital assets (Note 6):	14.751	422	4.459
Land Improvements other than buildings	14,751 73,576	423 354	4,453 16,561
Buildings	181,872	7,206	15,513
Machinery and equipment Easements and other intangibles	10,701 2,322	38,794	1,221
Less: Accumulated depreciation and amortization	(107,197)	(32,176)	(23,109)
Construction in progress Total Capital Assets	40,306 216,331	14,601	1,700 16,339
Other assets			2,276
Total Noncurrent Assets Total Assets	223,262 232,831	207,508 276,477	18,990 20,724
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	5,138	8,137	113
Judgments payable	36		7
Interfunds payable (Note 7) Claims liability (Note 15) Claims adjustment liability (Note 15)	440		7
Capital lease obligations (Note 10)	118		11
Prize liability		49,536	
Compensated absences (Note 15)	2,233	802	258
Deferred revenue Other liabilities	3,135		176
Total Current Liabilities	11,100	58,475	565
Noncurrent liabilities: Claims liability (Note 15) Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	121		25
Prize liability		168,769	
Compensated absences (Note 15)	3,047		274
Other liabilities (Note 15) Total Noncurrent Liabilities	25 3,193	168,769	299
Total Liabilities	14,293	227,244	864
Net Assets Invested in capital assets, net of related debt Restricted for:	216,093	14,601	18,579
Unemployment benefits Capital projects Other purposes (Note 1)			394
Other purposes (Note 1) Unrestricted	2,445	34,632	887
Total Net Assets	\$ 218,538	\$ 49,233	\$ 19,860

Enterprise Funds			Governmental
			Activities- Internal
	II a a manula a mara a ma	Tatala	
Insurance	Unemployment	Totals	Service
Administration	Compensation	June 30, 2005	Funds
68,264	\$ 4,239	\$ 98,577	\$ 29,786
445	293,770	293,770	
115		177	
	400.000	27,651	
39,392	108,330	170,194	2,617
422	4	523	4,565
		3,324	3,952
		592	5,780
108,193	406,343	594,808	46,700
917		917	
	700		22.002
356,315	789	551,942	23,902
		5,375	
		19,627	16,010
		90,491	2,807
0.000		204,591	250,844
2,203		52,919	124,153
(4.740)		2,322	(000.000
(1,748)		(164,230)	(206,922
		42,006	18,053
455		247,726	204,945
		2,276	
357,687	789	808,236	228,847
465,880	407,132	1,403,044	275,547
2,992	19,657	36,037	6,296
699	10,001	735	5,255
445	3,533	4,425	2,188
118,036	0,000	118,036	15,783
2,920		2,920	10,700
2,320		129	998
		49,536	330
891		4,184	2,356
1,032	35,175	39,342	3,155
1,032	35,173	176	3,100
127,015	58,365	255,520	30,776
952,837		952,837	110,540
29,768		29,768	
		146	5,437
		168,769	
488		3,809	2,789
		25	,
983,093		1,155,354	118,766
1,110,108	58,365	1,410,874	149,542
1,110,100		1,110,011	
455		249,728	202,795
	348,767	348,767	
		394	
26,327		26,327	
26,327 (671,010) (644,228)	\$ 348,767		(76,790 \$ 126,005

COMMONWEALTH OF KENTUCKY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

(Expressed in Thousands)

Operating Revenues: Corporation Horse Parks Operating Revenues: Corporation Park Changes for sales and services: State parks sales and services: \$ 50,626 \$ 707,260 Charges for sales and services: \$ 50,626 \$ 707,260 Horse park admissions and sales insurance receipts \$ 666 \$ 707,260 Unemployment insurance receipts (Internal Service Fund Receipts) 666 \$ 707,260 Other services 666 \$ 707,260 \$ 707,260 Operating Expenses: \$ 13,288 \$ 1,322 \$ 707,260 Commodities and supplies \$ 17,380 \$ 70				Business-Type Activitie
Charges for sales and services: State parks sales and services Lottery sales Horse park admissions and sales Insurance receipts Unemployment insurance receipts Unemployment insurance receipts Unemployment insurance receipts Other services Total Operating Revenues Services Personal services Sersonal services Services Personal services			Lottery	
State parks sales and services \$ 50,626 \$ 707,260	. •			
Insurance receipts Unemployment insurance receipts Internal Service Fund Receipts Other services Total Operating Revenues S1,292 Operating Expenses: Personal services S2,661 Personal services S13,288 S1,322 Commodities and supplies S11,380 Grants and subsidies S141 Depreciation and amortization S8,162 S1,293 Travel S8,1632 Travel S8,1632 Travel S9,1632 Total Operating Expenses Other expenses Total Operating Expenses Other expenses S1,693 Other expenses S1,993 Other expenses S1,993 Other revenues (expenses) S1,994 Other revenues (expenses) S1,1211 Total Nonoperating Revenues (Expenses	State parks sales and services Lottery sales	\$ 50,626		
Internal Service Fund Receipts 666 Total Operating Revenues 51,292 707,260 Total Operating Expenses: 29	Insurance receipts			5,791
Other services 666 Total Operating Expenses: 51,292 707,260 Personal services 52,661 87,899 Utilities, rental, and other services 13,288 1,322 Commodities and supplies 17,380 2,233 Francial sand subsidies 141 2,233 Personal services and amortization 8,162 3,233 Travel 70 2,233 Valuance expense 3,162 3,233 Valuance expense 457,693 Uther expense 457,693 Uther expenses 91,632 550,217 Operating Expenses 91,632 550,217 Operating Income (Loss) (40,340) 157,043 (6 Interest and other investment income 18 1,956 (6 Interest expense (19) (13,404) (13,404) Other revenues (expenses) (414) 12,281 (40,754) 169,324 (6 Interest expense (40,754) 169,324 (6 (7,764) (7,764) (7,764)				
Total Operating Revenues 51,292 707,260	·	666		902
Departing Expenses: Personal services 52,661 87,899 Utilities, rental, and other services 13,288 1,322 Dommodities and supplies 17,380 Grants and subsidies 141 Depreciation and amortization 8,162 3,233 Travel 70 Reinsurance expense Claims expense Claims expense Claims expense Claims adjustment expense Claims expense Claims expense Claims adjustment expense Claims expense Claim expense Claims expense			707 260	
Personal services 52,661 87,899 Willities, rental, and other services 13,288 1,322 Willities, rental, and other services 17,380 Willities, rental, and other services 17,380 Willities, rental, and other services 17,380 Willities, rental, and other services 141 Willities, rental, and subsidies 141 Willities, rental, and subsidies 70 Willities, rental, and amortization 8,162 3,233 Willities, rental, and amortization 8,162 3,233 Willities, rental, and amortization 70 Willities, rental,	Total Operating Revenues	51,292	107,200	6,693
Dilities, rental, and other services 13,288 1,322 Commodities and supplies 17,380 Frants and subsidies 141 Depreciation and amortization 8,162 3,233 Tavel 70 Reinsurance expense Claims expense Claims adjustment income Claims adjustment Claims adju	•			
Commodities and supplies 17,380 27 27 27 27 27 27 27 2		· · · · · · · · · · · · · · · · · · ·	•	4,449
Frants and subsidies 141 seperceiation and amortization 8,162 3,233 revel 70 selinsurance expense 12 sims adjustment expense 12 sims adjustment expense 12 sims adjustment expense 13 sims adjustment expense 1457,693 subter expenses 140,340 subter expenses 140,340 subter expenses 140,340 subter expenses 1457,043 subterest and other investment income 18 subterest and other investment income 18 subterest expense 1457 subterest expense 1458 subterest expense 1459 subter expense 1457 subterest expense 1440 subter expense 1457 subterest expense		•	1,322	2,140
Depreciation and amortization 8,162 3,233 ravel 70 Reinsurance expense Claims expense Claims expense Claims adjustment expense Claims expense Claims adjustment expense Claims	··	•		564
Travel 70 teleinsurance expense 8 claims adjustment expense 8 claims adjustment expense 9 claim (Loss) 0 perating Expenses 9 claim (Loss) 0 perating Expenses 9 claim (Loss) 0 n sale of fixed assets (542) 61 claim (Loss) 0 n sale of fixed assets (542) 61 claim (Loss) 0 n sale of fixed assets (129 457 claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (13,404) claim (Loss) 0 n sale of fixed assets (19) (19) (169,284) claim (Loss) 0 n sale of fixed assets (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (19) (169,239) claim (Loss) 0 n sale of fixed assets (19) (19) (19) (19) (19) (19) (19) (19)				
Reinsurance expense Reinsurance Reinsurance expense Reinsu	·	8,162	,	340
Claims expense Claims adjustment expense Claims adjustment expense Claims adjustment expense Claims adjustment expenses Claims (Claims (Claims) (Claim			70	16
Claims adjustment expense 457,693 Prize expense 457,693 Other expenses 91,632 550,217 Operating Income (Loss) (40,340) 157,043 (Clonoperating Revenues (Expenses): (542) 61 Sain (loss) on sale of fixed assets (542) 61 Interest and other investment income 18 13,956 Increase (decrease) in fair value of investments 129 457 Interest expenses (19) (13,404) Other revenues (expenses) (19) (13,404) Other revenues (expenses) (414) 12,281 Income (Loss) before Capital Contributions and Transfers (40,754) 169,324 (6 Capital Contributions ransfers out (1,917) (169,239) (1,917) (1	•			
### African Service expenses Total Operating Expenses 91,632 550,217 Operating Income (Loss) (40,340) 157,043 (40,340) 157,043 (40,340) Honoperating Revenues (Expenses): Sain (loss) on sale of fixed assets (542) 61 Interest and other investment income 18 13,956 Increase (decrease) in fair value of investments 129 457 Interest expense (19) (13,404) Interest expenses (19) (13,404) Interest expenses (414) 12,281 Income (Loss) before Capital Contributions Income (•			
Other expenses			457.000	
Total Operating Expenses	·		457,093	1,569
Operating Income (Loss)	•	01 622	550 217	9,078
Comparating Revenues (Expenses): Comparating Revenues (Expenses): Comparating Revenues (Expenses): Comparating Revenues (Expenses) 18				
Gain (loss) on sale of fixed assets Interest and other investment income Increase (decrease) in fair value of investments Increase (decrease) in fair value of investments Interest expense Interest expense Interest expense Interest expenses Intere	Operating income (Loss)	(40,340)	157,043	(2,385
18				
129 457 13,404 11,211 14,281 169,324 169,324 169,324 169,239 169,239 169,239 169,239 169,239 169,248 169,239 169,248 169,248 169,239 169,248 169,248 169,239 169,248 169,239 169,2	` ,	` '		(159)
(19)			•	19
11,211 12,281 1	, ,			(1
Total Nonoperating Revenues (Expenses) (414) 12,281 come (Loss) before Capital Contributions and Transfers (40,754) 169,324 (capital Contributions (40,754) 169,324 (60,754) (169,239)	·	(19)	,	(1==
Ancome (Loss) before Capital Contributions and Transfers (40,754) 169,324 (40,754) 169,324 (62,754) 169,324 (72,754) 169,324 (72,754) 169,324 (73,754) 169,324 (73,754) 169,324 (73,754) 169,324 (73,754) 169,324 (73,754) 169,329 (73,754) 169,239	` ' '	(110)		(150
and Transfers (40,754) 169,324 (Capital Contributions Fransfers in 34,494 Fransfers out (1,917) (169,239) Change in Net Assets (8,177) 85 Let Assets at July 1, as Restated (Note 2) 226,715 49,148 2	Total Nonoperating Revenues (Expenses)	(414)	12,281	(291
Capital Contributions Fransfers in 34,494 Fransfers out (1,917) (169,239) Change in Net Assets (8,177) 85 Let Assets at July 1, as Restated (Note 2) 226,715 49,148 2	ncome (Loss) before Capital Contributions			
Transfers in 34,494 Transfers out (1,917) (169,239) Change in Net Assets (8,177) 85 Net Assets at July 1, as Restated (Note 2) 226,715 49,148 2	and Transfers	(40,754)	169,324	(2,676)
ransfers in 34,494 (ransfers out (1,917) (169,239) (R,177) 85 (8,177) 49,148 2	Capital Contributions			33
gransfers out Change in Net Assets (1,917) (8,177) (169,239) 85 let Assets at July 1, as Restated (Note 2) 226,715 49,148 2		34.494		2,446
Change in Net Assets (8,177) 85 let Assets at July 1, as Restated (Note 2) 226,715 49,148 2		·	(169,239)	(40
				(237
	Net Assets at July 1. as Restated (Note 2)	226.715	49.148	20,097
				\$ 19.860

Enterprise Funds	Unemployment	Totals	Governmental Activities- Internal Service
Administration	Compensation	June 30, 2005	Funds
\$	\$	\$ 50,626	\$
		707,260	
133,380		5,791 133,380	
100,000	407,567	407,567	
	,	,	157,466
45,698		47,266	136
179,078	407,567	1,351,890	157,602
_			
15,432	12	160,453	48,302
1,745	301	18,796	41,968
1,112	4,214	23,270	29,944
	424,480	424,621	998
321		12,056	15,601
285		371	150
69,701		69,701	421 31,711
3,023		3,023	31,711
-,		457,693	
229		1,798	
91,848	429,007	1,171,782	169,095
87,230	(21,440)	180,108	(11,493
(00)		(070)	(000
(30)	14,747	(670)	(600 246
14,629 7,722	(1,270)	43,369 7,037	259
1,122	(1,270)	(13,423)	(264
(9,434)		1,627	(== :
12,887	13,477	37,940	(359
100,117	(7,963)	218,048	(11,852)
		33	1,835
4,764	10	41,714	7,803
(444)	(11,412)	(183,052)	(9,281
104,437	(19,365)	76,743	(11,495)
(748,665)	368,132	(84,573)	137,500
\$ (644,228)	\$ 348,767	\$ (7,830)	\$ 126,005

(Expressed in Thousands)

			Business	Type Activities
		ate rks		entucky Lottery rporation
Cash Flows from Operating Activities	¢	50 502	¢	710 700
Cash received from customers - public Cash received from customers - state	\$	50,503 7	\$	710,788
Cash payments to suppliers for goods and services		(30,622)		(561,873)
Cash payments for employee salaries and benefits		(52,616)		(12,565)
Cash payments for claims expense		(02,010)		(12,000)
Cash payments from other sources		525		
Cash payments to other sources				(881)
Net Cash Provided by Operating Activities		(32,203)		135,469
Cash Flows from Noncapital Financing Activities		<u> </u>	-	
Transfers from other funds		34,494		
Transfers to other funds		(1,917)		(169,239)
Net Cash Provided by Noncapital Financing Activities		32,577		(169,239)
Cash Flows from Capital and Related Financing Activities				
Acquisition and construction of capital assets		(4,008)		(1,389)
Principal paid on revenue bond maturities and equipment contracts		(97)		
nterest paid on revenue bonds and equipment contracts		(20)		
Proceeds from the sale of capital assets		681		61
Net Cash Used for Capital and Related Financing Activities		(3,444)		(1,328)
Cash Flows from Investing Activities				
Purchase of investment securities				(573)
Proceeds from the sale of investment securities		2,077		29,058
nterest and dividends on investments		147		1,437
Net Cash Used in Investing Activities		2,224		29,922
Net Increase (Decrease) in Cash and Cash Equivalents		(846)		(5,176)
Cash and Cash Equivalents at July 1		7,282		24,159
Cash and Cash Equivalents at June 30	\$	6,436	\$	18,983
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$	(40,340)	\$	157,043
Adjustments to reconcile operating income to	Ψ	(40,040)	•	107,040
net cash provided by operating activities:				
Depreciation and amortization		8,162		3,233
Miscellaneous nonoperating income (expense)		5,.52		(881)
Change in assets and liabilities:				()
(Increase) decrease in assets:				
Receivables, net		90		1,633
Interfund receivables		(51)		
Inventories		(105)		188
Prepaid expenses		(3)		
Other assets				74
Increase (decrease) in liabilities:				
Accounts payable		1,411		(1,080)
Interfund payables		(1,223)		(11,933)
Claims liability				
Claims adjustment liability				
Compensated absences		44		91
Deferred revenue		(154)		
Other liabilities		(34)		(12,899)
Net Cash Provided by Operating Activities	\$	(32,203)	\$	135,469
Noncash Investing, Capital, and Financing Activities				
Change in fair value of investments	\$	129	\$	457
Contributions of capital assets				11
Capital assets acquired through leases		142		
				13,404
Accretion of investments held to fund grand prizes, which increased prize liability Total Noncash Investing, Capital, and Financing Activities	_	271	_	13,872

Enterpris	se Funds								overnmental Activities -
H	entucky Horse Park		nsurance ministration		mployment npensation	Jur	Totals ne 30, 2005		Internal Service Funds
\$	6,539	\$	179,542	\$	21,033	\$	968,405	\$	5,856
	(4 640)		(4.940)		(4.514)		7 (603,446)		149,353
	(4,618)		(1,819)		(4,514)		, , ,		(79,340)
	(4,428)		(15,883)				(85,492)		(48,849)
			(103,431)		070.007		(103,431)		(22,309)
	(450)		(6,839)		372,027		365,713		185
	(150)		(35,152)		(422,127)		(458,310)		(1,521)
	(2,657)		16,418		(33,581)		83,446		3,375
	2,446		4,764		10		41,714		7,803
	(40)		(444)		(11,412)		(183,052)		(9,281)
	2,406		4,320		(11,402)		(141,338)		(1,478)
					(**,**=/		(***,****)		(1,112)
	(200)		(63)				(5,660)		(19,360)
	(11)						(108)		(727)
	(1)						(21)		(266)
	6						748		147
	(206)		(63)				(5,041)		(20,206)
			(60,635)				(61,208)		(476)
	615		3,374		1,949		37,073		11,967
	013		14,481		13,477		29,542		505
	C4.E	-		-					
	615		(42,780)		15,426		5,407		11,996
	158		(22,105)		(29,557)		(57,526)		(6,313)
•	559 717	\$	90,484 68,379	\$	327,566 298,009	\$	450,050 392,524	_	36,099 29,786
¢	(2.205)	<u> </u>	97.220	<u> </u>	(24.440)	•	190 109	¢	(44, 402)
\$	(2,385)	\$	87,230	\$	(21,440)	\$	180,108	\$	(11,493)
	340		321				12,056		15,601
	(150)		(35,346)				(36,377)		,
	, ,		, ,				• • •		
	(144)		(6,450)		(24,657)		(29,528)		(1,545)
	(144)		1,092		(1)		1,040		(2,354)
			1,002		(1)		83		(1,667)
							(3)		(726)
	(9)						65		(120)
	(226)		(1.156)		(442)		(1.604)		(1 571)
	(336) 7		(1,156) 1,650		(443)		(1,604)		(1,571)
	1				2,796		(8,703)		(3,755)
			(35,971)				(35,971)		9,672
			5,276				5,276		(200)
			(452)		40.404		(317)		(399)
	00		004		10,164		10,010		1,612
•	(2,657)	*	224	•	(22 F04)	*	(12,689)	•	0.075
\$	(2,657)	\$	16,418	\$	(33,581)	\$	83,446	\$	3,375
\$	(1)	\$	7,722	\$	(1,270)	\$	7,037	\$	259
4	33	Ψ	1,122	Ψ	(1,210)	Ψ	44	Ψ	1,835
	33						142		5,883
							13,404		5,003
\$	32	\$	7,722	\$	(1,270)	\$	20,627	\$	7,977
	JZ	Ψ		- D	11.2/11	Ψ	£U.U£1	Ψ	1.311

FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

Kentucky Employees Retirement System County Employees Retirement System Judicial Retirement Fund State Police Retirement System Kentucky Teachers' Retirement System Legislators' Retirement System Deferred Compensation System

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

Commonwealth Choice County Fees Fund Special Deposit Trust Fund

COMMONWEALTH OF KENTUCKY STATEMENT OF FIDUCIARY NET ASSETS ALL FIDUCIARY FUNDS JUNE 30, 2005 (Expressed in Thousands)

	Per Trust	Agency Funds		
Assets		<u>-</u>		
Cash and cash equivalents (Note 5)	\$	1,870,059	\$	237,641
Cash with fiscal agents (Note 5)				9,096
Investments, net of amortization (Note 5)				76,012
Pension trust fund investments (Note 5):				
Corporate and government bonds		8,476,768		
Common stocks		16,646,579		
Mortgages		696,908		
Mutual funds		1,136,036		
Real estate		395,699		
Invested security collateral		3,799,449		387,006
Receivables, net		279,920		47,938
Prepaid expenses		111		
Buildings		4,115		
Total Assets		33,305,644		757,693
Liabilities				
Accounts payable		26,246		199,205
Amounts held in custody for others				171,482
Obligations under securities lending		3,799,449		387,006
Total Liabilities		3,825,695		757,693
Net Assets				
Held in trust for:				
Employee retirement systems		27,551,344		
Retirees' health insurance		1,928,605		
Total Net Assets	\$	29,479,949	\$	

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 871,510
Member	730,849
Total Contributions	1,602,359
Investment income:	
Net increase (decrease) in fair value	
of investments	1,422,859
Interest	649,995
Dividends	164,466
Real estate operating income, net	33,122
Securities lending income, net	83,063
Total Investment Income	2,353,505
Less: Investment expense	25,056
Less: Securities lending expense	74,969
Net Investment Income	2,253,480
Total Additions	3,855,839
Deductions	
Benefit payments	2,170,960
Refunds	34,898
Administrative expenses	34,233
Other deductions, net	166,892
Total Deductions	2,406,983
Change in Net Assets	1,448,856
Net Assets Held In Trust	
Net Assets at July 1	28,031,093
Net Assets at June 30	\$ 29,479,949

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Kentucky Housing Corportation

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

Kentucky Higher Education Assistance Authority

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

Kentucky School Facilities Construction Commission

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

Universities and Colleges Funds

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

University of Kentucky University of Louisville Kentucky Community and Technical College System

Non-Major Component Units

he non-major component ur			

COMMONWEALTH OF KENTUCKY STATEMENT OF NET ASSETS COMPONENT UNITS JUNE 30, 2005

(Expressed in Thousands)

		AUTHORITIES	
		Kentucky Higher	Kentucky School
	Kentucky	Education	Facilities
	Housing	Assistance	Construction
	Corporation	Authority	Commission
ssets			
Current assets:	f 40.044	6 470 444	f 44.400
Cash and cash equivalents (Note 5)	\$ 49,211	\$ 176,444	\$ 11,162
Restricted cash (Note 5)	447.500	7.040	
Investments, net of amortization (Note 5)	147,592	7,918	
Accounts receivable, net	1,721	20,297	
Interest receivable		17,103	
Inventories			
Prepaid expenses	10.575	450	
Other current assets	40,575	450	
Total Current Assets	239,099	222,212	11,162
loncurrent assets:			
Restricted cash (Note 5)		7,450	
Restricted long-term investments (Note 5)		2,122	
Long-term investments (Note 5)	201,630	11,842	2,263
Long-term receivables, net	1,202,830	1,207,633	2,200
Deferred charges	23,614	26,482	2,458
Capital assets (Note 6):	20,014	20,402	2,400
Land	942		
Improvements other than buildings	342		
Buildings	5,237	11,993	
<u> </u>	6,289		
Machinery and equipment	0,209	16,145	
Other capital assets			
Less: Accumulated depreciation	(C 040)	(42.407)	
and amortization	(6,818)	(13,107)	
Construction in progress			
Total Capital Assets	5,650	15,031	
Other assets		9,312	
Total Noncurrent Assets, Net	1,433,724	1,277,750	4,721
Total Assets	1,672,823	1,499,962	15,883
iabilities			
Current liabilities:			
Accounts payable and accruals	29,693	16,230	9,924
Current portion of long-term debt:	29,090	10,230	3,92-
Notes payable (Note 15)	30,790		
Bonds payable (Note 15)	67,192		61,729
Capital lease obligations (Note 10)	07,192	365	01,723
Capital lease obligations (Note 10) Compensated absences (Note 16)		1,592	10
Claims liability		1,392	''
Deferred revenues			
Payable from restricted assets			
Other current liabilities	20 400		
	30,490	40.407	74.00
Total Current Liabilities	158,165	18,187	71,669
loncurrent liabilities:			
Notes payable (Note 15)	5,406		
Bonds payable (Note 15)	1,237,798	1,297,250	616,009
Capital lease obligations (Note 10)	, , , , , ,	7,370	
Compensated absences (Note 16)		,-	
Other long-term liabilities	1,373	29,891	
Total Noncurrent Liabilities	1,244,577	1,334,511	616,01
	1,402,742	1,352,698	687,686
	1,402,742	1,352,598	007,000
Total Liabilities			
et Assets	5,650	7,559	
let Assets nvested in capital assets, net of related debt	5,650	7,559	
let Assets nvested in capital assets, net of related debt	5,650 208,198	7,559	
let Assets nvested in capital assets, net of related debt lestricted for: Debt service		7,559	
let Assets nvested in capital assets, net of related debt Restricted for: Debt service Capital projects	208,198		
let Assets nvested in capital assets, net of related debt Restricted for: Debt service		7,559 119,258 20,447	(671,803

	UNIVER	SITIES, COLLEGES, AND RELATE			
	University	University	Kentucky Community	Non-Major	All Component Units
of Kentucky		of	and Technical	Component	Totals
		Louisville	College System	Units	June 30, 2005
	попшоку	Louisville	oonege oystem		
\$	364,987	\$ 72,308	\$ 126,871	\$ 330,168	\$ 1,131,151
Ψ	304,967	φ 12,300	9 120,071	42,502	42,502
	29,847	52,856	7,428	112,711	358,352
	123,549	78,248	19,035	66,451	309,301
	3,214	70,240	19,033	5,348	25,665
	16,651	1,554		7,125	25,330
	2,398	150	313	5,110	7,971
			313		
	1,626	6,716	450.047	35,804	85,171
	542,272	211,832	153,647	605,219	1,985,443
	74,868	22,885	19,268	62,955	187,426
	555,365	22,000	10,200	9,569	564,934
	213,473	653,999	18,637	455,474	1,557,318
	31,066	52,777	9,967	468,736	2,973,009
	01,000	52,777	0,007	306	52,860
	20.500	44.000	04.000	00.000	470.000
	39,560	41,392	21,339	68,993 50,331	172,226
	58,915	3,419	6,351	50,321	119,006
	1,210,357	580,816	440,004	1,422,444	3,670,851
	532,816	271,023	109,320	321,295	1,256,888
				1,045	1,045
	(868,386)	(386,932)	(245,418)	(905,972)	(2,426,633)
	54,802	56,549	47,689	123,357	282,397
	1,028,064	566,267	379,285	1,081,483	3,075,780
	-	721	28	86,467	96,528
	1,902,836	1,296,649	427,185	2,164,990	8,507,855
	2,445,108	1,508,481	580,832	2,770,209	10,493,298
	440.070	45.400	5.000	50.404	201.007
	118,076	45,403	5,900	59,101	284,327
	2,713	195	76	2,474	36,248
	19,600	15,474		38,428	202,423
	5,003	1,370	455	8,505	15,698
	454		9,226	13,662	24,950
				11,598	11,598
	48,376	31,614	22,754	34,154	136,898
				18,449	18,449
	19,691	2,492	9,968	13,797	76,438
	213,913	96,548	48,379	200,168	807,029
	204	040	707	00.000	00.057
	391	310	787	22,963	29,857
	242,205	155,671		398,253	3,947,186
	61,074	1,435	7,990	121,557	199,426
	2,546			1,171	3,725
	61,823	51,493	3,849	55,509	203,938
	368,039	208,909	12,626	599,453	4,384,132
	581,952	305,457	61,005	799,621	5,191,161
	750,485	404,254	369,976	764,895	2,302,819
	4,748	25,321		24,163	262,430
	9,564	15,523	17,389	24,103	67,168
	596,259	342,029	48,696	916,392	2,037,681
	502,100	415,897	83,766	240,446	632,039
	1,863,156	\$ 1,203,024	\$ 519,827	\$ 1,970,588	\$ 5,302,137
Œ					

COMMONWEALTH OF KENTUCKY STATEMENT OF ACTIVITIES COMPONENT UNITS JUNE 30, 2005

(Expressed in Thousands)

			AL	JTHORITIES			
	Kentucky Housing Corporation		E As	entucky Higher ducation ssistance authority	Kentucky School Facilities Construction Commission		
Expenses:							
Operating and other expenses	\$	228,216	\$	292,651	\$	14,685	
Depreciation Interest on long-term debt						24,968	
Total Expenses		228,216		292,651	-	39,653	
, otal Enpolices		220,2.0		202,00	-	20,000	
Program Revenues:							
Charges for services		100,529		143,264		35,191	
Operating grants and contributions		138,964		155,785			
Capital grants and contributions		200 100		200.040		05.101	
Total Program Revenues		239,493		299,049		35,191	
Net Program (Expense) Revenue		11,277		6,398		(4,462)	
General Revenues:							
Unrestricted grants and contributions							
Unrestricted investment earnings						670	
Gain on sale of capital assets						4 447	
Miscellaneous general						1,117	
Total General Revenues						1,787	
Change in Net Assets		11,277		6,398		(2,675)	
Net Assets at July 1, as Restated (Note 2)		258,804		140,866		(669,128)	
Net Assets at June 30	\$	270,081	\$	147,264	\$	(671,803)	

UNIVERS	SITIES, COLL	EGES, AND RELAT	ED ENTITIES					
University University of of Kentucky Louisville		of College			•	All Component Units Totals June 30, 2005		
1,468,205	\$	631,210	\$	414,795	\$	1,240,539 2,565	\$	4,290,301 2,565 24,968
1,468,205		631,210		414,795		1,243,104		4,317,834
861,047		286,758		71,854		421,261		1,919,904 1,319,486
,		,				51,5		
1,205,893		488,725	-	227,801		794,434		3,290,586
(262,312)		(142,485)		(186,994)		(448,670)		(1,027,248)
59,021		45,661		6,814		36,153		147,649
56,517		50,411		3,737		20,286		131,621
271 //53		146 863		188 153				408 1,111,174
386,991		242,935		198,704		560,435		1,390,852
124,679		100,450		11,710		111,765		363,604
1,738,477	_	1,102,574	_	508,117		1,858,823		4,938,533 5,302,137
	University of Kentucky 1,468,205 1,468,205 861,047 325,931 18,915 1,205,893 (262,312) 59,021 56,517 271,453 386,991 124,679	University of Kentucky I 1,468,205 \$ 1,468,205 \$ 1,468,205 \$ 1,468,205 \$ 1,468,205 \$ 1,468,205 \$ 1,468,205 \$ 1,205,893 (262,312) \$ 59,021 56,517 271,453 386,991 124,679 \$ 1,738,477	University of Kentucky University of Louisville 1,468,205 \$ 631,210 861,047 286,758 325,931 192,080 18,915 9,887 1,205,893 488,725 (262,312) (142,485) 59,021 45,661 56,517 50,411 271,453 146,863 386,991 242,935 124,679 100,450 1,738,477 1,102,574	University of Louisville 1,468,205 \$ 631,210 \$ 1,468,205 \$ 631,210 861,047 286,758 325,931 192,080 18,915 9,887 1,205,893 488,725 (262,312) (142,485) 59,021 45,661 56,517 50,411 271,453 146,863 386,991 242,935 124,679 100,450	University of Kentucky University of Louisville Community and Technical College System 1,468,205 \$ 631,210 \$ 414,795 1,468,205 631,210 414,795 861,047 286,758 71,854 325,931 192,080 155,947 18,915 9,887 227,801 (262,312) (142,485) (186,994) 59,021 45,661 6,814 56,517 50,411 3,737 271,453 146,863 188,153 386,991 242,935 198,704 124,679 100,450 11,710 1,738,477 1,102,574 508,117	University of Kentucky University of Community and Technical College System Kentucky Indicate College System Community and Technical College System College System 1,468,205 \$ 631,210 \$ 414,795 \$ 1,468,205 631,210 414,795 \$ 861,047 286,758 71,854 325,931 155,947 18,915 9,887 155,947 18,915 227,801 1,205,893 488,725 227,801 (186,994) 59,021 45,661 6,814 56,517 50,411 3,737 271,453 146,863 188,153 386,991 242,935 198,704 124,679 100,450 11,710 1,738,477 1,102,574 508,117	University of Kentucky University of Louisville Kentucky Kentucky Non-Major Component Component Units 1,468,205 \$ 631,210 \$ 414,795 \$ 1,240,539 2,565 1,468,205 631,210 414,795 1,243,104 861,047 286,758 71,854 421,261 325,931 192,080 155,947 350,779 18,915 9,887 22,394 1,205,893 4488,725 227,801 794,434 (262,312) (142,485) (186,994) (448,670) 59,021 45,661 6,814 36,153 56,517 50,411 3,737 20,286 271,453 146,863 188,153 503,588 386,991 242,935 198,704 560,435 124,679 100,450 11,710 111,765 1,738,477 1,102,574 508,117 1,858,823	University of Louisville

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NOTES TO FINANCIAL STATEMENTS

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TO THE FINANCIAL STATEMENTS

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Note 1

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14, as amended by GASB 39. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and also those that are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable for the organization or when exclusion of the organization would cause the Commonwealth's financial statements to be misleading or incomplete.

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

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, the Kentucky Grain Insurance Corporation, and the Kentucky School Facilities Construction Commission. (See pages 104 and 105 for a complete list of component units' addresses.)

Blended Component Units

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

Kentucky Lottery Corporation (KRS 154A.020)

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

Kentucky Retirement System (KRS 61.645)

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

Kentucky Teachers' Retirement System (KRS 161.220)

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

Judicial Form Retirement System (KRS 21.530)

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

Turnpike Authority of Kentucky (KRS 175.430)

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

Administrative Entities

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

State Property and Buildings Commission (KRS 56.450)

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

Kentucky Asset/Liability Commission (KRS 56.861)

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

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

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

Kentucky Savings Bond Authority (KRS 293.030)

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

Board of Agriculture (KRS 246.120)

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

Discretely Presented Component Units

The component units' column in the combined financial statements includes the data of the discretely presented component units described below. The component units are legally separate entities. However, there is a financial interdependence or the primary government controls the selections of the board and operations. They are reported together in a separate column to reflect that they are legally separate, but their interdependence requires that they be included as part of the reporting entity.

Kentucky River Authority (KRS 151.710)

The Kentucky River Authority possesses the corporate powers that distinguish it as being legally separate from the Commonwealth. The authority is charged with developing comprehensive plans for the management of the Kentucky River Basin. The Governor appoints the twelve members of this authority.

Kentucky Housing Corporation (KRS 198A.030)

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

Bluegrass State Skills Corporation (KRS 154.12-205)

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

Kentucky School Facilities Construction Commission (KRS 157.617)

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

Kentucky State Fair Board (KRS 247.090)

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

June 30, 2005

Kentucky Center for the Arts Corporation (KRS 153.410)

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

Kentucky Educational Television Authority (KET) (KRS 168.030)

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

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

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

Kentucky Higher Education Assistance Authority (KHEAA) (KRS~164.742)

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

Kentucky Council on Postsecondary Education (KRS 164.011)

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

Kentucky Infrastructure Authority (KRS 224A.030)

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

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

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

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

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

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

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

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

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

Appalachian/Kentucky Artisans Gateway Center Authority (KRS 148.561)

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

Kentucky Horse Park Foundation, Inc.

The foundation is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park (the Park). Although the Park does not control the timing or amount to receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the Park. The Foundation's fiscal year ended May 31, 2005 and amounts included are for the year then ended.

Universities, Colleges, and Related Entities (KRS 164.350)

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

C. Government-Wide Financial Statements

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

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

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

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

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

Restricted Net Assets

(Expressed in Thousands)

Restricted for Other Purposes:
Loans
Education
Instruction
Scholarships and Fellowships
Research
Claims
Other
Totals

Primary Government Business Type Activities	Component Jnits-Major
\$	\$ 26,022
	143,688
	100,567
	159,308
	220,167
26,327	
	471,537
\$ 26,327	\$ 1,121,289

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

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

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

D. Fund Financial Statements

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

Governmental Funds

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

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

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

A description of significant governmental funds follows:

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

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

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

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

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

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

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

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

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

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

Proprietary Funds

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

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

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

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

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

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

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

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

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

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

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

Specific activities reported under Internal Service Funds are:

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

Fiduciary Funds

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

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June 30, 2005

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

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

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

- 1. Commonwealth Choice benefit spending accounts
- 2. Special Deposit Trusts holding monies for specific purposes
- 3. County Fees Fund holding monies for Kentucky Counties with a population of 75,000 or more

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

E Presentation of Component Units

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

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

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

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

Kentucky Agricultural Finance Corporation Kentucky Artisan Center at Berea

Kentucky Center for the Arts Corporation

Kentucky Economic Development Finance Authority

Kentucky Educational Television Authority

Kentucky Grain Insurance Corporation

Kentucky Horse Park Foundation

Kentucky Infrastructure Authority

Kentucky Local Correctional Facilities Construction Authority

Kentucky River Authority

Kentucky State Fair Board

Bluegrass State Skills Corporation

Council on Postsecondary Education

Kentucky Access

Eastern Kentucky University

Kentucky State University

Morehead State University

Murray State University

Northern Kentucky University

Western Kentucky University

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2005, the primary government provided \$290,905,900 to the University of Kentucky, \$192,777,783 to the Kentucky Community and Technical College System, and \$172,790,800 to the University of Louisville. In addition, the State received \$169,239,278 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2005 are \$2,352,947,817.

G. Investments

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

H. Securities Lending

Cash and securities received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Certain component units of the state have deposits in the Commonwealth's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund.

I. Receivables

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

J. Interfund Transactions

The Commonwealth has the following types of interfund transactions:

Interfund services provided and used - Charges for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

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

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

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

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

K. Inventories and Prepaid Expenses

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

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

Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used.

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

Cost by Asset type (Expressed in Thousands)			D	onated				
Governmental Activities:	Historical Cost		Fair Market Value		Esti	mated Cost	Totals	
Land	\$	64,785	\$	17,967	\$	29,778	\$	112,530
Improvements other than buildings		10,537		525		11		11,073
Buildings		663,654		49,270		293,828		1,006,752
Equipment		472,630		2,386		43,015		518,031
Easements and other intangibles		26,682		20,866				47,548
Construction in progress		1,787,832						1,787,832
Infrastructure		15,950,068						15,950,068
Totals	\$	18,976,188	\$	91,014	\$	366,632	\$	19,433,834
			D	onated				
Business-Type Activties:	His	storical Cost	Fair M	arket Value	Esti	mated Cost		Totals
Land	\$	5,831	\$	1,593	\$	12,203	\$	19,627
Improvements other than buildings		89,477		1,014			\$	90,491
Buildings		154,045		1,699		48,847		204,591
Equipment		52,393		491		35		52,919
Easements and other intangibles		2,322						2,322
Construction in progress		42,006						42,006
Totals	\$	346,074	\$	4,797	\$	61,085	\$	411,956

L. Capital Assets and Depreciation

Included in capital assets are real property, equipment, intangible assets and infrastructure (e.g. roads, bridges, sidewalks and similar items). These are reported in the government-wide statement of net assets, as governmental or business type activities. Capital assets are expensed at the time of acquisition in the fund financial statements for governmental and similar trust funds.

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is \$5,000 or greater. Intangible capital assets are capitalized when the cost is \$100,000 or more except software which has a threshold of \$500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

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

The primary government values capital assets at historical cost, estimated historical cost or fair market value at the time of donation. At June 30, 2005, the table above shows cost by asset type. The estimate of historical cost for the primary government was based on appraised value as of June 30 1986, indexed to the date of acquisition.

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

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

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

The Kentucky Center for the Arts Corporation's discretely presented component unit financial statements for Fiscal Year 2005, do not contain the Center's capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

M. Fund Equity Reserves and Designations

The Commonwealth's fund balance reserves represent those portions of fund balance (l) not appropriable for expenditure, or (2) legally segregated for a specific future use. Designated portions of fund balance represent tentative managerial plans for financial resource utilization in a future period.

N. Deferred Revenue

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

O. Long-Term Obligations

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

- 1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.
- 2. Compensated absences including accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 16.

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

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

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

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

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

P. ConduitDebt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$1,860,097,172 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

Note 2

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

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

Governmental Activities - Beginning net assets for the Commonwealth's governmental activities have been restated to include amounts which were omitted in the prior year. The net effect is a decrease of \$70,572,000.

Business Type Activities - Beginning net assets for the Commonwealth's business type activities have been restated for the reasons noted below in the section for Enterprise Funds. The net effect is a decrease of \$2,662,000 on the net assets of the business type activities.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

General Fund – The General Fund was restated to remove amounts included in error last year. The effect on fund balance is a decrease of \$1,303,000.

Capital Projects Fund – The Capital Projects Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net decrease of \$85,703,000.

Special Revenue Fund – The Agency Revenue Fund, the Other Special Revenue Fund, and the Federal Fund within the Special Revenue Fund were restated for prior period errors. The restatements decreased Agency Revenue and Other Special Revenue fund balances by \$3,417,000 and \$5,541,000 respectively and increased Federal fund balances by \$2,008,000. The net effect of all restatements on the Special Revenue fund balance is a decrease of \$6,950,000.

Enterprise Funds – The State Parks Fund and the Horse Park Fund within the Enterprise Funds were restated to include amounts not reported last year. The effect on net assets is a decrease of \$302,000 and a decrease \$2,360,000 respectively. The net effect of these restatements on the Enterprise Funds net assets is a decrease of \$2,662,000.

Internal Service Funds – The Property Management Fund and the Prison Industries Fund within the Internal Service Funds were restated to include amounts which were not included in the past. The effect on net assets is an increase of \$23,449,000 and a decrease \$120,000 respectively. The net effect of these restatements on the Internal Service Funds net assets is an increase of \$23,329,000.

Component Units-Authorities:

Kentucky Center for the Arts Corporation – To include amounts not reported in the prior period, net assets for the Kentucky Center for the Arts Corporation were restated. The effect on net assets is an increase of \$421,000.

Kentucky Access – Kentucky Access restated net assets for a prior period adjustment. The effect on net assets is a decrease of \$675,000.

Kentucky Horse Park Foundation, Inc – Kentucky Horse Park Foundation, Inc was included in the Enterprise Funds in the prior year. The effect on net assets is an increase of \$2,395,000.

Kentucky Agricultural Finance Corporation – To record amounts not included in prior periods. The effect on net assets is an increase of \$420,000.

Kentucky Artisan Center – Kentucky Artisan Center restated net assets for inventory not included in the prior year. The effect on net assets is an increase of \$46,000.

Restatement of all Component Units-Authorities results in an overall increase in net assets of \$2,607,000.

Component Units-Universities, Colleges, and Related Entities:

University of Louisville – To record amounts not included in prior periods, net assets for the University of Louisville were restated. The effect on net assets is a decrease of \$8,364,000.

Kentucky Community and Technical College System (KCTCS)— To record amounts not included in prior periods, net assets for KCTCS were restated. The effect on net assets is an increase of

\$4,967,000.

Kentucky State University – To record amounts not included in prior periods, net assets for Kentucky State University were restated. The effect on net assets is an increase of \$5,785,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$2,388,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- **A.** Enterprise Funds The Insurance Administration Fund has a net assets deficit of \$644,228,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.
- **B.** Internal Service Funds—The Risk Management Fund has a net assets deficit of \$107,851,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured workers' compensation programs, and is to be funded in future periods.
- C. Component Units—Authorities—The Kentucky School Facilities Construction Commission has a net assets deficit of \$671,803,000. The Commission finances local school district projects, and carries the liabilities but not the assets. The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of \$12,551,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

Note 4

DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2005. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2005. All receivables are reported net of an Allowance for

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

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

Business-

Total Primary

694.869 611,797 95.259 108,368 29,260 46,810 13.323 23 874 1,623,560

Disaggregation of Payables and Receivables (Expressed in Thousands)

	Governmental Activities						Total	Type Activities			
<u></u>	Major Funds	Non-major Funds		Internal Service Funds		Governmental Activities		Major Funds		Total Primary Government	
Current Payables											
Personal services \$	92,937	\$	414	\$	3,419	\$	96,770	\$	11,576	\$	108,346
Utilities, rental and											
other services	18,338		1,321		1,788		21,447		869		22,316
Commodities and supplies	7,005		106		723		7,834		591		8,425
Grants and subsidies	557,688		15,078		118		572,884		19,659		592,543
Capital outlay	15,479		61		162		15,702		425		16,127
Travel	1,340		7		11		1,358		15		1,373
Investments purchased	594,011						594,011				594,011
Interest Payable	57,693						57,693				57,693
Other	45,903		12,016		75		57,994		2,902		60,896
Total Current Payables \$	1,390,394	\$	29,003	\$	6,296	\$	1,425,693	\$	36,037	\$	1,461,730
Current Receivables											
Charges for services \$	46,104	\$	16,036	\$	2,605	\$	64,745	\$	22,480	\$	87,225
Taxes receivable	1,606,350		17,210				1,623,560				1,623,560
Investment receivable	13,768		3,639		18		17,425		3,569		20,994
Intergovernmental revenue	595,053		325				595,378		9,385		604,763
Other	103,235		27,303		(6)		130,532		140,667		271,199
Allowances for uncollectables	(805,162)		(3,729)				(808,891)		(5,907)		(814,798)
Total Current Receivables \$	1,559,348	\$	60,784	\$	2,617	\$	1,622,749	\$	170,194	\$	1,792,943

raxes Receivable							
(Expressed in Thousands)							

(Expressed in Triousanus)					i Otal Filliary
		Government			
	Ma	or Funds	Non-Major Funds		
Current Taxes Receivable			-		
Sales and gross receipts	\$	694,268	\$ 601	\$	694,869
Individual income		611,797			611,79
Corporate		95,259			95,25
Property		108,368			108,36
License and privilege		26,849	2,411		29,26
Coal severance		46,810			46,81
Inheritance and estate		13,018	305		13,32
Miscellaneous		9,981	13,893		23,87
Total Current Taxes Receivable	\$	1,606,350	\$ 17,210	\$	1,623,56

Notes to Financial Statements

June 30, 2005

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

Future debt service payments for leases receivable as of June 30, 2005, are as follows (Expressed in Thousands):

	F	Principal		Interest		Total	
2006	\$	5,285	_	\$	5,452	\$	10,737
2007		5,470			5,265		10,735
2008		5,665			5,066		10,731
2009		5,880			4,851		10,731
2010		6,130			4,602		10,732
2011-2015		34,695			18,942		53,637
2016-2020		39,245			9,930		49,175
2021-2025		18,410	_		1,851		20,261
Total leases receivable	\$	120,780	-	\$	55,959	\$	176,739

Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

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

PRIMARYGOVERNMENT

<u>Custodial Credit Risk-Deposits</u> – The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the Commonwealth's deposits for the Primary Government, excluding pension trust funds, was \$1,145,923,120 and the bank balance was \$1,363,198,211. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name.

Custodial Credit Risk-Investments - Custodial credit risk for Investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commonwealth holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the Commonwealth are administered by the Office of Financial Management. The investments held in the Commonwealth's investment pool are insured or registered, or held by the Commonwealth of Kentucky or its agent in the Commonwealth's name.

The Turnpike Authority of Kentucky (TAK) is a blended component unit of the Primary Government has custodial credit risk for monies held by trustees in accordance with the official bond indentures. They consists of \$82,498 in deposits that are uninsured and uncollateralized, \$103,135,454 in deposits that are uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name. They also have \$190,146,299 in non-current cash and

investments which are uninsurable and not registered in the name of the Commonwealth, and are held by the counterparty's trust department or agent but not in the Commonwealth's name.

The credit risk mix of the retirement systems, and other component units, is disclosed in the financial statement footnotes of those individual entities.

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

Securities Lending Program - State statutes authorize the Commonwealth to enter into securities lending agreements, and it is the Commonwealth's policy to limit those amounts to \$200,000,000 per borrower. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth's securities (Treasuries, Agencies and Corporate Securities) in exchange for cash. The cash is invested in short-term securities. In the event that securities are received as collateral they cannot be sold unless the borrower defaults. After rebate and expenses the Commonwealth receives 75 percent of the profit earned, with a 10 basis point minimum through 1/31/2005. Beginning 2/1/2005 the Commonwealth receives 80 percent with a 14 basis point minimum. The securities transferred are a part of the total investments reported. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$1,955,169 in securities lending income. On June 30, 2005, the fair value of the securities transferred, which approximate the book value, was \$997,588,642 and the fair value of the securities purchased by the Commonwealth was \$1,018,436,031. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth had no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

Notes to Financial Statements

June 30, 2005

<u>Options</u> - 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, 2005, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has regulatory limits on investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. It also has limits on portfolio durations for the same purpose.

The primary government's investments (excluding the pension trust funds) at June 30, 2005 are presented below. All investments are presented by investment type.

Cash and Investments by Type

I. Cash:

		Carrying Amount	Bank Balance
Cash	\$	703,027,980	\$ 920,303,071
Cash with Fiscal Agents		149,125,005	149,125,005
Cash on Deposit With the Federal Government		293,770,135	293,770,135
Total Cash	\$	1,145,923,120	\$ 1,363,198,211
	_		

II. Investments:

Investments ma	naged based	l on	maturites
----------------	-------------	------	-----------

Debt Securities	 Fair Value	< 1 year	1 - 5.5 years	5.6 - 15 years	15.1- 25 years
Commercial Paper	\$ 58,686,990 \$		\$ 58,686,990	\$	\$
U.S. Treasuries/Government	346,659,309		346,659,309		
Fixed Income Investments:					
Corporate Bonds	52,284,713			52,284,713	
Government Bonds	90,736,331			90,736,331	
Other Bonds	1,626,145		92,358		1,533,787
Certificates of Deposits	875,000		875,000		
Total	\$ 550,868,488 \$		\$ 406,313,657	\$ 143,021,044	\$ 1,533,787

Investments managed based upon duration

Debt Securities	Fair Value	Effective Duration
Mortgage Backed Securities	\$ 271,252,743	0.66
Commercial Paper	399,526,146	0.05
U.S. Treasuries/Government	232,114,372	1.67
U.S. Agencies	499,713,381	1.42
Corporate Debt	203,318,240	1.41
Negotiable Certificates of Deposit	15,851,770	0.67
State and Municipal Obligations	155,881,187	0.75
Bond Mutual Funds	44,435,409	0.09
Repurchase Agreements	25,358,458	0.82
Other	719,495	3.57
Asset Backed Securities	 445,332,792	0.19
Total Debt Securities	\$ 2,293,503,992	
Portfolio effective weighted duration		0.79

Other Investments

Securities Lending Invest	\$ 1,055,790,840
Common Stock	172,762,596
Convertible Investments:	
Preferred	853,760
Bonds	5,350
Pooled Funds and Mutual Funds	20,986,506
Repurchase Agreements	 7,500,000
Total Other Investments	\$ 1,257,899,052
Total Investments	\$ 4,102,271,532

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth is statutorily limited as to credit ratings. Commercial paper must be rated in the highest category by a nationally recognized rating agency. United States denominated corporate, Yankee, and Eurodollar securities must be rated in one of the three highest categories by a nationally recognized rating agency. Asset-backed securities must be rated in the highest category by a nationally recognized rating agency. Certificates of Deposit and Bankers acceptances must be rated in one of the three highest categories by a nationally recognized

rating agency. By regulation all mortgage pass-through securities and collateralized mortgage obligations must be issued by U.S. government agencies or by government sponsored entities.

The primary government's, excluding the pension trust funds, rated debt investments as of June 30, 2005 and the ratings are presented in the following table.

Investments and Credit Ratings

		Credit Ratir	ngs		Total Fair Value
	Aaa	Aa	Α	Unrated	of Investments
Mortgage Backed Securities	\$ 271,252,743 \$	\$	\$,	\$ 271,252,743
Commercial Paper	630,975,732				630,975,732
U.S. Agencies	667,506,044			22,020,472	689,526,516
U.S. Treasuries/Government	178,866,647			210,093,900	388,960,547
Corporate Debt	40,194,844	78,289,975	84,833,420		203,318,239
Convertible Investments:					
Preferred	853,760				853,760
Bonds	5,350				5,350
Fixed Income Investments:					
Corporate Bonds	52,284,713				52,284,713
Government Bonds	90,736,331				90,736,331
Other Bonds	1,626,145				1,626,145
Negotiable Certificates of Deposit			15,349,150	1,377,619	16,726,769
State and Municipal Obligations	139,574,347	9,466,051	6,840,789		155,881,187
Bond Mutual Funds				65,421,914	65,421,914
Repurchase Agreements				32,858,458	32,858,458
Asset Backed Securities	445,332,792				445,332,792
Other				719,495	719,495
Total Investments	\$ 2,519,209,449 \$	87,756,026 \$	107,023,359 \$	332,491,858	3,046,480,691

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Regulation limits the amount owned of any given issuer of corporate and commercial paper to \$25,000,000. At June 30, 2005, the primary government had no investments which would constitute a concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Commonwealth's policy is to invest only in securities in U.S. denominations. The Commonwealth has no foreign currency risk.

PENSION TRUST FUNDS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the deposits for the Pension Trust Funds was \$16.801,147 and the bank balance was \$16.801,147.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Of the Pension Trust Funds, only Kentucky Retirement Systems has investments subject to custodial credit risk. The investments are listed as Foreign Currency in the amount of \$3,184,561 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

Notes to Financial Statements

June 30, 2005

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Kentucky Revised Statutes (KRS 61.650) grants the responsibility for the investment of plan net assets to the Board of Trustees of the Retirement Systems. Each System has very specific policies regarding

their investment activity. A detailed discussion of those policies can be found in the notes to the audited financial statements of the various Pension Trust Funds.

The Pension Trust Funds investments at June 30, 2005 are presented below. All investments are presented by investment type.

Cash and Investments by Type

I. Cash

	Carr	Carrying Amount		Bank Balance
Cash	\$	11,612,061	\$	11,612,061
Overnight Sweeps		5,189,086		5,189,086
Total Cash	\$	16,801,147	\$	16,801,147

II. Investments:

Investments managed based on maturites

Debt Securities	Fair Value	< 1 year	1 - 5.5 years	5.6 - 15 years	15.1- 25 ye	ars
U.S. Agencies	\$ 1,170,909,394 \$		\$ 19,934,704	\$ 1,150,974,690	\$	
Bond Mutual Funds	42,290,780			42,290,780		
U.S. Treasuries/Government	1,332,269,081	3,600,323		1,328,668,758		
Corporate Notes	98,528,731		98,528,731			
Corporate Bonds	1,670,019,535			1,670,019,535		
Mortgage Pass Throughs	57,820,633				57,820	,633
State & Local Government Issues	36,634,481				36,634	,481
Collateralized Mortgage Obligations	25,673,217			25,673,217		
Repurchase Agreements	1,287,800,000	1,287,800,000				
Total	\$ 5,721,945,852 \$	1,291,400,323	\$ 118,463,435	\$ 4,217,626,980	\$ 94,455	,114

Investments managed based upon duration

Debt Securities	Fair Value	Effective Duration	Macaulay Duration
Mortgage Backed Securities	\$ 780,864,473	2.27	
U.S. Treasuries/Government	2,378,820,331	5.34	
U.S. Agencies	479,638,805	3.30	
Corporate Debt	824,979,866	5.89	
State and Municipal Obligations	14,883,806	12.64	
Repurchase Agreements	64,842,363	1.01	
Asset Backed Securities	252,331,426	1.12	
Asset Backed Securities	375,643,651		4.17
Total Debt Securities	\$ 5,172,004,721		
Portfolio Effective weighted duration		4.47	
Portfolio Macaulay weighted duration	•		4.17
Other Investments			
Equity Securities	\$ 8,827,774,031		
Common Stock	7,818,805,730		
Real Estate	395,698,769		
Short-term Investments	563,126,743		
Securities Lending	3,799,448,811		
Other Investments	707,160,222		
Total Other Investments	\$ 22,112,014,306		
Total Investments	\$ 33,005,964,879		

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each Pension Trust Fund has an investment policy that defines the types of investments and

ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The Pension Trust Funds, rated debt investments as of June 30, 2005 and the ratings are presented in the following table.

Investments and Credit Ratings

Quality Rating	Amount
AAA	\$ 2,029,786,947
AA+	1,439,266
AA	793,646,705
AA-	84,766,981
A+	196,920,079
A	874,967,335
A-	94,502,023
BBB+	138,345,630
BBB	146,318,295
BBB-	81,970,376
BB+	20,332,710
BB	4,180,000
В	3,282,556
CCC	8,179,525
Not Rated	 53,178,692
Total Credit Risk Debt Securities	\$ 4,531,817,119
Cash Equivalents	\$ 1,287,800,000
U.S. Government & Agencies	3,585,098,868
Pooled Investments	64,842,363
Total Investments	\$ 9,469,558,350

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of the Kentucky Employees Deferred Compensation Authority's (KEDCA) there is a policy limiting the amount of investment in a single issuer to 5% or less of the investment portfolios' fair value. The following KEDCA Fund investment contracts represent 5% or more of investments held in trust for Plan benefits at June 30, 2005:

Asset Description	<u>Amount</u>
ING Life Ins. Annuity Co	\$62,993,584
JP Morgan Chase Bank	66,230,311
Rabobank Nederland	57,603,308
UBSAG	68,311,773
Fidelity Contrafund	131,302,058
Vanguard Wellington Fund	120,347,902
Vanguard Institutional Index Fund	72,384,731
Fidelity Equity Income Fund	60,601,612

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. With the exception of the KEDCA fixed contract fund the Pension Trust Funds do not have a formal policy that addresses investments in foreign currency. Additional disclosures regarding the pension Trust Funds exposure to foreign currency risk can be found in the notes to the audited financial statements of the individual pension trust funds.

The Pension Trust Funds' investments in foreign currency as of June 30, 2005 are presented in the following table.

Foreign Currency Risk

Foreign Currency	Equity	Non Designated	Total
Australian dollar	\$ 73,181,549	\$	\$ 73,181,549
British pound sterling	382,567,742		382,567,742
Danish krone	10,347,311		10,347,311
Euro	617,959,514		617,959,514
Hong Kong dollar	30,067,340		30,067,340
Japenese yen	432,388,067		432,388,067
New Zealand dollar	4,440,403		4,440,403
Norwegian krone	13,363,654		13,363,654
Singapore dollar	25,493,794		25,493,794
South Korean won	3,366,341		3,366,341
Swedish krona	72,002,512		72,002,512
Swiss franc	141,566,691		141,566,691
International equity mutual fund (varoius currencies)	484,952,191		484,952,191
American Funds Euro Pacific Growth Fund	28,217,516		28,217,516
Federated Int'l Small Co. Fund	4,148,645		4,148,645
Templeton Foreign Fund	4,820,875		4,820,875
Total Securities subject to			
foreign currency risk	2,328,884,145		2,328,884,145
USD (securities held by Int'l Investment Managers)		82,374,720	82,374,720
Total Int'l Investment Securities	\$ 2,328,884,145	\$ 82,374,720	\$ 2,411,258,864

Securities Lending Program

Kentucky Revised Statutes permit the retirement systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the retirement system's custodial bank(s) either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. At June 30, 2005, the retirement systems have no credit risk exposure to borrowers because the amounts the retirement systems owe the borrowers exceed the amounts the borrowers owe the retirement systems. The retirement systems cannot pledge or sell collateral securities unless the borrower defaults. More detail of individual policies may be found in the audited financial statements of each retirement system.

MAJOR DISCRETELY PRESENTED COMPONENT UNITS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the major discretely presented component units' deposits was \$920,983,143 and bank balance was \$905,851,597.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the component unit will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Each component unit has informal policies to control custodial credit risk and those policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the custodial credit risk maintained for investments held by the major discretely presented component units for the fiscal year ended June 30, 2005.

Notes to Financial Statements

June 30, 2005

Custodial Risk

I. Deposits

Cash and Equivalents (original maturity 90 days or less):

Deposits are uninsured and

a) uncollateralized; \$ 14,351,799

b) collateralized with securities held by the pledging financial institution; or 125,726,529

c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.

318,177,744

Total deposits subject to custodial credit risk

\$ 458,256,072

II. Investments and Non-Current Cash:

Non-current cash and investments which are uninsured, are not registered in the name of the Commonwealth, AND are held by either
(a) the counterparty or

\$ 634,389,900

(b) the counterparty's trust department or agent but not in the Commonwealth's name.

157,145,917

Total non-current cash and investments subject to custodial credit risk

\$ 791,535,817

Investment Types:

Debt Securities	Type A (counterparty)	-	/pe B or agent)
Mortgage Backed Securities	\$ -	\$	67,000
U.S. Treasuries	10,953,806	87	7,066,755
U.S. Agencies	15,172,616		
Corporate Debt	29,001,000		
Bond Mutual Funds	3,851,449	!	5,120,469
Total Debt Securities	58,978,871	92	2,254,224
Other Investments			
Equity Securities	\$ 273,421,000	\$ 12	2,655,395
Other:			
Jewelry			67,500
Money Market			793,689
Cash		Į.	5,140,109
Mutual Funds	227,101,000		
Investments in Partnerships	55,188,000		
Funds Held in Trusts by Others		44	4,957,000
Real Estate	15,881,000		
Land and Buildings	1,845,000		
Compensating Balance	1,700,000		
Annuities	75,029		
Negotiable Certificates of Deposit	200,000	•	1,278,000
Total Other Investments	575,411,029	64	1,891,693
	Total Type A 634,389,900	Total Type B 15	7,145,917
Total non-current cash and investments subject to custodial cre	dit risk	\$ 79	1,535,817

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The component units have numerous policies that limit the amounts and types of investments as a means of managing the exposure to fair value losses arising from increasing interest rates. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the investments held by the major discretely presented component units for the fiscal year ended June 30,2005.

Cash and Investments by Type

I. Cash

	Ca	arrying Amount	Bank Balance
Cash	\$	717,484,913	\$ 734,141,616
Money Market		120,699,596	120,699,596
Nonnegotiable Certificates of Deposit		739,689	739,689
Other		82,058,945	50,270,696
Total Cash	\$	920,983,143	\$ 905,851,597

II. Investments:

Investments managed based on maturites

Debt Securities	Fair Value		< 1 year	1 - 5.5 years		
U.S. Government Fixed Income	\$ 54,733,241	\$	37,782,871	\$	16,950,370	
Guaranteed Investment Contracts	29,559,759		29,559,759			
Cash Equivalents	5,259,190		5,259,190			
Total	\$ 89,552,190	\$	72,601,820	\$	16,950,370	

Investments managed based upon duration

Debt Securities	Fair Value	Effective Duration	Modified Duration
Mortgage Backed Securities	\$ 105,644,973	3.85	
Commercial Paper	2,148,879	0.05	
U.S. Treasuries/Government	57,398,724	2.47	
U.S. Treasuries/Government	29,884,052		3.73
U.S. Agencies	112,936,359	2.54	
Corporate Debt	17,059,365	5.76	
Corporate Debt	28,572,869		3.68
Negotiable Certificates of Deposit	1,715,853	0.62	
State and Municipal Obligations	639,278	0.96	
Bond Mutual Funds	9,210,917	3.03	
Repurchase Agreements	109,621,392	0.00	
Asset Backed Securities	526,828	0.38	
Fixed Income Pools			
Pooled Endowment Fund	57,145,738		4.04
Commonwealth of KY Intermediate Pool	59,558,099		1.32
Guaranteed Investment Contracts	34,733,000	0.02	
Total Debt Securities	\$ 626,796,326		
Portfolio effective weighted duration		2.14	
Portfolio modified weighted duration (yrs)	_		3.00

Other Investments

Equity Securities	\$ 678,245,738
Pooled Real Estate Funds	60,230,192
Equity in Healthcare Corporations	31,378,742
Mutual Funds	231,320,932
Investments in Partnerships	55,188,000
Funds Held in Trust by Others	44,957,000
Variable Rate Demand Notes	18,295,000
Jewelry	67,500
Other - various investments not detailed.	71,290,384
Total Other Investments	\$ 1,190,973,488
Total Investments	\$ 1,907,322,004

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each component unit has an investment policy that defines the types of investments and ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The major discretely presented component units, rated debt investments as of June 30, 2005 and the ratings are presented in the following table.

Investments and Credit Ratings

			Cre	edit Ratings				To	otal Fair Value
	Aaa	Aa		Α	Baa	Unrated	NA	0	f Investments
Mortgage Backed Securities	\$ 105,644,973	\$	\$		\$	\$ Ç	\$	\$	105,644,973
Cash Equivalents	4,315,979								4,315,979
U.S. Agencies	10,117,562					1,248,443			11,366,005
Corporate Debt	19,408,192	1,066,883		1,649,426	17,566,114	20,170,169			59,860,784
State and Municipal Obligations	551,570	50,914		36,794					639,278
Mutual Funds	3,851,449	9,186,920				227,339,999			240,378,368
Repurchase Agreements						109,621,392			109,621,392
Asset Backed Securities	526,828								526,828
U.S. Government Securities	182,534,905					53,634,700			236,169,605
Certificates of Deposit				34,149		1,681,703			1,715,852
Real Estate						17,726,000	42,504,192		60,230,192
Investments in Partnerships						55,188,000			55,188,000
Funds Held in Trust by Others						44,957,000			44,957,000
Corporate Equity	2,148,879						56,339,143		58,488,022
Fixed Income Pools						116,703,837			116,703,837
Pooled Equity Funds							334,238,125		334,238,125
Equity in Healthcare Corporations							31,378,742		31,378,742
Other						36,512,277	107,430,843		143,943,120
Total Investments	\$ 329,100,337	\$ 10,304,717	\$	1,720,369	\$ 17,566,114	\$ 684,783,520	\$ 571,891,045	\$	1,615,366,102

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. All of the major discretely presented component units except the Kentucky Housing Corporation (KHC) have policies in place that limit the amount that can be invested in a single issuer to 5% of the total portfolio market value. KHC places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in BlackRock Capital Management, Federal Home Loan Bank, Fannie Mae, and Trinity Plus Funding. These investments are 31 percent, 28 percent, 27

percent, and 10 percent, respectively, of the Corporation's total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The major discretely presented component units have no deposits or investments subject to custodial credit risk as of June 30, 2005. Policies for controlling foreign currency risk will vary with each component unit, individual policies can be found in the notes to the financial statements of the respective component units.

Foreign Currency Risk

	 investm	-		
Foreign Currency	Equity	Debt		Total
Pooled Fixed Income Funds	\$	\$ 6,047,002	\$	6,047,002
Pooled Global Equity Funds	44,095,060			44,095,060
Pooled Non-U.S. Equity Funds	62,163,163			62,163,163
Mutual Funds	108,132,252			108,132,252
Total Securities subject to				
foreign currency risk	\$ 214,390,475	\$ 6,047,002	\$	220,437,477

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COMMONWEALTH OF KENTUCKY Notes to Financial Statements

June 30, 2005

Note 6

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 (Expressed in Thousands):

(Expressea in Thousanas):	Primary Government									
	Beginning	•		Ending						
Primary Government:	Balance Restated	Additions	Decreases	Balance						
Governmental Activities										
Capital assets, not being depreciated: Land	\$ 104,371	\$ 16,290	\$ (8,131)	\$ 112,530						
Construction in progress	2,357,126	1,293,688	(1,862,982)	1,787,832						
Infrastructure	15,127,436	851,101	(28,469)	15,950,068						
Total capital assets not being depreciated	17,588,933	2,161,079	(1,899,582)	17,850,430						
Capital assets, being depreciated/amortized:										
Improvements other than buildings	9,066	2,007		11,073						
Buildings	951,335	76,316	(20,899)	1,006,752						
Machinery and Equipment	495,599	57,212	(34,780)	518,031						
Easements and Other Intangibles	44,083	3,491	(26)	47,548						
Total capital assets, being depreciated/amortized	1,500,083	139,026	(55,705)	1,583,404						
Less accumulated depreciation/amortization:										
Improvements other than buildings	(3,511)	(1,496)		(5,007)						
Buildings	(343,397)	(23,907)	6,752	(360,552)						
Machinery and Equipment	(313,836)	(41,865)	31,808	(323,893)						
Easements and Other Intangibles	(3,820)	(1,219)	00.500	(5,039)						
Total accumulated depreciation	(664,564)	(68,487)	38,560	(694,491)						
Total capital assets, being depreciated/amortized, net	835,519	70,539	(17,145)	888,913						
Governmental activities capital assets, net	\$ 18,424,452	\$ 2,231,618	\$ (1,916,727)	\$ 18,739,343						
Business-type activities										
Capital assets, not being depreciated:	. 40.540	6 444	•	f 40.007						
Land	\$ 19,516	\$ 111 2,619	\$ (24.702)	\$ 19,627 42,006						
Construction in progress	61,090		(21,703)							
Total capital assets, not being depreciated	80,606	2,730	(21,703)	61,633						
Capital assets, being depreciated/amortized: Improvements other than buildings	89,103	1,628	(240)	90,491						
Buildings	186,224	20,816	(2,449)	204,591						
Machinery and Equipment	56,549	2,318	(5,948)	52,919						
Easements and Other Intangibles	2,322	2,010	(0,010)	2,322						
Total capital assets, being depreciated/amortized	334,198	24,762	(8,637)	350,323						
Less accumulated depreciation for:										
Improvements other than buildings	(46,904)	(1,952)	479	(48,377)						
Buildings	(70,695)	(6,039)	843	(75,891)						
Machinery and Equipment	(41,027)	(3,949)	5,424	(39,552)						
Easements and Other Intangibles	(178)	(232)		(410)						
Total accumulated depreciation	(158,804)	(12,172)	6,746	(164,230)						
Total capital assets, being depreciated/amortized, net	175,394	12,590	(1,891)	186,093						
Business-type activities capital assets, net	\$ 256,000	\$ 15,320	\$ (23,594)	\$ 247,726						

Notes to Financial Statements

June 30, 2005

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

(Expressed in Thousands)	Gover act	Business-type activities			
General Government	\$	6,387	\$		
Legislative and Judicial		707			
Commerce		3,204			
Education and Humanities		4,120			
Human Resources		3,664			
Justice		16,049			
Natural Resources and Environmental Protection		3,980			
Public Protection and Regulation		443			
Transportation		14,332			
Capital assets held by government's internal service funds are charged to the various functions based on					
usage of the assets		15,601			
State Parks				8,162	
Lottery Corporation				3,233	
Horse Park				340	
Insurance Administration				321	
Total depreciation expense by activities	\$	68,487	\$	12,056	

Discretely presented major component units Capital asset activity for the year ended June 30, 2005 (Expressed in Thousands):

(Expressed in Thousands).			Compon	ent Unit	ts	
	Beginning Ince Restated	A	dditions	Re	tirements	Ending Balance
Capital assets, not being depreciated:						
Land	\$ 96,684	\$	7,059	\$	(510)	\$ 103,233
Construction in progress	 152,907		105,144		(99,011)	 159,040
Totals, capital assets not being depreciated	 249,591		112,203	-	(99,521)	 262,273
Capital assets, being depreciated/amortized:						
Improvements other than buildings	66,325		6,492		(4,132)	68,685
Buildings	2,115,494		132,913			2,248,407
Machinery and Equipment	873,204		102,681		(40,292)	935,593
Easements and Other Intangibles	 9,117				(9,117)	
Total capital assets, being depreciated/amortized	3,064,140		242,086		(53,541)	3,252,685
Less accumulated depreciation for:						
Improvements other than buildings	(42,499)		(1,855)			(44,354)
Buildings	(820,043)		(57,665)			(877,708)
Machinery and Equipment	(547,789)		(74,798)		29,764	(592,823)
Easements and Other Intangibles	(5,776)		, , ,			(5,776)
Total accumulated depreciation	(1,416,107)		(134,318)		29,764	(1,520,661)
Total capital assets, being depreciated/amortized, net	1,648,033		107,768		(23,777)	 1,732,024
Component units capital assets, net	\$ 1,897,624	\$	219,971	\$	(123,298)	\$ 1,994,297
Depreciation expense, charged to functions/programs of discretely presented major component units as follows: (Expressed in Thousands) Kentucky Housing Corporation Kentucky Higher Education Assistance Authority Kentucky School Facilities Construction Commission University of Kentucky University of Louisville Kentucky Community and Technical College System		\$	677 3,612 78,220 31,793 20,016			
Total depreciation expense by activities		\$	134,318			

Notes to Financial Statements

June 30, 2005

Note 7

Interfund Transactions

The table below shows the interfund operating transfers for the fiscal year 2005

(Expressed in Thousands):	Transfers Out											
Transfers In		General Fund			I	Federal Fund		Agency Revenue Fund		Capital Projects Fund		
General Fund	\$		\$		\$	35	\$	41,980	\$	9,123		
Transportation Fund								122		172		
Federal Fund								9,038		17		
Agency Revenue Fund		47,108				23,407				2,807		
Capital Projects Fund		38,012		13,794		913		16,196				
Non-Major Governmental Funds		379,059		112,495		816		262,683		23,669		
State Parks Fund		28,533				23				4,135		
Kentucky Horse Park Fund		1,871								575		
Insurance Administration Fund		7				461		456				
Unemployment Compensation Fund								10				
Internal Service Funds		1,697						200		4,725		
Fiduciary Funds		365										
Total	\$	496,652	\$	126,289	\$	25,655	\$	330,685	\$	45,223		

Reasons for transfers:

Interfund Receivables and Payables

The table below shows the interfund receivables and payables for the fiscal year 2005 (Expressed in Thousands):

		interiund	i Payables			
Interfund Receivables	General Fund	Transportation Fund	Fede Fun		Agency Revenue Fund	
General Fund	\$	\$	\$	13,360	\$	4,864
Transportation Fund				32		2,710
Federal Fund	16,928	29,918				15,062
Agency Revenue Fund	18,054	11,568		16,267		
Capital Projects Fund				116		1,869
Non-Major Governmental Funds	13,293	586		20,416		1,111
State Parks Fund	7	1		20		6
Insurance Administration Fund	27			4		
Unemployment Compensation Fund	4					
Internal Service Funds	3,879	111		90		301
Totals	\$ 52,192	\$ 42,184	\$	50,305	\$	25,923

Interfund Payables

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

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

${\bf COMMONWEALTH\,OF\,KENTUCKY}$

Notes to Financial Statements

June 30, 2005

Transfers Out

Gov	on-Major vernmental	State Parks		Kentucky Lottery Corporation		Lottery Corporation	Hoi	entucky se Park	nsurance ministration	nployment npensation	5	Internal Service		Service		iduciary		Tatal
	Funds	 Fund				Fund	Fund	 Fund		Funds		Funds	_	Total				
\$	48,259 143	\$ 110	\$	161,252	\$	40	\$ 291	\$	\$	5,501	\$	765	\$	267,356 437				
	76							9,370		205		53		18,759				
	342,120	5								49		2,881		418,377				
	9,312	1,716					3			3,506				83,452				
	213,905	86		7,987				2,042		20				1,002,762				
	1,803													34,494				
														2,446				
	3,840													4,764				
														10				
	1,181													7,803				
	, -						150							515				
\$	620,639	\$ 1,917	\$	169,239	\$	40	\$ 444	\$ 11,412	\$	9,281	\$	3,699	\$	1,841,175				

Interfund Payables

					a . ayası									
Total	 nternal Service Funds	s	nployment pensation Fund	Comp	urance nistration Fund	Admir	ntucky se Park ^F und	Hor	State Parks Fund	Р	on-Major ernmental Funds	Gov	Capital Projects Fund	Р
23,493 2,746	\$ 141	\$	1	\$		\$		\$	339	\$	4,788 4	\$		\$
65,999	204		3,532		32				10		313			
55,123	60				2		7		13		9,142		10	
3,805	1,686										134			
42,303	1				377						6,519			
97	35												28	
422	26										365			
4														
4,565	35				34				78		14		23	
198,557	\$ 2,188	\$	3,533	\$	445	\$	7	\$	440	\$	21,279	\$	61	\$

Note 8

PENSION PLANS

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

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

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

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

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

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

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

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

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

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) 696-8800 or (800) 928-4646.

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

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925 percent benefit rate and the

Notes to Financial Statements June 30, 2005

60 month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

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

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

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

The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for local school districts and other educational agencies in the state.

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

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

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

	Kentucky Legislators' Retirement Plan	Kentucky Judicial Retirement Plan
Contribution rates: State Plan members	20.10% 5.00%	10.00% 5.00%
Portion of State Contribution for Health Insurance		
Annual pension costs (Thousands)	\$3	\$1,917
Contributions made (Thousands)		\$1,913
Actuarial valuation date	June 30, 2005	June 30, 2005
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Interest + 1% Unfunded past liability	$\begin{array}{c} \text{Interest} + 1\% \\ \text{Unfunded past liability} \end{array}$
Remaining amortization period	25 years	25 years
Asset valuation method	Market value	Market value
Actuarial assumptions: Investment rate of return Inflation Rate	7.50%	7.50%
Projected salary increases	4.00%	4.00%
Increases in Health Insurance Cost	6% - 10%	6% - 10%
(Dollar amounts in thousands) ARC Interest on NPO Adjustment to ARC Annual pension cost Contributions made Increase (Decrease) in NPO NPO beginning of year NPO end of year	\$ (71) 75 3 (891) \$ (888)	\$ 1,913 (80) 84 1,917 1,913 4 (1,002) \$ (998)

	State Police Retirement System		icky Employees Retirement System		cucky Teachers' Retirement System	
	21.58% 8.00%	5.8	9% - 18.84% 5% - 7%		39% - 17.84% 625% -9.105%	
	21.58%	5.8	9% -12.66%		0.75%	
	\$10,211		\$201,995		\$383,700	
	\$9,608		\$124,442		\$383,700	
	June 30, 2005	Ju	June 30, 2005			
	Entry age normal	Ent	Entry age normal			
	Level percent closed	Leve	Lev	el percent open		
	30 years		30 years		30 years	
	Five-year smoothing of investment gains and losses		ear smoothing of ont gains and losses	Five	e-year smoothed market	
	8.25%		8.25%		7.50%	
	5.00%		5.00%		4.00%	
	6.50%		6.50%	4.	00% - 8.10%	
	7.5% - 10%	7	.5% - 10%	12	2.4% - 12.5%	
\$	12,339 1,101 (668)	\$	198,116 9,877 (5,998)	\$	383,700	
_	12,771 9,608		201,995 124,442		383,700 383,700	
	3,163		77,553		303,700	
\$	13,343 16,506	\$	119,719 197,272			
Ψ	10,500	ψ	171,212	Ψ		

Schedule of Funding Pr	ogress									
Actuarial Valuation Date		Actuarial Value of Assets (a)	. <u>-</u>	Actuarial Accrued Liability (AAL) (b)	<u> </u>	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Kentucky Employees R	etiremen	<u>ıt System</u>								
Non-Hazardous		0.054.040.000		0.500.400.400		100 111 050	07.4	•	4 050 004 000	40.0
June 30, 2003	\$	6,351,318,832	\$	6,520,463,188	\$	169,144,356	97.4	\$	1,658,604,696	10.2
June 30, 2004		6,000,513,743		7,049,613,171		1,049,099,428	85.1		1,645,412,496	63.8
June 30, 2005		5,578,685,746		7,579,074,839		2,000,389,093	73.6		1,655,907,288	120.8
Hazardous										
June 30, 2003	\$	385,925,722	\$	356,879,133	\$	(29,046,589)	108.1	\$	129,088,956	(22.5)
June 30, 2004	•	397,212,763	•	403,578,036	•	6,365,273	98.4	•	126,664,812	5.0
June 30, 2005		405,288,662		439,013,910		33,725,248	92.3		131,687,088	25.6
,		, ,		. ,		, ,				
State Police Retirement										
June 30, 2003	\$	413,063,576	\$	414,881,459	\$	1,817,883	99.6	\$	43,760,832	4.2
June 30, 2004		385,077,195		437,482,425		52,405,230	88.0		43,835,208	119.6
June 30, 2005		353,511,622		458,593,576		105,081,954	77.1		43,720,092	240.4
Judicial Retirement Pla	n									
June 30, 2003	<u> </u>	234,298,628	\$	202,838,112	\$	(31,460,516)	115.5	\$	26,159,412	(120.3)
June 30, 2004	•	247,388,763	•	218,117,389	•	(29,271,374)	113.4	•	25,905,022	(113.0)
June 30, 2005		259,167,087		241,031,456		(18,135,631)	107.5		28,483,104	(63.7)
				,,		(,,,			,,	()
<u>egislators' Retirement</u>										
June 30, 2003	\$	59,379,470	\$	49,168,446	\$	(10,211,024)	120.8	\$	2,695,000	(378.9)
June 30, 2004		62,786,767		50,213,770		(12,572,997)	125.0		2,585,000	(486.4)
June 30, 2005		65,537,351		62,619,568		(2,917,783)	104.7		3,545,131	(82.3)
Kentucky Teachers' Ret	tirement	System								
June 30, 2003	\$	13.863.786.000	\$	16,594,781,000	\$	2,730,995,000	83.5	\$	2,497,731,000	109.3
June 30, 2004	•	14,255,131,000	•	17,617,626,000	•	3,362,495,000	80.9	•	2,641,533,000	127.3
June 30, 2005		14,598,800,000		19,134,800,000		4,536,000,000	76.3		2,703,400,000	167.8
04110 00, 2000		,000,000,000		. 5, 10 1,000,000		.,000,000,000	, 0.0		_,, 00, 100,000	107.0

	Kentucl Employe Retireme Syster	ees ent	Count Employe Retirem Syster	State Police Retiremen System		Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TOTAL	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous	,				
Retirees and beneficiaries receiving benefits	30,770	1,752	31,347	4,361	1,036	250	144	37,402	107,062
Terminated plan members - vested	5,240	307	7,771	482	42	25	32	4,033	17,932
Terminated plan members - non-vested	23,105	1,997	41,098	1,489	210				67,899
Active plan members	47,118	4,274	81,240	9,464	987	260	122	72,281	215,746
Total Members	106,233	8,330	161,456	15,796	2,275	535	298	113,716	408,639
Number of participating employers	350		1,400		1	1	1	198	1,951

Three year trend for contributions (Expressed in thousands):

((Annual Required Contribution	Percentage Contributed
Kentucky Employees Retirement System			
Non-Hazardous			
2003	\$	96,958	75.2%
2004		125,691	79.3%
2005		172,773	58.0%
<u>Hazardous</u>			
2003	\$	24,351	95.3%
2004		24,543	100.8%
2005		25,343	99.3%
State Police Retirement System			
2003	\$	9,444	80.8%
2004		9,611	100.0%
2005		12,339	76.8%
Judicial Retirement Plan			
2003	\$	2,134	100.0%
2004		2,134	100.0%
2005		1,912	100.0%
Legislator's Retirement Plan			
2003	\$	651	109.0%
2004		651	109.0%
2005		0	0.0%
Kentucky Teachers' Retirement System			
2003	\$	322,047	100.0%
2004	•	364,351	100.0%
2005		383,700	100.0%

Note 9

EMPLOYEE BENEFIT PLAN

Deferred Compensation

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

Of the \$508,829,364 in the 457 Plan at June 30, 2005, \$290,514,916 was applicable to the Commonwealth, while the remaining \$218,314,448 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$653,000,237 at June 30, 2005, of which \$289,772,387 was applicable to the state while the remaining \$363,227,850 represents other participating jurisdictions.

Note 10

LEASE OBLIGATIONS

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

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

Changes in leases payable for the year ended June 30, 2005, are summarized in Note 15, Changes in Long-Term Obligations.

At June 30, 2005, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):

	Primary Government					
Buildings and Equipment acquired through capital leases are recorded at the lessor of fair market value or present value of future minimum lease payments.	Governmental Activities		Business-Type Activities		Component Units-Major	
Buildings	\$	5,890	\$		\$	19,006
Equipment		42,406		390		10,058
Other		12,599				24,962
Total		60,895		390		54,026
Less: Accumulated depreciation		(15,792)		(279)		(6,571)
Total Net of Depreciation	\$	45,103	\$	111	\$	47,455

Future minimum rental commitments for capitalizable leases as of June 30, 2005, are as follows (Expressed in Thousands):

	Primary Government			Units-Major Universities,			
		Governmental Activities	Busines Activ		Colleg	ges, and Entities	Total
2006	\$	10,698	\$	145	\$	10,647	\$ 21,490
2007		8,013		87		16,617	24,717
2008		6,127		45		14,007	20,179
2009		1,781		26		13,643	15,450
2010		1,392				5,076	6,468
2011-2015		5,252				22,857	28,109
2016-2020		3,971				19,194	23,165
2021-2025		1,215				7,984	9,199
Total minimum lease payments		38,449		303		110,025	 148,777
Less: Amount representing interest							
(1.50-30.75%)		(5,931)		(28)		(24,963)	(30,922)
Present value of future minimum							-
lease payments	\$	32,518	\$	275	\$	85,062	\$ 117,855

Note 11

RISK MANAGEMENT

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

Fire and Tornado Insurance:

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

The claims liability of \$205,513 reported in the Program at June 30, 2005, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2005 and 2004 were:

Component

	F	iscal Year 2005	Fiscal Year 2004		
Beginning of fiscal year liability	\$	765,468	\$	1,407,000	
Incurred claims		1,984,940		3,069,211	
Changes in estimates					
Claims payments		(2,544,895)		(3,710,743)	
Balance at Fiscal Year End	\$	205,513	\$_	765,468	

Self-Insured Workers' Compensation:

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury.

Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

The actuarially determined aggregate claims liability of \$105,330,054 reported in the Program at June 30, 2005, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2005 and 2004 were:

		Fiscal Year 2005		Fiscal Year 2004
Beginning of fiscal year liability	\$	95,541,237	\$	94,552,483
Claims and claims adjustments incurred:				
Current year		20,899,256		20,319,865
Prior year		3,431,137		(4,312,334)
Total Claims and Claims Adjustments Incurred: Claims and claims adjustment		24,330,393		16,007,531
payments:				
Current year		(4,519,389)		(3,655,564)
Prior year	_	(10,022,187)	_	(11,363,213)
Total Claims and Claims Adjustment Payments		(14,541,576)		(15,018,777)
Balance at Fiscal Year End	\$	105,330,054	\$	95,541,237

Transportation Cabinet Workers' Compensation:

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2005 and 2004 were:

	Fisca	al Year 2005	Fiscal Year 2004		
Beginning of fiscal year liability	\$	20,344,822	\$	22,654,575	
Claims and claims adjustments incurred		4,742,588		2,649,206	
Changes in estimates		(1,123,662)		(1,376,374)	
Claims and claims adjustment payments		(3,176,892)		(3,582,585)	
Balance at Fiscal Year End	\$	20,786,856	\$	20,344,822	

Note 12

RISKPOOLS

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

Risk Pools - Enterprise Funds Workers' Compensation Insurance:

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$873,763,791, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,810,366,955, discounted at 6.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$26,855,826 as reported in the financial statements is the present value is the aggregate actuarially determined liability of \$63,285,982, discounted at 6.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2005. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	 Fiscal Year 2005		Fiscal Year 2004
Beginning of fiscal year liability	\$ 2,131,840,811	\$	2,165,474,600
Claims and claims adjustments incurred	3,715,646		3,491,639
Changes in estimates	(181,487,064)		46,801,769
Claims and claims adjustment payments	 (80,416,456)	_	(83,927,197)
Balance at Fiscal Year End	\$ 1,873,652,937	\$	2,131,840,811

Coal Workers' Pneumoconiosis Fund:

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

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

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$10,985,771, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$17,307,661, discounted at 6.0 percent. The claims adjustment liability of \$683,362, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,076,611, discounted at 6.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2005			Fiscal Year 2004
Beginning of fiscal year liability	\$	11,140,027	\$	9,553,619
Claims and claims adjustments incurred		1,710,229		1,859,586
Changes in estimates		6,865,278		1,049,423
Claims and claims adjustment payments		(1,331,262)	_	(1,322,601)
Balance at Fiscal Year End	\$	18,384,272	\$	11,140,027

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

Petroleum Storage Tank Environmental Assurance Program:

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

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$169,810,000 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	 Fiscal Year 2005	F	iscal Year 2004
Beginning of fiscal year liability	\$ 173,266,000	\$	177,188,000
Claims and claims adjustments incurred	24,016,000		24,721,000
Changes in estimates			
Claims and claims adjustment payments	 (27,472,000)		(28,643,000)
Balance at Fiscal Year End	\$ 169,810,000	\$	173,266,000

Bond Pool:

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

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

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

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$21,452,273, as reported in the financial statements, is the aggregate actuarially determined claims liability. There were no changes in claims adjustment liability during fiscal year 2005. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fisca	l Year 2005	Fiscal Year 2004		
Beginning of fiscal year liability	\$	21,452,273	\$	13,594,597	
Claims and claims adjustments incurred		45,622			
Changes in estimates				7,857,676	
Claims and claims adjustment payments		(45,622)			
Balance at Fiscal Year End	\$	21,452,273	\$	21,452,273	

Mine Subsidence Insurance:

The Mine Subsidence Insurance Program is administered by the Department of Insurance. The provisions of the Program require that all insurance policies issued or renewed that insure a structure located in any county in the Commonwealth, except those specifically exempted by KRS 304.44-60, shall include a separately stated premium for mine subsidence damage coverage. This premium is assessed at the amount determined by the Program, and the insurer is required to code this coverage to the Program. The insurer may refuse to provide coverage where preexisting damage is determined to exist. The Program provides coverage subject to a deductible of 2 percent of the policy's total insured value or not less than \$250 and not more than \$500. The Mine Subsidence Program also limits its coverage to \$50,000 per structure.

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability of \$9,500 as reported in the financial statements, is the aggregate actuarially determined claims liability. Changes in the Program's claims liability amount in Fiscal Years 2005 and 2004 were:

	 Fiscal Year 2005	 Fiscal Year 2004
Beginning of fiscal year liability	\$ 155,000	\$ 65,000
Claims and claims adjustments incurred		223,598
Changes in estimates		
Claims and claims adjustment payments	(145,500)	(133,598)
Balance at Fiscal Year End	\$ 9,500	\$ 155,000

Risk Pools - Component Units Kentucky Access:

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

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

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

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

Notes to Financial Statements

June 30, 2005

Changes in the Program's claims liability amount in Fiscal Years 2005 and 2004 were:

	Fiscal Year 2005	Fiscal Year 2004
Beginning of fiscal year liability	\$ 7,910,880	\$ 5,530,547
Claims and claims adjustments incurred		4,760,766
Changes in estimates		
Claims and claims adjustment payments		 (2,380,433)
Balance at Fiscal Year End	\$ 7,910,880	\$ 7,910,880

Grain Insurance:

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

No claims liability was reported in the Program at June 30, 2005, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2004 was also zero.

Note 13

DEFEASANCE OF LONG-TERM DEBT

The State Property and Buildings Commission issued \$182,845,000 of Revenue Refunding Bonds, Project 84, dated August 1, 2005. The net proceeds of this issue were \$199,531,609 with a premium of \$18,590,813 and issuance cost and underwriters' discount of \$1,904,204. The net proceeds of the refunding portion were placed in escrow accounts to advance refund State Property and Buildings Commission, Project 69, Series A bonds, maturing August 1, 2021; Project 72 bonds maturing October 1, 2018 through October 1, 2021; Project 74 bonds maturing February 1, 2018 through February 1, 2022; Project 77 bonds maturing August 1, 2023; and Project 79 bonds maturing October 1, 2021 and 2022. The net savings (reduction in cash flow) for the Refunding Bonds will be \$11,432,233 and the present value of the savings is \$7,143,308 at a rate of 4.112%.

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2005 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated August 1, 2004, were issued for the Nelson County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$653,705 maturing February 1, 2005 through August 1, 2016 and carrying interest rates from 2.00% to 3.80%.

Revenue refunding bonds dated October 1, 2004, were issued for the Madison County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$572,461 maturing February 1, 2005 through August 1, 2016 and carrying interest rates from 2.00% to 3.70%.

Revenue refunding bonds dated October 1, 2004, were issued for the Oldham County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$437,355 maturing July 1, 2005 through July 1, 2015 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated October 1, 2004, were issued for the McCracken County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$706,570 maturing March 1, 2005 through March 1, 2016 and carrying interest rates from 2.00% to 3.80%.

Revenue refunding bonds dated October 1, 2004, were issued for the Pulaski County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$89,254 maturing September 1, 2005 through September 1, 2015 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated October 1, 2004, were issued for the Jackson Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$79,567 maturing July 1, 2005 through July 1, 2015 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated October 1, 2004, were issued for the Franklin County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$371,741 maturing March 1, 2005 through March 1, 2015 and carrying interest rates from 2.00% to 3.75%.

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Revenue refunding bonds dated October 1, 2004, were issued for the Campbell County School District Finance Corporation to refund a portion of 1995 and 1996 issues. The Commission's portion of the refunding issue was \$641,839 maturing February 1, 2005 through August 1, 2016 and carrying interest rates from 3.00% to 3.75%.

Revenue refunding bonds dated October 1, 2004, were issued for the Paris Independent School District Finance Corporation to refund 1994 and 1996 issues. The Commission's portion of the refunding issue was \$148,392 maturing February 1, 2005 through February 16, 2016 and carrying interest rates from 1.90% to 3.80%.

Revenue refunding bonds dated November 1, 2004, were issued for the Bullitt County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$182,435 maturing May 1, 2005 through May 1, 2016 and carrying interest rates from 2.00% to 3.625%.

Revenue refunding bonds dated November 1, 2004, were issued for the Berea Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$36,672 maturing July 1, 2005 through July 1, 2016 and carrying interest rates from 1.90% to 3.70%.

Revenue refunding bonds dated November 1, 2004, were issued for the Webster County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was \$103,852 maturing May 1, 2005 through May 1, 2014 and carrying interest rates from 1.90% to 3.50%.

Revenue refunding bonds dated November 1, 2004, were issued for the Calloway County School District Finance Corporation to refund 1993 and 1996 issues. The Commission's portion of the refunding issue was \$476,721 maturing March 1, 2005 through March 1, 2016 and carrying interest rates from 2.00% to 3.70%.

Revenue refunding bonds dated November 1, 2004, were issued for the Dayton Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$134,490 maturing May 1, 2005 through May 1, 2015 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated November 1, 2004, were issued for the Woodford County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$982,770 maturing April 1, 2005 through October 1, 2016 and carrying interest rates from 2.00% to 3.75%.

Revenue refunding bonds dated November 1, 2004, were issued for the Campbellsville Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$135,177 maturing February 1, 2006 through February 1, 2015 and carrying interest rates from 2.20% to 3.85%.

Revenue refunding bonds dated December 1, 2004, were issued for the Casey County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$475,502 maturing August 1, 2005 through August 1, 2016 and carrying interest rates from 2.00% to 3.80%.

Revenue refunding bonds dated January 1, 2005, were issued for the Jessamine County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$203,945 maturing January 1, 2006 through January 1, 2016 and carrying interest rates from 3.375% to 4.00%.

Revenue refunding bonds dated January 1, 2005, were issued for the Meade County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$416,083 maturing July 1, 2005 through July 1, 2016 and carrying interest rates from 3.00% to 3.80%.

Revenue refunding bonds dated January 1, 2005, were issued for the Barren County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$567,906 maturing August 1, 2005 through August 1, 2016 and carrying interest rates from 3.00% to 3.70%.

Revenue refunding bonds dated February 1, 2005, were issued for the Eminence Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$23,434 maturing May 1, 2005 through May 1, 2016 and carrying interest rates from 2.25% to 3.70%.

Revenue refunding bonds dated February 1, 2005, were issued for the Pike County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$2,683,899 maturing August 1, 2005 through August 1, 2015 and carrying interest rates from 2.30% to 3.60%.

Revenue refunding bonds dated February 1, 2005, were issued for the Floyd County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$871,018 maturing May 1, 2005 through May 1, 2016 and carrying interest rates from 2.50% to 4.00%.

Revenue refunding bonds dated February 1, 2005, were issued for the Middlesboro Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$241,391 maturing August 1, 2005 through August 1, 2016 and carrying interest rates from 3.00% to 3.60%.

Revenue refunding bonds dated February 1, 2005, were issued for the Hardin County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$1,232,114 maturing July 1, 2005 through July 1, 2016 and carrying interest rates from 2.50% to 3.70%.

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Revenue refunding bonds dated March 1, 2005, were issued for the Perry County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$2,465,000 maturing April 1, 2006 through April 1, 2010 and carrying interest rates from 2.50% to 3.00%.

Revenue refunding bonds dated March 1, 2005, were issued for the Harlan Independent School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$801,647 maturing May 1, 2006 through May 1, 2015 and carrying interest rates from 3.00% to 3.70%.

Revenue refunding bonds dated March 1, 2005, were issued for the Henderson County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was \$167,604 maturing June 1, 2005 through June 1, 2015 and carrying interest rates from 2.30% to 3.625%.

Revenue refunding bonds, Series A, dated April 15, 2005, were issued for the Grant County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$447,175 maturing March 1, 2006 through March 1, 2017 and carrying interest rates from 3.00% to 4.00%.

Revenue refunding bonds, Series B, dated April 15, 2005, were issued for the Grant County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$182,146 maturing July 1, 2005 through July 1, 2016 and carrying interest rates from 3.625% to 3.875%.

Revenue refunding bonds dated June 1, 2005, were issued for the Rowan County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$99,453 maturing June 1, 2006 through June 1, 2016 and carrying interest rates from 3.00% to 3.70%.

Revenue refunding bonds dated June 1, 2005, were issued for the Allen County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$226,847 maturing April 1, 2006 through April 1, 2017 and carrying interest rates from 3.00% to 3.65%.

Revenue refunding bonds dated June 1, 2005, were issued for the Daviess County School District Finance Corporation to refund a 1997 issue. The Commission's portion of the refunding issue was \$339,258 maturing April 1, 2006 through April 1, 2017 and carrying interest rates from 3.50% to 3.75%.

Revenue refunding bonds dated June 1, 2005, were issued for the Clinton County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$184,892 maturing February 1, 2006 through February 1, 2016 and carrying interest rates from 2.80% to 3.60%.

Revenue refunding bonds, Series A, dated June 1, 2005, were issued for the Elizabethtown Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$59,411 maturing February 1, 2006 through February 1, 2016 and carrying interest rates from 3.00% to 3.50%.

Revenue refunding bonds, Series B, dated June 1, 2005, were issued for the Elizabethtown Independent School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was \$219,299 maturing January 1, 2006 through July 1, 2016 and carrying interest rates from 2.85% to 3.60%.

The Turnpike Authority of Kentucky issued Economic Development Road Revenue Refunding Bonds Revitalization Projects, 2004 Series B in the aggregate principal amount of \$41,510,000, during October, 2004. The net proceeds of this issue \$45,016,406, including premium of \$3,964,695 and less debt issuance cost of \$458,289 were invested in U.S. Government securities and deposited in an escrow account to defease \$40,620,000 Economic Development Road Revenue Bonds, Series 2000, maturing July 1, 2012 through July 1, 2014. The net savings (reduction in cash flow) for the Refunding Bonds will be \$1,487,481 and the present value of the savings is \$1,234,274 at a rate of 2.973%.

The Turnpike Authority of Kentucky issued Economic Development Road Revenue Refunding Bonds Revitalization Projects, 2005 Series A in the aggregate principal amount of \$33,330,000, during April, 2005. The net proceeds of this issue \$33,199,659, including premium of \$282,216 and less debt issuance cost of \$416,182, plus a deposit from the Authority of \$896,836 were invested in U.S. Government securities and deposited in an escrow account to defease \$32,710,000 Economic Development Road Revenue Bonds, Series 1995, maturing July 1, 2006, 2009, 2010, 2011, 2012, and 2015. The net savings (reduction in cash flow) for the Refunding Bonds will be \$1,798,209 and the present value of the savings is \$1,498,762 at a rate of 4.497%.

University of Kentucky issued \$6,230,000 Housing and Dining Revenue Refunding Bonds, Series P and Q (2^{nd}), to refund Series P and Q (1^{st}). The net proceeds of \$6,174,849, after bond discount, \$12,740 and cost of issuance \$42,411, were deposited in an escrow account to defeaase the original issues. The bonds carry interest of 2.00% to 4.00%. The net savings (reduction in cash flow) for the Refunding Bonds will be \$365,399 and the present value of the savings is \$297,041.

Kentucky Infrastructure Authority issued the following:

\$25,640,000 Governmental Agencies Program Revenue and Revenue Refunding Bonds, 2004 Series A, maturing annually to August 1, 2022 and carrying interest rates of 2.2% to 5.25%. \$17,468,370 of the proceeds along with other available funds will be used to redeem 1993 Series E and 1993 Series F Bonds. \$8,396,072 along with other available funds were used to purchase U.S. Government securities

June 30, 2005

and placed in an escrow account to refund 1995 Series H, 1998 Series I, 1999 Series J and 2002 Series K bonds.

\$17,375,000 Governmental Agencies Program Taxable Revenue Refunding Bonds, 2004 Series B, maturing annually to August 1, 2014 and carrying interest rates of 2.25% to 5.29%. \$13,485,821 along with other available funds were an escrow account to refund 1995 Series G, 1995 Series H, 1998 Series I, 1999 Series J, and 2002 Series K bonds.

The net savings (reduction in cash flow) for the Refunding Bonds will be \$4,690,290 and the present value of the savings is \$1,509,470.

Note 14

RELATED ORGANIZATIONS

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

Note 15

SHORT-TERM AND LONG-TERM OBLIGATIONS

Short-Term Obligations

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

The following chart shows changes in short-term debt during the period ending June 30, 2005:

Short-term				Short-term
Debt on				Debt on
July 1, 2004	Additions		Repayments	June 30, 2005
\$	\$ 500,000,000	\$	500,000,000	\$
\$	\$ 500,000,000	\$	500,000,000	\$
		_		

Long-Term Obligations

General Obligation Bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2005.

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

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

Notes to Financial Statements

June 30, 2005

percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2005 the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

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

The Commission issued \$182,845,000 in revenue refunding bonds as follows:

\$182,845,000, Project 84, dated March 1, 2005 maturing August 1, 2023, with interest payable each February 1 and August 1 at 3.8% to 5%.

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

The Authority issued \$288,590,000 in Economic Development Road Revenue and Revenue Refunding Bonds as follows:

\$33,330,000 Economic Development Road Revenue Refunding Bonds (Revitalization Projects), 2005 Series A, dated April 27, 2005. The Bonds are not subject to redemption prior to maturity at July 1, 2015. Interest is payable on each January 1 and July 1, beginning July 1, 2006. The interest rates range from 3.125% to 4%; and

\$213,750,000 Economic Development Road Revenue Bonds, 2005 Series B, dated April 27, 2005. The Bonds mature July 1, 2025, with interest payable each January 1 and July 1. The interest rates range from 3% to 5%; and

\$41,510,000 Economic Development Road Revenue Refunding Bonds (Revitalization Projects) 2004 Series B. The proceeds of these bonds, dated October 5, 2004, will be used to refund certain revenue bonds previously issued by the Authority to pay a portion of the costs of

certain public highway projects. Bonds mature each July 1, starting in 2005 and going through 2015. Interest is payable on each January 1 and July 1. Interest rates range from 2.0% to 5.25%.

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

State supported universities issued \$10,510,000 in revenue and revenue refunding bonds as follows:

University of Kentucky issued \$6,230,000 Housing and Dining System Revenue Refunding Bonds, Series P and Q (Second Series) dated January 11,2005. The Bonds mature June 1,2017, with interest payable June 1 and December 1. The interest rates range from 2% to 4%.

University of Louisville issued \$4,280,000 Consolidated Educational Buildings Revenue Bonds, Series P, dated June 1, 2005. The Bonds mature May 1, 2025, with interest payable each May 1 and November 1. The interest rates range from 3% to 4%.

The Kentucky Housing Corporation was established in 1972 under KRS Chapter 198A, as a municipal corporation. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued \$245,000,000 in Housing Revenue Bonds which consisted of the following:

\$60,000,000,2004 Series D and Series E Housing Revenue Bonds, dated September 16, 2004. The Series D bonds consist of \$16,025,000 serial bonds biannually due each July 1 and January 1 through July 1,2017; \$13,265,0004.90% term bonds due July 1,2024; \$11,880,0004.25% term bonds due July 1,2029; \$2,575,0005.00% term bonds due July 1,2030; 11,255,0005.05% bonds due January 1,2035. The \$5,000,0002004 Series E Bonds (AMT) are Variable Rate Term bonds due January 1,2035; and

\$45,000,000, 2004 Series F Bonds, dated November 18, 2004. The Series F bonds consist of \$8,970,000 serial bonds due biannually on each July 1 and January 1 through January 1, 2017; \$1,480,0004.50%

Notes to Financial Statements

June 30, 2005

term bond due January 1, 2017; \$1,485,000 4.25% term bond due July 1,2017; \$11,760,000 4.60% term bond due July 1,2025; \$12,290,000 3.90% term bond due July 1,2031 ("PAC Bond"); \$4,195,000 4.90% term bond due July 1,2034; and \$4,820,000 4.90% term bond due July 1,2035; and

\$10,225,000,2004 Series G (Non-AMT) Housing Revenue Bonds, dated January 27, 2005. The serial bonds are due biannually through July 1, 2016, at 2.05% to 4.05%; and

\$29,775,000, 2004 Series H (AMT) Housing Revenue Bonds, dated January 27, 2005, of which \$4,440,000 were term bonds maturing July 1, 2020, at 4.50%. Also, \$6,555,000 term bonds, due July 1, 2025, at 4.70%; \$12,620,000 term bonds, due January 1, 2033, at 4.00%; \$6,160,000 term bonds, due July 1, 2035, at 4.90%; and

\$5,000,000, 2004 Series I (AMT) Housing Revenue Bonds, dated January 27, 2005. The term bonds are due July 1, 2035 at a variable interest rate; and

\$18,670,000, 2005 Series A (AMT) Housing Revenue Bonds, dated April 7, 2005, of which \$4,750,000 were serial bonds maturing July 1, 2017, at 2.4% to 4.35%. Also, \$3,765,000 term bonds, due July 1, 2021, at 4.45%; \$3,385,000 term bonds, due July 1, 2025, at 4.60%; and \$6,770,000 term bonds, due January 1, 2032, at 4.75%; and

\$16,330,000, 2005 Series B (AMT) Housing Revenue Bonds, dated April 7,2005. The term bonds are due July 1,2032 at a variable interest rate; and

\$22,215,000, 2005 Series C (Non-AMT) Housing Revenue Bonds, dated June 9, 2005, of which \$14,430,000 were serial bonds maturing July 1, 2018, at 2.55% to 4.25%. Also, \$1,085,000 term bonds, due July 1, 2025, at 4.50%; and \$6,700,000 term bonds, due July 1, 2030, at 4.50%; and

\$37,785,000, Series D (AMT) Housing Revenue Bonds, dated June 9,2005, of which \$14,065,000 were term bonds due January 1,2027, at4.60%;\$5,000,000 term bonds, due July 1,2030, at4.70%;\$18,720,000 term bonds, due July 1,2035, at 5.00%.

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

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

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

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

The Kentucky Local Correctional Facilities Construction Authority is a body corporate and politic as well as an agency and instrumentality

of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

\$21,670,000 is outstanding on Multi-County Correctional Facilities Revenue Refunding Bonds-Series 1994; serial bonds' rates vary from 2.25% to 5.25%.

COMMONWEALTH OF KENTUCKY Notes to Financial Statements

June 30, 2005

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

During the fiscal year ended June 30, 2005, the Commission sold 64 school building revenue and revenue refunding bond issues having aggregate state participation of \$82,198,226 maturing through June 30, 2025, at interest rates of 1.75% to 5.00%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2005, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005. Copies of this report are available from the Division of Statewide Accounting Services, Financial Reporting Branch, 484 Capitol Annex, Frankfort, Kentucky 40601.

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

The Corporation issued no bonds during the fiscal year ended June 30, 2005.

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

The Authority issued no bonds during the fiscal year ended June 30, 2005.

The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2005, are as follows (Expressed in Thousands):

	_	Principal	Annual Maturity		
Long-Term Obligations	Outstanding		Interest Rate	То	
Agency: State Property and Buildings					
Commission	\$	2,154,853	1.99%-7.65%	2024	
Turnpike Authority of KY		1,081,913	2.00%-9.625%	2025	
Total	\$	3,236,766			

Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2005, are as follows (Expressed in Thousands):

Year Ending June 30	<u> </u>	Principal	 Interest	Totals		
2006	\$	195,384	\$ 149,934	\$	345,318	
2007		218,674	151,900		370,574	
2008		260,378	135,375		395,753	
2009		234,535	118,809		353,344	
2010		351,785	103,769		455,554	
2011-2015		847,140	389,876		1,237,016	
2016-2020		798,020	181,046		979,066	
2021-2025		314,530	28,075		342,605	
2026-2030		16,320	0		16,320	
Total	\$	3,236,766	\$ 1,258,784	\$	4,495,550	

Component Unit Revenue Bonds Payable	Principal utstanding	Interest Rate	Annual Maturity To		
Kentucky School Facilities Construction Commission *	\$ 681,454	1.75-5.0%	2025		
Kentucky Housing Corporation *	1,305,932	1.30-6.125%	2036		
Kentucky Infrastructure Authority *	186,960	2.25-6.0%	2024		
Kentucky Higher Education Assistance Authority	1,297,250	3.30-4.25%	2034		
Kentucky Local Correctional Facilities Construction Authority *	21,670	2.25-5.25%	2014		
University of Kentucky *	261,805	1.15-6.50%	2025		
University of Louisville	171,145	1.50-5.40%	2033		
Eastern Kentucky University	43,060	3.0-5.4%	2024		
Western Kentucky University *	97,695	1.08-4.90%	2030		
Murray State University *	15,785	1.10-5.6%	2024		
Morehead State University	28,305	2.0-5.75%	2024		
Kentucky State University	7,160	2.78-4.87%	2014		
Northern Kentucky University	36,940	3.0-7.8%	2023		
Total Component Unit Revenue Bonds Payable	\$ 4,155,161				

^{*} Amounts reflect original issue

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2005, are as follows (Expressed in Thousands):

us jouons (Expressed in Thousands).										
Year Ending June 30	F	Principal		Interest		Totals				
2006	\$	203,134	\$	168,939	\$	372,073				
2007		172,586		164,242		336,828				
2008		158,486		157,769		316,255				
2009		154,901		151,906		306,807				
2010		152,616		145,999		298,615				
2011-2015		650,797		642,153		1,292,950				
2016-2020		513,091		519,684		1,032,775				
2021-2025		407,931		407,544		815,475				
2026-2030		791,875		293,961		1,085,836				
2031-2035		193,044		21,587		214,631				
2036-2040		756,700		77,625		834,325				
Total	\$	\$ 4,155,161		\$ 2,751,409		6,906,570				

June 30, 2005

NOTESPAYABLE:

At June 30, 2005, the following entities had notes payable as follows:

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

The commission issued \$232,760,000 in project refunding notes as follows:

\$81,850,000 is outstanding on Project Notes, 2005 General Fund First Series, dated June 8, 2005, is due May 1, 2006 through 2025 at 3% to 5%.

\$11,275,000 is outstanding on Project Notes, 2005 Agency Fund Taxable First Series, dated June 8, 2005, is due June 1, 2007 through 2015 at 4.01% to 4.71%.

\$139,635,000 is outstanding on Project Notes, 2005 Federal Highway Trust Fund First Series, dated June 8, 2005, is due September 1, 2005 through 2017 at 3% to 5%.

The Kentucky Housing Corporation reported \$36,196,000 in Notes Payable for the current portion of long-term debt/Notes Payable during Fiscal Year 2005. The Corporation has three lines of credit. The first is a bond anticipation line of credit used only to preserve tax-exempt bond issue capacity and borrowings and matures April 30,2006.

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

The last is a loan warehousing line of credit used only for the purchase of single-family mortgage loans. Line 1 provides for borrowings up to \$40,000, bears interest at the one-month LIBOR plus 20 basis points and matures December 1, 2005. Line 2 provides for borrowings up to \$15,000, bears interest at the one-month LIBOR plus 20 basis points and matures June 30, 2006. As of June 30, 2005, no amounts had been drawn on Line 2.

Kentucky Educational Television reported Notes Payable of \$103,000 for the year ending June 30, 2005, relating to payments to PBS in connection with the acquisition of Literacy Link assets.

The Kentucky Community and Technical College System reported Notes Payable of \$863,000 for various purposes.

The University of Louisville reported \$505,000 in Notes Payable to the University of Louisville Foundation, Inc. for the construction of Cardinal Park on an unsecured, non-interest bearing basis due upon receipt of pledges by the Association.

Morehead State University had Notes Payable of \$350,000, which includes \$300,000 in a 5.00% Note Payable to an individual, repayable in annual installments with the final installment due June, 2008; and \$50,000 in a 5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2008.

Murray State University reported Notes Payable of \$20,172,000 for various purposes.

Northern Kentucky University reported \$2,222,000 in Notes Payable for various purposes.

Kentucky State University reported \$38,000 in Notes Payable for various purposes.

Western Kentucky University reported Notes Payable of \$1,869,739 related to the payment of debt service on substantially all the University's residence halls, which have been transferred to the WKU Student Life Foundation, Inc. These payments represent the principal and interest allocation for the Garret Conference Center and the Downing University Center, title to which was retained by the University, of the Housing and Dining Revenue Series H and Series K bonds transferred to the WKU Student Life Foundation, Inc. In addition, they reported \$682,000 for various purposes.

The University of Kentucky reported Notes Payable of \$3,104,000 for various purposes.

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

Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2005, are as follows (Expressed in Thousands)

Year Ending June 30	F	Principal	 Interest	Totals			
2006	\$	51,020	\$ 14,472	\$	65,492		
2007		49,070	14,388		63,458		
2008		18,340	12,840		31,180		
2009		12,795	11,999		24,794		
2010		36,665	10,859		47,524		
2011-2015		206,100	56,872		262,972		
Total	\$	373,990	\$ 121,430	\$	495,420		

Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2005, are as follows (Expressed in Thousands)

Year Ending June 30	Principal		 nterest	Totals		
2006 2007 2008	\$	36,249 4,037 3,291	\$ 1,197 1,029 902	\$	37,446 5,066 4,193	
2009 2010		6,550 1,094	835 793		7,385 1,887	
2011-2015 2016-2020 2021-2025		4,659 3,388 2,177	2,881 1,429 1,436		7,540 4,817 3,613	
Thereafter Total	\$	4,660 66,105	\$ 1,039 11,541	\$	5,699 77,646	

Changes in long-term liabilities for the fiscal year ended June 30, 2005, are summarized as follows (Expressed in Thousands):

		Beginning Balance		Additions		Reductions		Ending Balance		Due In One Year		Due Thereafter
Governmental Activities	_	Balarioo	_	rtaaitiorio	_	rtoddollorio	_	Balarioo	_	Ono roa		THOTOGRADI
Compensated absences	\$	226,778	\$	11,848	\$	(13,531)	\$	225,095	\$	110,120	\$	114,975
Capital leases		17,252		24,911		(9,645)		32,518		9,370		23,148
Claims liability		116,652		31,060		(21,388)		126,324		15,783		110,541
Notes payable		186,970		232,760		(45,740)		373,990		51,020		322,970
Bonds payable		3,225,431		471,435		(460,100)		3,236,766		195,384		3,041,382
Unamortized premiums		141,500		53,484		(14,916)		180,068		10,870		169,198
Unamortized discounts		(27,056)				5,368		(21,688)		(1,309)		(20,379)
Deferred amount on refunding		(18,388)		(5,566)		9,004		(14,950)		(902)		(14,048)
Judgments and contingent liabilities		266,309		14,721		(247,445)		33,585		14,198		19,387
Unfunded employer pension contributions		136,527		80,716		(3,465)		213,778				213,778
Total Governmental Activities	\$	4,271,975	\$	915,369	\$	(801,858)	\$	4,385,486	\$	404,534	\$	3,980,952
Business-Type Activities												
Compensated absences	\$	8,318	\$	1,163	\$	(1,488)	\$	7,993	\$	4,184	\$	3,809
Capital leases		245		141		(111)		275		129		146
Claims and claims adjustment liability		1,134,265		78,515		(109,219)		1,103,561		120,956		982,605
Notes payable		451				(451)						
Prize liability		231,204		14,356		(27,255)		218,305		49,536		168,769
Judgments and contingent liabilities		95		699		(34)		760		735		25
Total Business-Type Activities	\$	1,374,578	\$	94,874	\$	(138,558)	\$	1,330,894	\$	175,540	\$	1,155,354
Total Primary Government	\$	5,646,553	\$	1,010,243	\$	(940,416)	\$	5,716,380	\$	580,074	\$	5,136,306
Component Units (Major)									-			
Compensated absences	\$	12,322	\$	12,064	\$	(10,544)	Ф	13,842	\$	11,288	\$	2,554
Compensated absences Capital leases	Ψ	63.800	Ψ	30.397	Ψ	(9,135)	Ψ	85,062	Ψ	7,193	Ψ	77,869
Notes payable		67,293		221,584		(248,209)		40,668		33,774		6,894
Bonds payable		3,458,908		800,005		(545,985)		3,712,928		163,995		3,548,933
Total Component Units	¢	3,602,323	Φ	1,064,050	\$		\$	3,852,500	\$	216,250	\$	3,636,250
rotal component onits	φ	3,002,323	φ	1,004,000	Ψ	(013,073)	ψ	3,032,300	φ	210,200	φ	3,030,230

June 30, 2005

Note 16

COMMITMENTS AND CONTINGENCIES

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

The Kentucky Retirement Systems (KRS), a blended component unit of the Commonwealth, is involved in litigation claiming age discrimination. The case challenges Kentucky's civil service retirement laws and seeks restitution on behalf of all public retirees who received a normal pension rather than a disability pension. The KRS has prevailed in the court decisions and legal counsel is confident they will continue to prevail. Should the previous decisions be reversed, the KRS cannot estimate the impact on the liability and future funding requirements.

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

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

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

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources

is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business, similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2005 and 2004 amounted to \$94.7 million and \$90.8 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences - Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2005, the estimated liability for annual and compensatory leave was \$225,095,000 for the governmental activities, and \$7,993,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$13,842,000 at June 30, 2005.

Sick Leave - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2005. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$338,451,000 and \$11,507,000 respectively.

Construction Projects - The Transportation Cabinet, at June 30, 2005, had contractual commitments of approximately \$721,630,146 for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 41 percent State

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

funds, 55 percent Federal funds, and the remaining 4 percent with proceeds from the sale of revenue bonds.

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

Note 17

SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2005, and prior to December 31, 2005, and reported other subsequent events for the same period, as described below.

The State Property and Buildings Commission issued the following bonds:

\$218,275,000 Revenue Bonds, Project No. 85, dated September 14, 2005, and maturing August 1, 2006 through August 1, 2025. The bonds carry interest rates of 3.00% to 5.00%

\$5,840,000 Agency Fund Revenue Bonds, Project No. 86, dated September 14, 2005, and maturing May 1, 2007 through May 1, 2023. The bonds carry interest rates of 3.00% to 4.25%.

The Kentucky Asset/Liability Commission issued the following notes:

\$600,000,000 General Fund Tax and Revenue Anticipation Notes, 2005 Series A to finance General Fund cash flow requirements of the Commonwealth for the fiscal year ending June 30, 2006. These Notes are dated July 1, 2005, bear interest of 4%, yield 2.67%, and are due on June 28, 2006. Principal and interest are payable at maturity.

\$107,540,000 University of Kentucky General Receipts Project Notes, 2005, Series A, to pay certain amounts in connection with the construction of the Patient Care Facility - Hospital, at the University of Kentucky. The Notes mature October 1, 2009, through October 1, 2025, and carry interest rates from 3.30% to 5.00%.

\$100,000,000 Project Notes 2005 General Fund Second Series A-1, dated November 1, 2005, to finance certain projects in anticipation of bonds to be issued by the State Property and Buildings Commission of the Commonwealth of Kentucky.

\$5,085,000 Project Notes 2005 Agency Fund Second Series A-1, dated December 15,2005, to finance certain Economic Development projects. These are variable rate rates with an initial rate of 3.26%, and a maturity date of June 4, 2009.

\$10,530,000 Project Notes 2005 Agency Fund Second Series A-2, dated December 15,2005, to finance certain projects for the University of Louisville. These are variable rate rates with an initial rate of 3.26%, and a maturity date of June 30, 2026.

The Kentucky Housing Corporation issued a total of \$219,070,000 bonds during the subsequent period. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth. Bonds issued include the following:

 $\$80,000,000\,2005$ Series E Housing Revenue Bonds, dated August 18, 2005. The Series E bonds consist of \$8,215,000 serial bonds biannually due each July 1 and January 1 through July 1, 2016 with interest rates of 2.65% to 4.20%; $\$125,000\,4.30\%$ term bonds due July 1, 2020; $\$1,230,000\,4.50\%$ term bonds due July 1, 2025; $\$19,180,000\,5.00\%$ term bonds due July 1, 2030; $\$41,250,000\,4.45\%$ bonds due January 1, 2034, and $\$10,000,000\,4.70\%$ bonds due July 1, 2035.

\$20,000,000 2005 Series F (Taxable) Housing Revenue Bonds, dated October 11, 2005. The Series F are serial bonds maturing biannually each July 1 and January 1 through July 1, 2015 with interest rates of 4.19% to 4.78%.

2005 Series G Bonds Housing Revenue Bonds, dated October 11, 2005, total \$37,390,000. The Series G bonds consist of \$3,280,000 serial bonds due biannually on July 1, 2015 and January 1 through July 1, 2016 with interest rates of 4.20% to 4.30%; and \$11,665,000 4.55% term bond due January 1, 2026; \$15,445,000 5.00% term bond due July 1, 2030; and \$7,000,000 4.80% term bond due July 1, 2030.

\$21,925,000 2005 Series H Housing Revenue Bonds, dated October 11,2005. These are variable rate term bonds maturing to July 1,2036.

\$22,940,000 2005 Series I (Taxable) Housing Revenue Bonds, dated December 1, 2005. The Series I are serial bonds maturing biannually each July 1 and January 1 through July 1, 2016 with interest rates of 4.50% to 5.04%.

2005 Series J (NON AMT) Housing Revenue Bonds, dated December 1,2005, total \$8,775,000. The Series J bonds consist of \$520,000 serial bonds due biannually on July 1, 2013 and January 1 through July 1, 2016 with interest rates of 3.70% to 4.05%; and \$1,010,0004.10% term bond due July 1,2017; \$2,515,0004.60% term bond due July 1,2030; and \$4,730,0004.70% term bond due July 1,2034.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

\$8,040,000 2005 Series K (AMT) Housing Revenue Bonds, dated December 1, 2005. These consist of \$5,555,000 term bond ("PAC Bond") maturing to January 1, 2030 with interest at 5.00% and \$2,485,000 term bond maturing to January 1, 2030 with interest at 4.90%.

\$20,000,000 2005 Series L (AMT) Housing Revenue Bonds, dated December 1, 2005. These are variable rate term bonds maturing July 1,2036.

Kentucky School Facilities Construction Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2005, and maturing as to principal through 2025 is displayed in the spreadsheet on Page 103.

Kentucky Higher Education Student Loan Corporation issued \$310,000,000 in Student Loan Revenue Bonds. These include the following: \$80,000,000 Senior Series 2005A-1 (Tax-Exempt Auction Rate Certificates); \$45,000,000 Senior Series 2005A-2 (Taxable Auction Rate Certificates); \$45,000,000 Senior Series 2005A-3 (Taxable Auction Rate Certificates), dated September 8, 2005; \$70,000,000 Senior Series 2005A-4 (Taxable Auction Rate Certificates); \$50,000,000 Senior Series 2005A-5 (Taxable Auction Rate Certificates), dated December 13, 2005. \$20,000,000 Subordinate Series 2005B-1 (Tax-Exempt Auction Rate Certificates), dated December 13, 2005. These bonds are issued to finance the origination and acquisition of Eligible Loans; to make a deposit to the Debt Service Reserve Fund; and to pay the cost associated with the issuance of the 2005 bonds.

University of Kentucky issued \$18,655,000 in bonds as follows:

\$11,495,000 Consolidated Educational Buildings Revenue Bonds, Series U, dated August 23, 2005. The bonds mature May 1, 2006 through May 1, 2025 and carry interest rates of 3.50% to 4.00%.

\$7,160,000 General Receipts Bonds, 2005 Series A, dated December 13, 2005. The bonds mature October 1, 2006 through October 1, 2020 and carry interest rates of 3.50% to 4.125%.

Murray State University issued \$15,800,000 Housing and Dining System Revenue Bonds, Series Q, date December 1, 2005. The bonds mature September 1, 2008 through September 1, 2025 and carry interest rates of 4.00% to 4.375%.

Self Insurance

The Commonwealth of Kentucky initiated a pilot program January 1, 2005, in two districts, to test the possibility of becoming self insured for health insurance. As a result, the Commonwealth will become fully self insured for health insurance, on January 1, 2006. The Kentucky Employees Health Plan will cover all current employees and retirees of State government, local school districts and local health departments. The Commonwealth has contracted with a third party administer to process and pay claims submitted under this plan.

KENTUCKYSCHOOLFACILITIES CONSTRUCTION COMMISSION

	Delivery	Principal	State	Interest
School District	Date	 at Issue	Share	Rates (%)
Adair County	07/28/05	\$ 11,240,000	\$ 7,469,662	3.000 - 4.125
Bath County	08/30/05	5,665,000	670,151	3.000 - 4.250
Bourbon County	09/29/05	3,230,000	1,155,231	2.800 - 3.800
Bowling Green Independent	08/09/05	9,390,000	1,270,000	3.750
Boyle County	08/03/05	4,760,000	829,220	3.000 - 4.125
Caldwell County	08/24/05	1,390,000	144,294	3.000 - 4.000
Campbellsville Independent	09/28/05	280,000	280,000	4.000
Christian County	09/07/05	13,870,000	5,770,894	3.500 - 4.125
Clinton County	10/20/05	1,485,000	480,046	2.900 - 4.100
Corbin Independent	07/07/05	530,000	148,708	3.100 - 3.600
Covington Independent	11/09/05	1,195,000	1,195,000	2.900 - 4.200
Fairview Independent	08/17/05	2,055,000	587,988	3.250 - 4.300
Fayette County (Series B)	10/04/05	25,735,000	984,511	3.000 - 4.000
Floyd County	11/01/05	3,075,000	1,057,972	3.125 - 4.000
Franklin County	07/28/05	3,275,000	747,371	3.250 - 3.700
Garrard County	12/08/05	880,000	663,021	3.350 - 4.100
Hardin County	07/12/05	17,350,000	1,239,529	3.000 - 4.000
Henry County	07/14/05	1,100,000	377,052	2.850 - 3.750
Hopkins County	08/31/05	1,800,000	1,800,000	2.850 - 4.250
Jefferson County	07/05/05	21,155,000	400,134	3.500 - 4.375
Johnson County	11/30/05	1,730,000	457,206	3.250 - 4.100
Laurel County	10/26/05	8,180,000	569,354	3.500 - 3.750
Letcher County	07/12/05	1,800,000	808,704	3.900
Lewis County	08/24/05	1,920,000	962,274	3.000 - 4.250
Lincoln County	08/30/05	7,060,000	1,595,378	2.750 - 4.300
Marion County (Series A)	08/10/05	5,920,000	1,385,569	2.750 - 4.300
Marion County (Series B)	08/10/05	2,455,000	935,420	3.000 - 4.000
Morgan County	11/10/05	8,765,000	3,554,222	3.750 - 4.000
Nelson County	10/13/05	7,245,000	2,511,093	3.000 - 4.000
Pendleton County	09/29/05	5,050,000	343,400	3.450
Taylor County	09/01/05	2,080,000	137,951	2.750 - 4.000
Todd County	08/04/05	2,835,000	1,136,275	2.650 -4.250
Warren County	08/09/05	15,120,000	665,543	3.000 - 4.000
Wayne County	08/10/05	10,530,000	7,578,167	3.000 - 4.000
,		\$ 210,150,000	\$ 49,911,340	

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

Audited financial statements may be requested at the following addresses:

Bluegrass State Skills Corporation

Capital Plaza Tower 500 Mero Street

Frankfort, Kentucky 40601

Turnpike Authority of Kentucky Room 92, Capitol Annex Building

Frankfort, Kentucky 40601

Kentucky Transportation Cabinet

501 High Street Room 808

Frankfort, Kentucky 40622

Kentucky Center for the Arts

5 Riverfront Plaza

Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority

Capital Plaza Tower 500 Mero Street

Frankfort, Kentucky 40601

Kentucky Housing Corporation

1231 Louisville Road Frankfort, Kentucky 40601

Kentucky Retirement Systems

Perimeter Park West 1260 Louisville Road Frankfort, Kentucky 40601

Teachers' Retirement System

479 Versailles Road

Frankfort, Kentucky 40601

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

Western Kentucky University

Vice President for Finance and Administration

1 Big Red Way

Bowling Green, Kentucky 42101-3576

Murray State University

322 Sparks Hall

Murray, Kentucky 42071

Kentucky State University Office of Administrative Affairs

400 East Main Street Frankfort, Kentucky 40601

Kentucky Lottery Corporation

1011 West Main Street

Louisville, Kentucky 40202-2623

Kentucky State Fair Board

Kentucky Fair and Exposition Center

P.O. Box 37130

Louisville, Kentucky 40233-7130

Kentucky Educational Television

600 Cooper Drive

Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority

1050 U.S. 127 South, Suite 102 Frankfort, Kentucky 40601

Kentucky Infrastructure Authority 1024 Capital Center Dr., Suite 340

Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority

Suite 261 Capitol Annex Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System

P.O. Box 791

Frankfort, Kentucky 40602

Kentucky Horse Park 4089 Iron Works Parkway Lexington, Kentucky 40511

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

Eastern Kentucky University Vice President for Business Affairs

521 Lancaster Avenue

Richmond, Kentucky 40475-3101

Morehead State University

Office of Accounting and Budgetary Control 207 Howell-McDowell Administration Building

Morehead, Kentucky 40351-1689

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2005

Audited financial statements may be requested at the following addresses:

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

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

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

Kentucky River Authority 70 Wilkinson Boulevard Frankfort, Kentucky 40601

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

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

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

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

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

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

Kentucky Horse Park Foundation 4089 Iron Works Parkway Lexington, Kentucky 40511

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REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF KENTUCKY COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

			General	Fund	
		Original	Final	Actual	Variance
Revenues					
Budgeted:					
Taxes	\$	7,125,524	\$ 7,125,524	\$ 7,319,482	\$ 193,958
Licenses, fees, and permits		26,351	26,351	30,697	4,346
Intergovernmental		8,305	8,305	8,805	500
Charges for services		3,905	3,905	8,814	4,909
Fines and forfeits		54,605	54,605	49,305	(5,300)
Interest and other investment income		1,005	1,005	6,951	5,946
Lottery proceeds		180,005	180,005	161,252	(18,753)
Other revenues		50,156	50,156	59,672	9,516
Tobacco Settlement		108,800	108,800	112,312	3,512
Subtotal of Budgeted Revenues		7,558,656	7,558,656	7,757,290	198,634
Other Budgeted Financial Resources:					
Transfers in (interfund)		160,834	159,010	154,011	(4,999)
Total Budgeted Revenues		7,719,490	7,717,666	7,911,301	193,635
Non-Budgeted:					
Taxes					
Licenses, fees, and permits					
Intergovernmental					
Charges for services					
Fines and forfeits					
Interest and other investment income					
Other revenues					
Transfers in (interfund)					
Transfers in (intrafund)					
Total Non-Budgeted Revenues				<u> </u>	
Total Revenues		7,719,490	7,717,666	7,911,301	193,635
Expenditures					
General Government		2,016,517	2,099,645	2,030,815	68,830
Legislative and Judicial		279,474	281,797	261,389	20,408
Commerce		63,088	64,275	55,655	8,620
Education and Humanities		3,297,107	3,248,731	3,220,033	28,698
Human Resources		1,450,702	1,506,169	1,506,097	72
Justice		512,857	519,742	515,293	4,449
Natural Resources and					
Environmental Protection		68,962	72,166	71,573	593
Public Protection and		,	,	,	
Regulation		20,825	21,343	16,945	4,398
Transportation		5,810	5,810	3,916	1,894
Total Expenditures		7,715,342	7,819,678	7.681.716	137,962
rotal Exponantio		7,710,012	1,010,010	7,001,710	107,002
Excess of Revenues over					
(under) Expenditures		4,148	(102,012)	229,585	331,597
(under) Experialitares		4,140	(102,012)	223,000	001,007
Other Financing Sources (Uses)					
Proceeds from sale of bonds					
Total Other Financing Sources (Uses)					-
Total Other I manding Codices (Oses)					-
Excess of Revenues and Other					
Financing Sources over (under)					
		1 110	(102.012)	229,585	224 507
Expenditures and Other Financing Uses		4,148	(102,012)	,	331,597
Fund Balance at July 1, as Restated			329,921	329,921	(47.705)
Non-Budgeted Items		4,148	\$ 227,909	(17,785) \$ 541,721	(17,785)
Fund Balance at June 30	5	4 148	h 227,909	\$ 541.721	\$ 313,812

		Transporta	ation	Fund					Federal	Fun	d		
Original		Final		Actual		ariance	(Original	 Final	_	Actual	Variano	e
981,940	\$	981,940	\$	983,641	\$	1,701	\$		\$	\$		\$	
115,042		115,042		118,627 11		3,585 11							
15,045 4		15,045 4		15,410 5		365 1							
4,900		4,900		6,233		1,333							
2,769		2,769		2,627		(142)							
1,119,700		1,119,700		1,126,554		6,854				_			
1,119,700	_	1,119,700	_	1,126,554		6,854				_			
											5,223,236 4		
											838		
											149,202		
				437		437					3,321		
											19,092		
				437		437			 		5,395,693		
1,119,700		1,119,700		1,126,991		7,291			 		5,395,693		
5,356		5,356		5,068		288		278,304	278,304		133,911	144	,39
								5,195	5,597		3,415	2	,18
								10,985	10,985		10,274		71
								819,638	820,138		772,012	48	
52,466		52,466		52,466				3,867,636 53,245	3,963,075 53,245		3,843,055 41,867	120 11	
32,400		32,400		32,400									
								67,886	68,137		50,218	17	
4 005 404		4 005 000		070 770		045 000		8,384	8,698		8,257		44
1,225,161 1,282,983		1,225,602 1,283,424		979,779 1,037,313		245,823 246,111		1,212,482 6,323,755	1,212,482 6,420,661		459,428 5,322,437	753 1,098	
(163,283)		(162 724)		89,678		253,402					73,256		
(103,203)		(163,724)		03,070		233,402					73,230		
(163,283)		(163,724)		89,678		253,402					73,256		
(, = 0.0)		163,377		163,377		, . v_					177,531		
	_		_	(330)	_	(330)					(16,583)		
(163,283)	\$	(347)	\$	252,725	\$		\$		\$	\$	234,204	\$	

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COMMONWEALTH OF KENTUCKY COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

		Agency Re	venue Fund	
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$	\$	\$	\$
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Lottery proceeds				
Other revenues				
Tobacco Settlement				
Subtotal of Budgeted Revenues		<u> </u>		
Other Budgeted Financial Resources:		<u> </u>		
Transfers in (interfund)				
Total Budgeted Revenues				
Non-Budgeted:				
Taxes			274,572	
Licenses, fees, and permits			121,987	
Intergovernmental			25,774	
Charges for services			2,028,873	
Fines and forfeits			8,734	
Interest and other investment income			24,329	
Other revenues			289,922	
Transfers in (interfund)			636,666	
Transfers in (intrafund)			1,426,243	
Total Non-Budgeted Revenues			4,837,100	
Total Revenues			4,837,100	
Total Nevertues			4,007,100	
Expenditures				
General Government	2,766,046	2,817,044	1,782,258	1,034,786
Legislative and Judicial	24,740	25,030	12,084	12,946
Commerce	36,303	36,303	33,753	2,550
Education and Humanities	55,558	55,960	46,161	9,799
Human Resources	873,593	885,293	841,104	44,189
Justice	76,295	77,480	67,307	10,173
Natural Resources and				
Environmental Protection	71,970	71,970	38,075	33,895
Public Protection and				
Regulation	70,816	70,816	50,053	20,763
Transportation	723,423	724,699	58,667	666,032
Total Expenditures	4,698,744	4,764,595	2,929,462	1,835,133
Excess of Revenues over				
(under) Expenditures			1,907,638	
Other Financing Sources (Users)				
Other Financing Sources (Uses)			077 000	
Proceeds from sale of bonds			377,606	
Total Other Financing Sources (Uses)			377,606	
Excess of Revenues and Other				
Financing Sources over (under)				
Expenditures and Other Financing Uses			2,285,244	
Fund Balance At July 1, As Restated			772,680	
Non-Budgeted Items			(1,794,387)	
Fund Balance At June 30	e	\$	\$ 1,263,537	¢
i and balance At June Ju	Ψ	Ψ	ψ 1,200,00 <i>1</i>	\$

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COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 7,125,524	\$ 7,125,524	\$ 7,319,482	\$ 193,958
Licenses, fees, and permits	26,351	26,351	30,697	4,346
Intergovernmental	8,305	8,305	8,805	500
Charges for services	3,905	3,905	8,814	4,909
Fines and forfeits	54,605	54,605	49,305	(5,300)
Interest and other investment income	1,005	1,005	6,951	5,946
Lottery proceeds	180,005	180,005	161,252	(18,753)
Other revenues	50,156	50,156	59,672	9,516
Tobacco Settlement	 108,800	108,800	112,312	3,512
Subtotal of Budgeted Revenues	7,558,656	7,558,656	7,757,290	198,634
Other Budgeted Financial Resources:				
Transfers in (interfund)	160,834	159,010	154,011	(4,999)
Total Budgeted Revenues	 7,719,490	7,717,666	7,911,301	193,635
Non-Budgeted:	7,7.10,100	.,,	.,,	,
Other revenues				
Transfers in (interfund)				
Total Non-Budgeted Revenues	 	-	-	
Total Revenues	7 710 400	7 717 666	7,911,301	102 625
Total Revenues	 7,719,490	7,717,666	7,911,301	193,635
Expenditures				
General Government:				
Executive Office of the Governor	6,308	6,381	6,315	66
Department of Veterans Affairs	15,359	15,968	15,968	
Office of State Budget Director	2,285	2,333	2,333	
State Planning Fund	125	125	50	75
Unified Prosecutorial System: Commonwealth Attorneys	27,842	28,305	27,800	505
County Attorneys	22,980	23,460	22,755	705
Department of Agriculture	19,010	19,332	19,319	13
Office of the Attorney General	13,276	13,478	13,478	
Auditor of Public Accounts	5,781	5,908	5,908	
Registry of Election Finance	1,409	1,428	1,428	
Military Affairs	11,148	20,983	17,768	3,215
Governor's Office for Local Development	13,947	14,003	12,864	1,139
Local Government: Economic Assistance Fund	42,781	43,501	43,501	1,100
Economic Development Fund	38,048	39,000	39,000	
Area Development Fund	810	810	810	
Secretary of State	2,224	2,261	2,261	
Secretary of Treasury	2,048	2,078	2,020	58
Board of Elections	6,091	6,135	5,033	1,102
Personnel Board	544	550	539	1,102
School Facilities Construction Commission	91,247	91,251	90,588	663
Executive Branch Ethics Commission	351	357	357	003
Commission on Human Rights	1,904	1,934		122
Commission on Human Rights Commission on Women	263	1,934	1,802 252	132 16
	124,139			
Council on Postsecondary Education	2,392	120,085 2,407	120,082	3 72
Emergency Medical Services Board		2,407 28,765	2,335	28,765
Budget Reserve Trust Fund Personnel: General Operations	50,765		4 045	
•	1,704	1,857	1,845	12
State Salary Compensation Fund	7,053	2 122	4.007	4
State Group Health Insurance	17,696	2,123	1,987	136

	Original		Final		Actual	Variance
Cabinet for Universities:	 					
Eastern Kentucky University	\$ 72,225	\$	72,225	\$	72,225	\$
Kentucky State University	24,801		24,801		24,801	
Morehead State University	42,282		42,282		42,282	
Murray State University	50,999		50,999		50,999	
Northern Kentucky University	46,020		46,021		46,021	
University of Kentucky	290,906		290,906		290,906	
University of Louisville	172,791		172,791		172.791	
Western Kentucky University	70.040		70,040		70.040	
Kentucky Community and Technical College System	192,280		192,778		192,778	
Finance and Administration:	,		,		,	
General Administration & Support	11,917		12,123		11,520	603
Special Accounts - Capital Construction	38,325		38,325		38,325	
Debt Service	244,857		244,857		232,181	12,676
Office of the Controller	10,715		10,839		10,376	463
The Commonwealth Office of Technology	293		293		293	400
Department for Facilities Management	7,244		7,525		7,525	
Kentucky Retirement Systems	4,562		4,563		4,563	
Kentucky Higher Education Assistance Authority	86,921		86,921		72,864	14,057
Special Accounts - Tobacco Settlement	00,321		108,800		108,800	14,007
Finance - County Costs	18,581		18,582		16,981	1,601
Department of Revenue: General Operations	61,183		62,017		60.716	1,301
Office of Property Valuation Administrators	29,720		30,329		30,329	1,501
Appropriations Not Otherwise Classified:	29,720		30,329		30,329	
Judgements	1,971		4,938		4,726	212
Master Commissioners Social Security	365		365		365	212
Master Commissioners Employers Retirement	200		258		258	
Board of Claims Awards	1,000		1,000		343	657
Guardian Ad Litem	3,900		6,463		6,463	007
Prior Year Claims	3,900		397		387	10
Unredeemed Checks Refunded	1.500		1.549		1.366	183
	1,500		1,549		1,300	8
Involuntary Commitments	100		100		52 52	o 48
Blanket Employee Bonds						40
Workers Compensation	150 195		150 195		150 195	
Frankfort In Lieu of Taxes						
Frankfort Cemetery	3		3		3	0.40
Police and Firemen Life Insurance	450		650		408	242
Attorney General Expense	225		225		160	65
Medical Malpractice Liability Insurance Reimbursements	 185		185		173	12
Total General Government	 2,016,517		2,099,645		2,030,815	68,830
Legislative and Judicial:						
General Assembly	20,981		20,981		10,384	10,597
Legislative Research Commission	31,233		31,556		30,284	1,272
Judicial Retirement System	2,300		2,300		2,300	
Court of Justice - Court Facility Use	533		533			533
Court of Justice - Operation and Administration	156,513		158,513		158,513	
Court of Justice - Local Facility Support	67,914		67,914		59,908	8,006
	 279,474	_	281,797	_	261,389	20,408

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COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

Financial Incentives Existing Business Development New Business Development Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board	\$ 7,977 9,828 2,722 1,556	\$ 8,025 9,855	\$ 7,926	\$ 99
Office of the Secretary Financial Incentives Existing Business Development New Business Development Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board	9,828 2,722 1,556	9,855		\$ 99
Financial Incentives Existing Business Development New Business Development Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board	9,828 2,722 1,556	9,855		\$ 99
Existing Business Development New Business Development Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board	2,722 1,556			
New Business Development Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board	1,556		2,042	7,813
Commerce Cabinet: Office of the Secretary Breaks Interstate Park Kentucky State Fair Board		2,759	2,374	385
Breaks Interstate Park Kentucky State Fair Board		1,577	1,546	31
Kentucky State Fair Board	2,662	2,676	2,577	99
•	191	191	191	
	397	397	396	1
Kentucky Horse Park	1,871	1,871	1,871	
Department of Parks	27,574	28,549	28,544	5
Department of Travel	8,096	8,150	7,965	185
Berea Artisans Center	214	225	223	2
Total Commerce	63,088	64,275	55,655	8,620
Education:				
General Administration and Program Support	4,023	4,105	4,104	1
Commission on the Deaf and Hard of Hearing	821	831	831	
Kentucky Heritage Council	932	945	945	
Kentucky Arts Council	4,211	4,228	4,156	72
Department of Education:	,	,	,	
Support Education Excellence In KY (SEEK)	2,439,408	2,439,408	2,439,408	
Executive Policy and Management	688	698	698	
Bureau of Support Services	10,889	11,006	11,006	
Learning Results Services	641,888	592,090	564,907	27,183
Kentucky Educational Television	14,145	14,308	14,308	,
Kentucky Historical Society	5,992	6,055	6,011	44
Kentucky Center for the Arts	2,120	2,120	2,120	
Education Professional Standards Board	10,713	10,752	9,358	1,394
Libraries and Archives -	.,	-,	,,,,,,	,
Direct Local Aid	6,578	6,578	6,578	
General Operations	6,722	6,838	6,834	4
Teachers' Retirement System	109,019	109,019	109,019	
Workforce Investment:	,	,	,	
Office of the Blind	1,290	1,305	1,305	
Technical Education	25,374	26,070	26,070	
Vocational Rehabilitation	12,294	12,375	12,375	
Total Education and Humanities	3,297,107	3,248,731	3,220,033	28,698
Human Resources:				
Health and Family Services:				
Administrative Services	29,308	29,603	29,603	
Department for Community Based Services	275,477	277,859	277,859	
Office of the Inspector General	6,301	6,406	6,406	
Department for Public Health	64,650	64,930	64,930	
Department for Mental Health and Mental Retardation	166,535	168,514	168,514	
Department for Human Support Services	,	,	,	
Aging Services	26,622	76,829	76,757	72
Office of the Ombudsman	3,767	3,816	3,816	
Department for Medicaid Services	17,067	17,142	17,142	
Medicaid Services Benefits	855,366	855,366	855,366	
Office Of Certificate Of Need	118	121	121	
Commission for Children With Special Health Care Needs	5,491	5,583	5,583	
Total Human Resources	1,450,702	1,506,169	1,506,097	72

		Original		Final		Actual	v	ariance
Justice:								
Office of the Secretary	\$	10,796	\$	10,872	\$	10,680	\$	192
Department of State Police		70,254		72,214		72,214		
Department of Juvenile Justice		82,040		83,208		83,208		
Department for Public Advocacy		25,264		25,571		25,571		
Department of Corrections:								
Management		28,025		28,330		28,311		19
Adult Institutions		192,255		194,848		191,535		3,313
Local Jail Allotment		15,319		15,319		15,257		62
Community Services and Local Facilities		88,904		89,380		88,517		863
Total Justice		512,857	_	519,742		515,293		4,449
Natural Resources and Environmental Protection:								
General Administration & Support		10,217		10,441		10,435		6
Kentucky River Authority		370		378		309		69
Environmental Quality Commission		150		153		153		
Kentucky Nature Preserves Commission		1,049		1,065		1,065		
Environmental Protection		23,794		24,326		24,326		
Department for Natural Resources		14,360		16,486		16,486		
Mine Safety and Licensing		8,806		8,939		8,939		
Surface Mining Reclamation and Enforcement		10,216		10,378		9,860		518
Total Natural Resources and Environmental			_					
Protection		68,962	_	72,166		71,573		593
Public Protection and Regulation:								
Board of Claims and Crime Victims Compensation		813		830		791		39
Board of Tax Appeals		486		493		416		77
Kentucky Racing Commission		510		510		505		5
Public Service Commission		12.961		13,069		9.000		4.069
Mine Safety Review Commission		231		232		137		95
Department - of Alcoholic Beverage Control		1,381		1,454		1,454		
of Housing, Buildings, and Construction		2,094		2,295		2,295		
Labor - Workplace Standards		2,349		2,460		2,347		113
Total Public Protection and Regulation		20,825	_	21,343		16,945		4,398
Transportation:								
Public Transportation		5,810		5,810		3,916		1,894
Total Transportation	-	5.810	_	5.810		3,916		1,894
•		-,-	_	-,		- ,		
Total Expenditures		7,715,342	_	7,819,678		7,681,716		137,962
Excess of Revenues Over (Under) Expenditures		4,148		(102,012)		229,585		331,597
Fund Balance at July 1, as Restated				329,921		329,921		
Non-Budgeted Items					_	(17,785)	_	(17,785)
Fund Balance at June 30	\$	4,148	\$	227,909	\$	541,721	\$	313,812

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, 2005

				Trans	sportat	ion		
	Origi	nal		Final		Actual	Vai	iance
Revenues								
Budgeted:			_				_	
Taxes		1,940	\$	981,940	\$	983,641	\$	1,701
Licenses, fees, and permits	11	5,042		115,042		118,627		3,585
Intergovernmental						11		11
Charges for services	1	5,045		15,045		15,410		365
Fines and forfeits		4		4		5		1
Interest and other investment income		4,900		4,900		6,233		1,333
Other revenues		2,769		2,769		2,627		(142)
Total Budgeted Revenues	1,11	9,700		1,119,700		1,126,554		6,854
Non-Budgeted:								
Taxes								
Licenses, fees, and permits								
Intergovernmental								
Charges for services								
Fines and forfeits								
Interest and other investment income								
Other revenues								
Transfers in (interfund)						437		437
Transfers in (intrafund)								
Total Non-Budgeted Revenue						437		437
Total Revenues	1,11	9,700		1,119,700		1,126,991		7,291
Expenditures				,				
General Government:								
Executive Office of the Governor		350		350		225		125
Kentucky Infrastructure Authority								
Office of State Budget Director								
Executive Branch Ethics Commission								
Department of Veterans Affairs								
Unified Prosecutorial System: Commonwealth Attorneys								
County Attorneys								
Department of Agriculture								
Office of the Attorney General								
Auditor of Public Accounts								
Military Affairs								
Governor's Office of Agricultural Policy:								
Agricultural Development - Statewide Phase								
Governor's Office for Local Development								
Secretary of State								
Secretary of Treasury		250		250		212		38
Board of:								
Accountancy								
Alcohol and Drug Counselors								
Auctioneers								
Barbering								
Chiropractic Examiners								
Professional Counselors								
Fee-Based Pastoral Counselors								
Interpreters for Deaf & Hard of Hearing								
Dentistry								
Dietitians and Nutritionists								
Elections								
Embalmers and Funeral Home Directors								
Architects								
Landscape Architects								
Examiners of Psychologists								

		Federal			Agency	Revenue	
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
						274,572	
						121,987	
		5,223,236				25,774	
		4				2,028,873	
		202				8,734	
		838				24,329	
		149,202 3,321				289,922 636,666	
		19,092				1,426,243	
		5,395,693				4,837,100	
		5,395,693				4,837,100	
30,000	30,000	2,954	27,046	1,408	1,408	481	927
50,322	50,322	262	50,060	4,927	4,927	2,606	2,321
	, .			1,842	1,842	1,646	196
				2	2	2	
				22,406	22,406	20,650	1,756
605	605	548	57	350	350	154	196
392	392	374	18	38	38	34	4
4,813	4,813	3,830	983	5,696	5,696	3,147	2,549
2,818	2,818	2,597	221	3,420 3,096	3,421 3,097	2,107	1,314 287
101,327	101,327	57,676	43,651	55,537	55,537	2,810 20,912	34,625
101,021	101,021	07,070	10,001				
50.404	50.404	10.070	0.750	521	521	183	338
52,431	52,431	48,672	3,759	1,707 803	1,707 803	370 555	1,337
				779	779	714	248 65
				571	571	347	224
				65 399	65 402	55 339	10 63
				230	233	200	33
				194	194	158	36
				54	54	50	4
				7	8	1	7
				31	31	27	4
				614	614	469	145
				74	75	60	15
9,000	9,000	158	8,842	101	101	101	
				249	252	237	15
				262	265	265	,-
				58 176	59 176	44 125	15 51
				170	170	125	31

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COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

			Transporta	ation		
Board of: (Continued)	Original	Fin	al	Actual	Variance	
Examiners of Social Workers	\$	\$	\$		\$	
Hairdressers and Cosmetologists		•			•	
Hearing Instrument Specialists						
Proprietary Education						
Nursing Home Administrators' Licensing						
Medical Licensure						
Nursing						
Ophthalmic Dispensers						
Optometric Examiners						
Art Therapists						
Occupational Therapy						
Respiratory Care Practitioners						
Marriage and Family Therapists						
Emergency Medical Services						
Geologists						
Pharmacy						
Physical Therapists						
Podiatry						
Engineers and Land Surveyors						
Speech Pathology and Audiology						
Veterinary Examiners						
Ky. Board of Investigators						
Massage Therapy Real Estate Commission						
Real Estate Appraiser Board						
Commission on Human Rights						
Council on Postsecondary Education						
Commission on Women						
Personnel:						
General Operations						
Public Employee Deferred Compensation Authority						
Office of Government Training						
Universities, Colleges, and Related Entities:						
Eastern Kentucky University						
Kentucky State University						
Morehead State University						
Murray State University						
Northern Kentucky University						
University of Kentucky						
University of Louisville						
Western Kentucky University						
Kentucky Community and Technical College System						
Finance and Administration:			0.040			
General Administration and Support	3,213		3,213	3,213		
Office of the Controller						
The Commonwealth Office of Technology	125		125		125	
Kentucky Higher Education Assistance Authority						
Finance - County Costs						
Kentucky Retirement Systems						
Department of Revenue: General Operations	1,418		1,418	1,418		
Office of Property Valuation Administrators						
Department for Facilities Management						
Total General Government	5,356		5,356	5,068	288	

		Federal		Agency Revenue							
Original	Final Actual Variance Original			Final	Actual	Variance					
	\$	\$	\$	\$ 145	\$ 145	\$ 104	\$ 41				
				950	960	905	55				
				51	52	47	5				
				144	144	134	10				
				76	76	58	18				
				2,111	2,129	2,084	45				
				5,105	5,105	4,473	632				
				63	63	50	13				
				160	161	158	3				
				11	11	8	3				
				86	86	83	3				
				133	134	121	13				
				83	83	64	19				
1,417	1,417	652	765	172	172	90	82				
1,417	1,417	032	703	135	135	90	45				
					892						
				883		838	54				
				263	263	235	28				
				21	21	10	11				
				1,364	1,364	1,014	350				
				89	89	89					
				238	238	158	80				
				63	64	63	1				
				59	59	53	6				
				2,251	2,263	2,157	106				
				578	578	516	62				
343	343	292	51	5	6		6				
19,099	19,099	13,164	5,935	3,078	3,585	2,409	1,176				
				40	40		40				
				14,154	14,154	13,268	886				
				5,133	5,133	4,470	663				
				1,542	1,542	1,378	164				
				144,672	184,672	171,910	12,762				
				27,436	33,436	31,342	2,094				
				95,150	95,150	67,539	27,611				
				73,786	73,786	69,410	4,376				
				103,656	103,656	94,140	9,516				
				1,101,023	1,101,023	867,633	233,390				
				438,008	438,008	31,391	406,617				
				162,186	162,186	103,281	58,905				
				335,387	335,387	114,651	220,736				
				3,758	3,758	3,269	489				
3,250	3,250	529	2,721	2,189	2,189	1,723	466				
772	772	687	85	900	1,170	557	613				
1,715	1,715	1,516	199	104,680	108,830	106,264	2,566				
	, -	,		1,925	1,925	1,487	438				
				18,684	18,684	17,274	1,410				
				3,235	3,235	2,606	629				
				3,578	3,578	2,905	673				
				990	990	900	90				
278,304	278,304	133,911	144,393	2,766,046	2,817,044	1,782,258	1,034,786				

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COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Transportation						
	Original	Final	Actual	Variance			
Legislative and Judicial:		-	_	<u> </u>			
General Assembly	\$	\$	\$	\$			
Legislative Research Commission							
Judicial Retirement System							
Court of Justice - Operation and Administration							
Total Legislative and Judicial							
				<u> </u>			
Commerce:							
Economic Development:							
Office of the Secretary							
Financial Incentives							
Existing Business Development							
New Business Development							
Commerce: Office of the Secretary							
Department of Travel							
Berea Artisans Center							
Department of Fish and Wildlife Resources			_				
Total Commerce			-				
							
Education:							
Commission on the Deaf and Hard of Hearing							
Environmental Education Council							
Kentucky Heritage Council							
Kentucky Arts Council							
General Administration and Program Support							
Department of Education:							
Learning Results Services							
Bureau of Support Services							
Kentucky Educational Television							
Kentucky Historical Society							
Education Professional Standards Board							
Libraries and Archives:							
Direct Local Aid							
General Operations							
Teachers' Retirement System							
Workforce Investment:							
Office of the Blind							
Employment and Training							
Technical Education							
Vocational Rehabilitation							
Total Education and Humanities			_	<u> </u>			

				Federal		Agency Revenue						
Oı	riginal		Final	Actual	Variance		Original		Final	Actual		ariance
\$		\$		\$	\$	\$	630	\$	630	\$	\$	630
Ψ	1	Ф	1	Φ	 1	Ą	1,661	Ф	1,661	Þ	Ф	1,661
	'		'		'		31		186	165		21
	5,194		5,596	3,415	2,181		22,418		22,553	11,919		10,634
	5,195		5,597	3,415	2,182		24,740		25,030	12,084		12,946
	5,195		3,331	0,410	2,102		24,740		23,030	12,004		12,340
							1,985		1,985	1,577		408
							2,240		2,240	1,714		526
	155		155	155			439		439	317		122
							367		367	186		181
							1,416		1,416	1,112		304
							270		270	12		258
							1,614		1,614	1,427		187
	10,830		10,830	10,119	711		27,972		27,972	27,408		564
	10,985		10,985	10,274	711		36,303		36,303	33,753		2,550
							292		292	292		
							343		345	322		23
	653		653	546	107		558		558	505		53
	691		691	589	102		756		756	480		276
	185		185	174	11		5,727		6,027	5,073		954
	622,064		622,064	600,752	21,312		1,794		1,794	608		1,186
	28		28	7	21		3,236		3,236	1,485		1,751
	700		700	2	698		1,500		1,500	1,396		104
	822		822	484	338		634		634	568		66
	4,379		4,379	1,689	2,690		830		830	576		254
	424		424	363	61		9		9	7		2
	2,350		2,350	2,181	169		1,828		1,828	1,312		516
							8,148		8,148	6,398		1,750
	8,210		8,210	7,460	750		1,847		1,847	1,698		149
	118,439		118,439	97,244	21,195		4,870		4,870	4,069		801
	15,180		15,180	15,178	2		20,233		20,333	19,224		1,109
	45,513		46,013	45,343	670		2,953		2,953	2,148		805
	819,638		820,138	772,012	48,126		55,558		55,960	46,161		9,799

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COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Transportation				
	Original	Final	Actual	Variance	
Human Resources:					
Health and Family Services:					
Administrative Support	\$	\$	\$	\$	
Department for Disability Determination Services					
Department for Community Based Services					
Office of Inspector General					
Department for Public Health					
Department for Mental Health and					
Mental Retardation					
Office of the Ombudsman					
Department for Medicaid Services					
Medicaid Services Benefits					
Office of Certificate Of Need					
Commission for Children with Special					
Health Care Needs					
Department for Human Support Services					
Aging Services					
Total Human Resources					
luction					
Justice: Office of the Secretary					
Office of the Secretary Department of State Police	39,769	39,769	39,769		
Kentucky Vehicle Enforcement	12,697	12,697	12,697		
•	12,097	12,097	12,097		
Department of Juvenile Justice					
Department of Juvenile Justice Department of Criminal Justice Training					
Department of Corrections:					
Management Adult Correctional Institutions					
Community Service and Local Facilities	E0 466	F0 466	FO 466		
Total Justice	52,466	52,466	52,466	-	
Natural Resources and Environmental					
Protection:					
General Administration & Support					
Kentucky River Authority					
Environmental Quality Commission					
Kentucky Nature Preserves Commission					
Department for Environmental Protection					
Department for Natural Resources					
Mining Safety and Licensing					
Surface Mining Reclamation and Enforcement					
Abandoned Mine Lands Reclamation Projects					
Total Natural Resources and					
Environmental Protection				-	
LITTI CITITOTI I TOTOGRAFI					
Public Protection and Regulation:					
Office of the Commissioner					
Board of Claims and Crime Victims Compensation					
Kentucky Racing Commission					
Kentucky Athletic Commission					
Public Service Commission					
Fubilic Service Commission					
Mine Safety Review Commission					
Mine Safety Review Commission					
Mine Safety Review Commission Department - of Alcoholic Beverage Control					
Mine Safety Review Commission					
Mine Safety Review Commission Department - of Alcoholic Beverage Control of Charitable Gaming of Financial Institutions					
Mine Safety Review Commission Department - of Alcoholic Beverage Control of Charitable Gaming of Financial Institutions of Housing, Buildings, and Construction					
Mine Safety Review Commission Department - of Alcoholic Beverage Control of Charitable Gaming of Financial Institutions					

			Federal				Agency				enue				
О	Priginal		Final		Actual	\	ariance	(Original		Final		Actual	V	ariance
	29,034	\$	29,034	\$	26,720	\$	2,314	\$	8,608	\$	11,168	\$	8,608	\$	2,560
	43,644	•	43,644	•	37,425	*	6,219	•	66	*	66	•	53	•	13
	476,267		505,703		466,957		38,746		135,170		135,170		123,923		11,247
	12,642		12,643		11,117		1,526		2,045		1,485		743		742
	161,002		165,002		162,302		2,700		70,184		76,884		63,159		13,725
	101,002		100,002		102,002		2,700		70,104		70,004		00,100		10,720
	42,278		42,280		35,395		6,885		185,120		185,120		174,686		10,434
	2,612		2,612		2,007		605		400		400		59		341
	40,976		37,976		36,634		1,342		18,306		21,306		20,673		633
;	3,030,735		3,095,735		3,037,526		58,209		448,200		448,200		444,292		3,908
									163		163		159		4
	4,613		4,613		4,613				4,640		4,640		4,456		184
	23,833		23,833		22,359		1,474		691		691		293		398
-	3,867,636	_	3,963,075		3,843,055		120,020		873,593		885,293	_	841,104		44,189
	3,007,030	_	3,303,073		0,040,000		120,020		073,333	_	000,290		041,104		44,103
	11 005		11 005		0.400		0.470		2.040		2.040		670		4047
	11,905		11,905		9,433		2,472		2,019		2,019		672		1,347
	13,815		13,815		10,342		3,473		9,153		9,745		9,490		255
	3,615		3,615		3,615				1,141		1,141		237		904
	1,644		1,644		1,534		110		6,623		6,623		4,671		1,952
	16,989		16,989		14,454		2,535		12,591		12,591		7,544		5,047
	3,915		3,915		1,482		2,433		37,335		37,928		37,913		15
									472		472		229		243
	1,340		1,340		985		355		6,535		6,535		6,159		376
	22		22		22				426		426		392		34
	53,245		53,245		41,867		11,378		76,295		77,480		67,307		10,173
	1,707		1,707		1,435		272		3,827		3,827		2,454		1,373
									6,471		6,471		3,019		3,452
									101		101		80		21
	70		321		226		95		305		305		260		45
	16,065		16,065		14,759		1,306		47,827		47,827		25,271		22,556
	9,744		9,744		5,726		4,018		8,162		8,162		5,299		2,863
	1,467		1,467		1,282		185		293		293		51		242
	16,833		16,833		14,552		2,281		4,984		4,984		1,641		3,343
	22,000		22,000		12,238		9,762		•		•		•		,
	67,886	_	68,137		50,218		17,919		71,970		71,970		38,075		33,895
	07,000	_	00,101		00,210	_	17,010		71,070	_	7 1,070		00,010	-	00,000
									1,463		1,463		831		632
	540		540		208		332		2,834		2,834		1,859		975
	340		340		200		332		14,002		14,002		10,550		3,452
									109		109		50		59
	250		250		223		27		1,024		1,024		169		855
	230		200		223		۷1		1,024		1,024		109		1
									4,335		4,335		3,104		1,231
									3,477		3,477		2,679		798
									8,225		8,225		6,405		1,820
	39		139		128		11		13,959		13,959		10,861		3,098
	4,322		4,536		4,536				21,387		21,387		13,545		7,842
	3,233		3,233		3,162		71		21,001		21,007		10,040		7,042
	8,384	_	8,698		8,257	_			70,816				50,053		
							441				70,816				20,763

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Continued

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, 2005

	Transportation							
		Original		Final	Actual		\	/ariance
Transportation:								
Administration & Support	\$	66,654	\$	66,655	\$	63,880	\$	2,775
Revenue Sharing		281,766		282,138		221,161		60,977
Air Transportation								
Highways		730,440		730,440		562,453		167,987
Public Transportation								
Vehicle Regulation		16,393		16,461		15,599		862
Debt Service		116,114		116,114		102,892		13,222
Transfers to Capital Projects		13,794		13,794		13,794		
1990 Economic Development Bond Projects								
Total Transportation		1,225,161		1,225,602		979,779		245,823
Total Expenditures		1,282,983		1,283,424		1,037,313		246,111
Excess of Revenues over (under)						•		
Expenditures		(163,283)		(163,724)		89,678		253,402
Other Financing Sources (Uses)								
Proceeds From Sale of Bonds								
Total Other Financing Sources (Uses)								
Excess of Revenues and Other Financing								
Sources over (under) Expenditures and								
Other Financing Uses		(163,283)		(163,724)		89,678		253,402
Fund Balances at July 1, as Restated				163,377		163,377		
Non-Budgeted Items			_			(330)		(330
Fund Balances at June 30	\$	(163,283)	\$	(347)	\$	252,725	\$	253,072

	Agency Revenue							
Original	Final	Actual	Variance	Original		Final	Actual	Variance
•	\$	\$	\$	\$ 2	26 \$		\$	\$ 26
15	15		15	0.50	14	150,000	4.155	150,000
1,169,424	1,169,424	445,452	723,972	9,53 688,99		9,546 538,995	4,155 45,084	5,391 493,911
41,782	41,782	13,852	27,930	50		500,993	43,084	493,911
1,261	1,261	124	1,137	5,29		6,558	4,677	1,881
				19,07	74	19,074	4,320	14,754
1,212,482	1,212,482	459,428	753,054	723,42	23	724,699	58,667	666,032
6,323,755	6,420,661	5,322,437	1,098,224	4,698,74	14	4,764,595	2,929,462	1,835,133
		73,256					1,907,638	
							377,606	
					_ =		377,606	
		73,256					2,285,244	
		177,531					772,680	
		(16,583)					(1,794,387)	
	\$	\$ 234,204	\$	\$	-		\$ 1,263,537	\$

Budgetary Reporting

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

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

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

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

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

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

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

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

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

Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2005, to the fund balance on a modified accrual basis follows:

(Expressed in Thousands)								
Financial statement funds (same as budgetary funds)	General Fund		Transportation Fund		Federal Fund		Agency Revenue Fund	
Fund balance June 30, 2005: Budgetary basis	\$	(541,721)	\$	(252,725)	\$	(234,204)	\$	(1,263,537)
Adjustments: Accrued revenues		(335,812)		(86,122)		(384,525)		(41,809)
Accrued expenditures		170,203		54,793		417,691		17,195
Accrued transfers (net)		11,726				3,943		(5,185)
Total Accruals (1)		(153,883)		(31,329)		37,109	_	(29,799)
Reclassifications and other adjustments: Inventory balances (1)		(3,663)		(31,067)		(147)		(4,235)
To reclassify financial and other resources into financial statement fund types (2)		3,290		(1,719)		111,095		836,190
To record financial resources available as non-budgeted funds (3)		26,000				_		
Fund Balance Fund balance June 30, 2005: GAAP Basis	\$	(669,977)	\$	(316,840)	\$	(86,147)	\$	(461,381)

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

Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, <u>Basic Financial Statements</u> – and <u>Management's Discussion and Analysis</u> – for <u>State and Local Governments</u>, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 62,193 lane miles of roads and approximately 9,000 bridges that the Commonwealth is responsible to maintain.

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

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

Pavements

Measurement Scale

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

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

Established Minimum Condition Level

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

Assessed Conditions

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

Condition	2004	2003	2002	2001	2000
Good	45.3%	42.0%	48.3%	50.4%	51.7%
Fair	39.5%	38.2%	34.4%	29.0%	31.2%
Poor	15.2%	19.8%	17.3%	20.6%	17.1%

Bridges

Measurement Scale

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

Rating	<u>Description</u>

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

Established Minimum Condition Level

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

Assessed Conditions

"Structurally deficient" results when a rating of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck,

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

Calendar Year	Structurally Deficient
2004	5.7%
2003	5.3%
2002	5.2%
2001	5.3%
2000	4.9%

Estimated and Actual Costs to Maintain

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

	Roadways	Bridges	Total
Fiscal Year 2006:			
Estimated	\$ 690.0	\$ 110.0	\$ 800.0
25tttlate 6	φ 0,0.0	Ψ 110.0	Ψ 000.0
Fiscal Year 2005:			
Estimated	\$ 665.0	\$ 100.0	\$ 765.0
Actual	\$ 542.2	\$ 89.9	\$ 632.1
Fiscal Year 2004:			
Estimated	\$ 645.0	\$ 100.0	\$ 745.0
Actual	\$ 642.8	\$ 100.3	\$ 742.8
F' 1 W 2002			
Fiscal Year 2003:	Φ (01.7	Φ.02.2	ф. co.7. o
Estimated	\$ 601.7	\$ 93.3	\$ 695.0
Actual	\$ 630.2	\$ 93.8	\$ 724.0
Fiscal Year 2002:			
Estimated	N/A	N/A	N/A
Actual	\$ 576.1	\$96.6	\$ 672.7
Fiscal Year 2001:			
Estimated	N/A	N/A	N/A
Actual	N/A	N/A	\$ 700.6

COMMONWEALTH OF KENTUCKY REQUIRED SUPPLEMENTARY INFORMATION ENTITY RISK POOLS CLAIMS DEVELOPMENT INFORMATION FOR THE LAST TEN YEARS

(Expressed in Thousands)

State Workers' Compensation Fiscal and Policy Year Ended										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Earned Premiums	\$ 14,470	\$ 14,095	\$ 16,121	\$ 17,351	\$ 17,026	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950
Administrative Expense	542	554	404	513	526	533	545	777	480	385
Incurred Claims as										
Originally Estimated	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899
Claims Paid (Cumulative) a	is of:									
End of Fiscal Year	3,010	2,615	2,819	2,702	3,128	3,790	3,846	3,733	3,656	4,520
One Year Later	5,882	5,626	5,697	5,833	6,332	7,216	7,320	7,449	7,225	
Two Years Later	7,560	7,156	7,179	7,604	7,811	8,987	9,260	9,330		
Three Years Later	8,632	8,173	8,017	8,726	8,678	10,252	10,414			
Four Years Later	9,552	8,824	8,653	9,305	9,441	11,254				
Five Years Later	10,241	9,211	9,313	9,818	9,976					
Six Years Later	10,775	9,685	9,707	10,211						
Seven Years Later	11,191	9,971	10,117							
Eight Years Later	11,516	10,334								
Nine Years Later	11,898									
Re-estimation of Incurred C	Claims:									
End of Fiscal Year	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,342	20,320	20,899
One Year Later	14,502	13,006	12,876	13,623	16,584	19,315	20,172	20,514	19,209	
Two Years Later	14,519	12,627	13,473	15,543	16,033	19,186	18,805	19,888		
Three Years Later	14,021	12,762	14,416	15,617	16,189	19,067	19,198			
Four Years Later	14,507	14,270	14,492	15,497	15,449	19,382				
Five Years Later	15,345	14,050	15,001	15,039	15,626	,				
Six Years Later	15,350	14,657	14,870	15,524	,,,					
Seven Years Later	15,471	14,196	14,987	-,-						
Eight Years Later	15,618	14,593	,							
Nine Years Later	16,533	,								
Increase (Decrease) in Esti	imated									
Incurred Claims From the										
Original Estimate Using										
Re-estimation at the E	0									
Most Recent Fiscal Ye		389	(1,744)	(2,227)	(302)	(285)	303	1,453	1,111	

SOURCE: Compilation Report

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

Debt Service Fund

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

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

Special Revenue Funds

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

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

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

COMMONWEALTH OF KENTUCKY COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS JUNE 30, 2005

	,		
(Expressed	in T	Thousa	inds)

	Debt Service Funds			
	Primary Government	Turnpike Authority of Kentucky		
Assets	\$ 5	\$ 95,989		
Cash and cash equivalents Cash with fiscal agents	\$ 5 22,148	\$ 95,989		
Investments, net of amortization	4,205	190,146		
Obligations under securities	4,200	100,140		
Receivables, net		7,446		
Capital lease receivable	120,780	•		
Interfund receivables		6,507		
Inventories				
Total Assets	\$ 147,138	\$ 300,088		
Liabilities and Fund Balances Liabilities:				
Accounts payable	\$	\$ 11,807		
Interfund payables	85	• .,,		
Interfund loan payable				
Obligations under securities lending				
Deferred revenue	120,780			
Total Liabilities	120,865	11,807		
Fund Balances:				
Reserved for:				
Inventories				
Deposit with fiscal agents	22,148			
Unreserved, reported in:				
Special revenue funds	4.405	000 004		
Debt service fund	4,125	288,281		
Total Fund Balances	26,273	288,281		
Total Liabilities and Fund Balances	\$ 147,138	\$ 300,088		

	Special Revenue Funds						Total	
Other Special Revenue		Turnpike Authority of Kentucky		Special Benefits		Non-Major Governmental Funds		
\$	10,395	\$	76,517	\$	132,243	\$	315,149	
	71,637		161,290		67,271		22,148 494,549	
					244,425		244,425	
	45,270		2		9,478		62,196	
							120,780	
	18,379 43				17,417		42,303 43	
\$	145,724	\$	237,809	\$	470,834	\$	1,301,593	
\$	12,210	\$	101	\$	4,887	\$	29,005	
	8,819		6,507		5,868		21,279	
					579 244,425		579 244,425	
	19,079				535		140,394	
-	40,108		6,608		256,294		435,682	
	· · ·		·		· · ·		•	
	43						43	
							22,148	
	105,573		231,201		214,540		551,314	
	<u> </u>						292,406	
	105,616		231,201		214,540		865,911	
\$	145,724	\$	237,809	\$	470,834	\$	1,301,593	

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NON-MAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

		Debt Service Funds			
	Primary Government	Turnpike Authority of Kentucky			
Revenues	_	_			
Taxes	\$	\$			
Licenses, fees, and permits					
Intergovernmental	00.405				
Charges for services	23,485				
Fines and forfeits	0.400	44.050			
Interest and other investment income	2,498	11,953			
Increase (decrease) in fair value of investments	(2)				
Securities lending income					
Other revenues					
Total Revenues	25,981	11,953			
Expenditures					
Current:					
General government					
Legislative and judicial					
Commerce					
Education and humanities					
Human resources					
Justice					
Natural resources and					
environmental protection					
Transportation					
Securities lending expense					
Debt service:					
Principal retirement	138,215	109,075			
Interest and fiscal charges	131,675	58,550			
Other expenditures	16,528	10,046			
Total Expenditures	286,418	177,671			
Excess (Deficiency) of Revenues over (under) Expenditures	(260,437)	(165,718)			
Other Financing Sources (Uses)					
Transfers in	241,427	177,276			
Transfers out	(886)	(16,736)			
Capitalized leases	(000)	(10,100)			
Proceeds from the sale of bonds:					
New issues					
Refunding issues	182,845	74,840			
Premiums	18,591	4,247			
Payments to refunded bond escrow agent	(185,220)	(73,330)			
Total Other Financing Sources (Uses)	256,757	166,297			
Net Change in Fund Balances	(3,680)	579			
Fund Balances at July 1, as Restated	29,953	287,702			
Increase (Decrease) in Inventory	-,	- · · · · · -			
Fund Balances at June 30	\$ 26,273	\$ 288,281			

	Special Revenue Funds	Total	
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	Non-Major Governmental Funds
\$ 88,349	\$	\$	\$ 88,349
1,290	*	11,770	13,060
896		2,215	3,111
48,581		83,600	155,666
25,962		2,811	28,773
5,541	748	10,823	31,563
1,862	140	(79)	1,781
1,002		6,515	6,515
58,519	14,540	22,711	95,770
231,000	15,288	140,366	424,588
78,038	10,901	124,803	213,742
	10,901	124,603	
12 318			12 318
36,060		04.007	
		61,067	97,127
158		28,570	28,728
		400	400
921		7,682	8,603
		50,558	50,558
		6,046	6,046
			247,290
			190,225
			26,574
115,507	10,901	279,126	869,623
115,493	4,387	(138,760)	(445,035
115,495	4,301	(130,700)	(440,030
278,737	122,267	183,055	1,002,762
(404,876)	(177,276)	(20,865) 252	(620,639 ₎ 252
	213,750		213,750
			257,685
	13,163		36,001
			(258,550)
(126,139)	171,904	162,442	631,261
(10,646)	176,291	23,682	186,226
116,267	54,910	190,858	679,690
(5)	<u> </u>	<u> </u>	(5
105,616	\$ 231,201	\$ 214,540	\$ 865,911

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES BY SOURCE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005 (Expressed In Thousands)

Revenues by Source	June 30, 2005
Taxes:	
Sales and gross receipts	\$ 2,872,230
Income:	
Individual	3,059,876
Corporations	476,434
Property	541,601
Coal severance	232,300
Licenses and privileges	133,164
Inheritance and estate	65,111
Miscellaneous	3,220
Total Taxes	7,383,936
Licenses, fees, and permits	30,507
Intergovernmental	16,416
Charges for services	56,843
Fines and forfeits	49,260
Interest and other investment income	26,783
Securities lending income	5,701
Increase (decrease) in fair value of investments	171
Other revenues	167,774
Total Revenues by Source	\$ 7,737,391

COMMONWEALTH OF KENTUCKY SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	June 30, 2005
General Government:	f 242.400
Personal services	\$ 213,180
Utilities, rentals, and other services	36,892
Commodities and supplies	23,661
Grants and subsidies	1,421,028
Capital outlay Travel	1,055 2,650
Judgments and contingent liabilities	4,094
Other	19,659
Total General Government	1,722,219
Total General Government	1,1 22,2 10
Legislative and Judicial:	
Personal services	172,764
Utilities, rentals, and other services	67,977
Commodities and supplies	13,592
Grants and subsidies	2,455
Capital outlay	2,010
Travel	3,587
Total Legislative and Judicial	262,385
Commerce:	
Personal services	15,013
Utilities, rentals, and other services	1,617
Commodities and supplies	236
Grants and subsidies	7,809
Capital Outlay	167
Travel	240
Total Commerce	25,082
Education and Humanities:	
Personal services	93,653
Utilities, rentals, and other services	16,276
Commodities and supplies	6,354
Grants and subsidies	3,009,593
Capital outlay	515
Travel	2,344
Total Education and Humanities	3,128,735
Human Resources:	
Personal services	161,144
Utilities, rentals, and other services	30,924
Commodities and supplies	6,671
Grants and subsidies	1,279,659
Capital Outlay	422
Travel	5,285
Judgments and contingent liabilities	(11,968)
Total Human Resources	1,472,137
locations	
Justice: Personal services	289,681
Utilities, rentals, and other services	35,088
Commodities and supplies	25,928
Grants and subsidies	162,340
Capital outlay	10,035
Claims	6
Travel	2,786
Judgments and Contingent Liabilities	(9)
Total Justice	525,855
	020,000

COMMONWEALTH OF KENTUCKY SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005 (Expressed In Thousands)

	June 30, 2005
Natural Resources and Environmental Protection:	
Personal services	\$ 57,864
Utilities, rentals, and other services	6,415
Commodities and supplies	2,871
Grants and subsidies	1,918
Capital outlay	1,257
Travel	477
Total Natural Resources and Environmental Protection	70,802
Public Protection and Regulation:	
Personal services	13,028
Utilities, rentals, and other services	1,782
Commodities and supplies	472
Grants and subsidies	188
Capital outlay	25
Travel	472
Judgments and Contingent Liabilities	73
Total Public Protection and Regulation	16,040
Transportation:	
Personal services	397
Utilities, rentals, and other services	4
Grants	3,494
Travel	1
Total Transportation	3,896
Securities Lending Expense	5,290
Total Expenditures	\$ 7,232,441

COMMONWEALTH OF KENTUCKY SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE TRANSPORTATION FUND FOR THE YEAR ENDED JUNE 30, 2005

	June 30, 2005
Revenues:	
Licenses, fees and permits	\$ 118,882
Intergovernmental	11
Taxes	993,723
Charges for services	15,129
Fines and forfeits	6
Interest and other investment income	6,726
Increase (decrease) in fair value	
of investments	10,996
Other revenues	2,781
Total Revenues	1,148,254
Expenditures:	
Transportation:	
General administration and support	57,589
Motor vehicle regulation	38,689
Justice - state police	54,040
Highways	792,476
Other	4,728
Total Expenditures	947,522
Excess of Revenues over (under)	
Expenditures	200,732
Other financing sources (uses):	
Operating transfers in	437
Operating transfers out	(126,289)
Capitalized leases	7,857
Total Other Financing Sources (Uses)	(117,995)
Excess of Revenues and Other Financing	
Sources over (under) Expenditures	
and Other Financing Uses	82,737
Fund Balance at July 1	228,367
Increase (decrease) in inventories	5,736
Fund Balance at June 30	\$ 316,840

INTERNAL SERVICE FUNDS

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

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

Computer Services Fund accounts for expenses incurred and reimbursements received by the Governor's Office for Technology for computer and related data processing services.

Prison Industries Fund accounts for expenses incurred and reimbursements received by the Department of Corrections' industrial prison operations.

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

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

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

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

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF FUND NET ASSETS INTERNAL SERVICE FUNDS JUNE 30, 2005 (Expressed in Thousands)

		Fleet		omputer	Prison	
Assets	Mai	nagement		Services	Industries	
Current assets:						
Cash and cash equivalents	\$	2,031	\$	7,030	\$	1,113
Receivables, net	•	9	¥	513	Ψ	390
Interfunds receivable		119		3,692		421
Inventories		29		308		3,451
Prepaid expenses		20		1,707		0, 10 1
Total Current Assets		2,188		13,250		5,375
Total Current Assets		2,100	-	13,230	-	3,373
Noncurrent assets:						
Investments, net		418		7,207		206
Land						725
Improvements other than buildings						
Buildings				1,978		3,874
Machinery and equipment		85,494		31,132		3,845
Less: Accumulated depreciation		(56,767)		(24,840)		(4,552)
Construction in progress						48
Total Capital Assets		28,727	<u>-</u>	8,270		3,940
Total Noncurrent Assets, Net		29,145		15,477		4,146
Total Assets		31,333		28,727		9,521
Liabilities						
Current liabilities:						
Accounts payable		60		3,847		1,191
Interfund payables		23		384		3
Claims liability						
Capital lease obligations				531		7
Compensated absences		16		1,527		286
Deferred revenue				3,019		
Total Current Liabilities		99		9,308		1,487
Noncurrent liabilities:						
Claims liability						
Capital lease obligations				79		17
Compensated absences		3		1,747		365
Total Noncurrent Liabilities		3	-	1,826		382
Total Liabilities		102		11,134		1,869
Net Assets						
nvested in capital assets, net of related debt		28,727		7,660		3,916
Jnrestricted		2,504		9,933		3,736
Total Net Assets	\$	31,231	\$	17,593	\$	7,652

Central		ı	Property		Risk		Totals	
Pi	rinting	Ma	nagement	Ma	anagement	June 30, 2005		
		'-					_	
\$	38	\$	4,919	\$	14,655	\$	29,786	
	7		1,686		12		2,617	
	175		96		62		4,565	
	164						3,952	
					4,073		5,780	
	384		6,701		18,802		46,700	
	7		15,596		468		23,902	
			15,285				16,010	
			2,807				2,807	
			244,992				250,844	
	2,188		1,494				124,153	
	(1,923)		(118,840)				(206,922)	
			18,005				18,053	
	265		163,743				204,945	
	272		179,339	<u></u>	468		228,847	
	656		186,040	<u>-</u>	19,270		275,547	
		'				<u>-</u>		
	55		453		690		6,296	
			1,692		86		2,188	
					15,783		15,783	
	32		428				998	
	36		475		16		2,356	
-			136				3,155	
	123		3,184		16,575		30,776	
					110,540		110,540	
			5,341		110,070		5,437	
	256		412		6		2,789	
	256		5,753		110,546		118,766	
-	379		8,937		127,121		149,542	
	373	-	0,337		121,121		170,042	
	233		157,974				198,510	
	44		19,129		(107,851)		(72,505)	
\$	277	\$	177,103	\$	(107,851)	\$	126,005	

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

		Fleet		omputer	Prison Industries	
Operating Revenues:	IVIa	nagement		Services	industries	
Charges for services	\$	23,865	\$	56,066	\$	12,384
Other revenues	·	104	•	18	·	5
Total Operating Revenues		23,969		56,084		12,389
Operating Expenses:						
Personal services		1,616		28,939		4,385
Utilities, rentals, and other services		2,181		18,924		808
Commodities and supplies		11,061		2,181		4,747
Grants and subsidies				20		978
Depreciation and amortization		7,649		2,065		224
Travel		4		94		36
Reinsurance expense						
Claims expense						
Total Operating Expenses		22,511		52,223		11,178
Operating Income (Loss)		1,458		3,861		1,211
Nonoperating Revenues (Expenses):						
Gain (loss) on sale of fixed assets		147		(739)		(9)
Interest and other investment income				(18)		. ,
Increase (decrease) in fair value of investments		8		83		
Interest expense				(52)		(1)
Total Nonoperating Revenues and Expenses		155		(726)		(10)
Income (Loss) before Capital contributions						
and Transfers		1,613		3,135		1,201
Capital contributions		1,835				
Transfers in						
Transfers out		(5,000)		(204)		(15)
Change in Net Assets		(1,552)		2,931		1,186
Net Assets at July 1		32,783		14,662		6,466
Net Assets at June 30	\$	31,231	\$	17,593	\$	7,652

Totals June 30, 2005		Risk Management		Property Management		Central Printing	
157,460 130	\$	34,262	\$	27,274 9	\$	3,615	\$
157,602		34,262		27,283		3,615	
48,302		1,861		9,557		1,944	
41,968		4,132		15,029		894	
29,94		23		11,285		647	
998							
15,60		16		5,604		59	
150 42 ⁻		16 421					
31,71		31,711					
169,09		38,164		41,475	-	3,544	
(11,49		(3,902)	-	(14,192)	-	71	
(600				1			
240		263		1			
259		(115)		283			
(264		,		(209)		(2)	
(359		148		76		(2)	
(11,85		(3,754)		(14,116)		69	
1,83							
7,80				7,803			
(9,28	-	(683)	-	(3,379)			
(11,49		(4,437)		(9,692)		69	
137,500		(103,414)		186,795		208	
126,00	\$	(107,851)	\$	177,103	\$	277	\$

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Fleet Managem			omputer ervices	
Cash Flows from Operating Activities					
Cash received from customers - public	\$		\$	2,666	
Cash received from customers - state		24,139		52,241	
Cash payments to suppliers for goods and services		(14,533)		(22,510)	
Cash payments for employee salaries and benefits		(1,600)		(29,525)	
Cash payments for claims expense					
Cash payments from other sources		104		18	
Cash payments to other sources				(20)	
Net Cash Provided by Operating Activities		8,110		2,870	
Cash Flows from Noncapital Financing Activities					
ransfers from other funds					
Fransfers to other funds		(5,000)		(204)	
Net Cash Provided by Noncapital Financing Activities		(5,000)	•	(204)	
Cash Flows from Capital and Related Financing Activities			-		
Acquisition and construction of capital assets		(13,495)		(1,050)	
Principal paid on revenue bond maturities and equipment contracts		. , ,		(552)	
nterest paid on revenue bonds and equipment contracts				(52)	
Proceeds from the sale of capital assets		147		(-)	
Net Cash Used for Capital and Related Financing Activities		(13,348)		(1,654)	
Cash Flows from Investing Activities		(10,040)		(1,007)	
Purchase of investment securities				(404)	
Proceeds from the sale of investment securities		1,872		(404)	
nterest and dividends on investments		8		65	
			-		
Net Cash Used in Investing Activities		1,880		(339)	
Net Increase (Decrease) in Cash and Cash Equivalents		(8,358)		673	
Cash and Cash Equivalents at July 1	_	10,389	_	6,357	
Cash and Cash Equivalents at June 30	<u>\$</u>	2,031	\$	7,030	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$	1,458	\$	3,861	
Adjustments to reconcile operating income to	•	,	·	-,	
net cash provided by operating activities:					
Depreciation and amortization		7,649		2,066	
Change in assets and liabilities:		.,		_,	
(Increase) Decrease in assets:					
Receivables, net		(2)		(296)	
Interfund receivables		276		(2,637)	
Inventories		19		(39)	
Prepaid expenses		13		1,244	
Increase (decrease) in liabilities:				1,244	
,		49		(1 200)	
Accounts payable				(1,389)	
Interfund payables		(1,358)		(1,223)	
Claims liability		40		(402)	
Compensated absences		19		(492)	
Deferred revenue	•	0.440	•	1,775	
Net Cash Provided by Operating Activities	*	8,110	\$	2,870	
loncash Investing, Capital, and Financing Activities	•	_			
Change in fair value of investments	\$	8	\$	83	
Contributions of capital assets		1,835			
Capital assets acquired through leases				96	
Total Noncash Investing, Capital, and Financing Activities	\$	1,843	\$	179	

	Prison dustries		entral rinting		Property inagement		Risk agement		Totals e 30, 2005
\$	3,190	\$		\$		\$		\$	5,856
	9,570		3,474		25,633		34,296		149,353
	(6,934)		(1,669)		(27,529)		(6,165)		(79,340)
	(4,256)		(1,944)		(9,650)		(1,874)		(48,849)
	E				0		(22,309) 49		(22,309) 185
	5 (978)				9		(523)		(1,521)
	597		(139)		(11,537)		3,474	-	3,375
	,		<u> </u>						
	(15)				7,803 (3,379)		(602)		7,803 (9,281)
	(15) (15)			-	4,424		(683) (683)		(1,478)
	(13)				4,424		(003)		(1,470)
	(62)				(4,753)				(19,360)
	(4)		(50)		(121)				(727)
	(2)		(3)		(209)				(266)
	(00)		(52)		(F. 002)				(20, 200)
	(68)		(53)		(5,083)				(20,206)
	(72)								(476)
			36		9,642		417		11,967
	1				283		148		505
	(71)		36		9,925		565		11,996
	443		(156)		(2,271)		3,356		(6,313)
•	670 1,113	\$	194 38	\$	7,190 4,919	\$	11,299 14,655	¢	36,099 29,786
J	1,113	Ð	30	-	4,919	4	14,033	\$	29,760
\$	1,211	\$	71	\$	(14,192)	\$	(3,902)	\$	(11,493)
	223		59		5,604				15,601
	365		(4)		(1,597)		(11)		(1,545)
	96		(58)		(43)		12		(2,354)
	(1,675)		28		` ,				(1,667)
							(1,970)		(726)
	652		(147)		(493)		(243)		(1,571)
	(355)		(9)		(724)		(86)		(3,755)
	()		(-)		,		9,672		9,672
	164				(92)		2		(399)
	(84)		(79)						1,612
\$	597	\$	(139)	\$	(11,537)	\$	3,474	\$	3,375
\$		\$		\$	283	\$	(115)	\$	259
	18				5,769				1,835 5,883
\$	18 18	\$		\$	6,052	\$	(115)	\$	7,977
<u> </u>				<u> </u>		<u> </u>	` -/		, -

CAPITAL ASSETS

COMMONWEALTH OF KENTUCKY CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE JUNE 30, 2005

	Ju	ine 30, 2005
Governmental Funds Capital Assets Land Improvements other than buildings Buildings Machinery and equipment Other intangibles Easements Construction in progress Infrastructure Total Governmental Funds Capital Assets	\$	96,520 8,266 755,909 393,878 2,841 44,707 1,769,779 15,950,068 19,021,968
Investments in Governmental Funds Capital Assets by Source General Fund Special Revenue Funds Donations Other	\$	109,288 1,991,868 90,370 4,715
Capital Projects Fund: State appropriations Revenue bonds Federal grants Other Infrastructure (A) Capital assets acquired prior to July 1, 1984 (A) Capital assets acquired after July 1, 1984 (A) Total Governmental Funds Capital Assets	\$	54,117 447,826 112,246 25,097 15,950,068 154,341 82,032 19,021,968

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

⁽A) Capital assets with an undetermined funding source.

COMMONWEALTH OF KENTUCKY CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE BY FUNCTION

JUNE 30, 2005

FUNCTION	Land	Otl	ovements ner Than uildings		uildings
FUNCTION	 Lanu	Dullulligs		Buildings	
General Government (A)	\$ 11,276	\$	3,895	\$	127,993
Legislative & Judicial	55				
Commerce	47,020		1,997		24,532
Education & Humanities (A)	1,280		399		40,563
Human Resources	1,795		321		73,112
Justice (B)	3,789		1,654		331,212
Natural Resources and Environmental Protection	15,768				1,087
Public Protection and Regulation (B)					
Transportation	15,537				157,410
Total Governmental Funds Capital Assets	\$ 96,520	\$	8,266	\$	755,909

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

⁽A) Fixed Assets totaling \$199,(000) were previously reported within the General Government function. These assets are now reported under the Education function.

⁽B) Fixed Assets totaling \$169,(000) were previously reported within the Public Protection and Regulation function. These assets are now reported under the Justice function.

ar	lachinery nd	Software / Construction Other in Intangibles Easements Progress Infrastructure				la fara a	Totals	
	quipment						Infrastructure	 ine 30, 2005
\$	33,768	\$ 2,841	\$	25,228	\$	51,079	\$	\$ 256,080
	10,508							10,563
	21,630					540		95,719
	33,696			11,484		799		88,221
	19,419					3,544		98,191
	77,308					179,531		593,494
	33,840			7,995		465		59,155
	4,501							4,501
	159,208					1,533,821	15,950,068	17,816,044
\$	393,878	\$ 2,841	\$	44,707	\$	1,769,779	\$ 15,950,068	\$ 19,021,968

COMMONWEALTH OF KENTUCKY CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS SCHEDULE OF CHANGES BY FUNCTION FOR THE YEAR ENDED JUNE 30, 2005

	Balance June 30, 200	Additions	Deductions	Balance June 30, 2005
General Government (A)	\$ 243	,924 \$ 19,0	\$ 6,90	1 \$ 256,080
Legislative & Judicial	10	,520 5	43 500	10,563
Commerce	108	,022 10,6	99 23,002	95,719
Education & Humanities (A)	84	,433 5,0	25 1,237	7 88,221
Human Resources	95	,953 4,0	00 1,762	98,191
Justice (B)	576	,349 69,8	02 52,657	593,494
Natural Resources and Environmental Protection	56	,266 6,3	79 3,490	59,155
Public Protection and Regulation (B)	6	,005	08 2,112	2 4,501
Transportation	17,539	,291 2,131,8	07 1,855,054	17,816,044
Total Governmental Funds Capital Assets	\$ 18,720	,763 \$ 2,247,9	\$ 1,946,715	\$ 19,021,968

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

⁽A) Fixed Assets totaling \$199,(000) were previously reported within the General Government function. These assets are now reported under the Education function.

⁽B) Fixed Assets totaling \$169,(000) were previously reported within the Public Protection and Regulation function. These assets are now reported under the Justice function.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

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

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

State Police Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all regular full-time officers of the Kentucky State Police.

County Employees Retirement System Fund accounts for the revenues and expenses of the retirement system that covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

Kentucky Teachers' Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

Judicial Form Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

Legislators' Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all members of the General Assembly.

Deferred Compensation accounts for the monies withheld from employees, as an Internal Revenue Code Section 401 or 457 deferred compensation plan, by placing amounts with third party administrators and overseeing the investment activities of such monies.

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF FIDUCIARY NET ASSETS PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS JUNE 30, 2005

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System		
Assets					
Cash and short-term investments:					
Cash	\$ 835	\$ 127	\$ 744		
Short-term investments	219,268	2,557	341,301		
Total Cash and Short-Term Investments	220,103	2,684	342,045		
Receivables:					
Investments - accounts receivable					
Interest receivable	28,345	1,848	31,476		
Accounts receivable	32,211	1,290	51,714		
Total Receivables	60,556	3,138	83,190		
Investments at fair value:					
Corporate and government bonds	1,904,820	122,620	2,126,973		
Common stocks	4,096,480	293,387	4,437,907		
Mortgages Mutual funds	280,166	16,700	345,083		
Real estate	4,385	490	4,820		
Total Investments at Fair Value	6,285,851	433,197	6,914,783		
Invested security collateral	1,405,249	94,561	1,567,260		
Capital assets, net	309	5	518		
Prepaid expenses					
Total Assets	7,972,068	533,585	8,907,796		
Liabilities					
Investments - accounts payable	5,068	122	5,163		
Accounts payable	1,039	88	1,103		
Obligations under securities lending	1,405,249	94,561	1,567,260		
Total Liabilities	1,411,356	94,771	1,573,526		
Net Assets					
Net assets held in trust for:					
Employee retirement benefit	5,760,939	339,406	6,304,846		
Retiree's health insurance	799,773	99,408	1,029,424		
Total Net Assets	\$ 6,560,712	\$ 438,814	\$ 7,334,270		

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2005	
\$ 10,007 1,287,800	\$ 110 2,739	\$ 1 862	\$ 3,708	\$ 15,532 1,854,527	
1,297,807	2,849	863	3,708	1,870,059	
66,625	4.540	283		66,625	
45,685	1,540 71	283	18,832	63,492 149,803	
112,310	1,611	283	18,832	279,920	
4,214,833 7,612,197	87,453 160,808	16,815 45,800	3,254	8,476,768 16,646,579	
54,959 386,004			1,136,036	696,908 1,136,036 395,699	
12,267,993	248,261	62,615	1,139,290	27,351,990	
732,379 3,283 111				3,799,449 4,115 111	
14,413,883	252,721	63,761	1,161,830	33,305,644	
11,813 1,850 732,379 746,042				22,166 4,080 3,799,449 3,825,695	
13,667,841	252,721	63,761	1,161,830	27,551,344	
\$ 13,667,841	\$ 252,721	\$ 63,761	\$ 1,161,830	1,928,605 \$ 29,479,949	

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS FOR THE YEAR ENDED JUNE 30, 2005 (Expressed in Thousands)

	En Re	entucky nployees etirement System	Re	State Police etirement System	County Employees Retirement System	
Additions						
Contributions:						
Employer	\$	127,177	\$	11,203	\$	257,748
Employee		139,426		2,852		167,152
Total Contributions		266,603	-	14,055		424,900
Investment income:						
Net increase (decrease) in fair value of investments		389,343		26,818		429,797
Interest		175,368		11,483		194,477
Dividends						
Real estate operating income, net						
Securities lending income, net		29,561		1,989		33,361
Total Investment Income		594,272		40,290		657,635
Less: Investment expense		8,331		481		9,134
Less: Securities lending expense		26,359		1,770		29,385
Net Investment Income		559,582	-	38,039	-	619,116
Total Additions		826,185		52,094		1,044,016
Deductions						
Benefit payments		542,891		32,921		384,709
Refunds		10,584		131		13,181
Administrative expenses		6,945		148		11,570
Other deductions, net		80,424		6,221		80,247
Total Deductions		640,844		39,421		489,707
Change in Net Assets		185,341		12,673		554,309
Net Assets Held in Trust						
Net Assets at July 1		6,375,371		426,141		6,779,961
Adjustment to net assets						
Net Assets at June 30	\$	6,560,712	\$	438,814	\$	7,334,270

Kentucky Teachers' Retirement System		Re	Judicial Retirement System		Legislators' Retirement System		Deferred Compensation System		Totals June 30, 2005	
\$	467,369 298,601	\$	3,708 2,827	\$	506 462	\$	3,799 119,529	\$	871,510 730,849	
	765,970		6,535		968		123,328		1,602,359	
	512,314 249,085 162,041 33,122 18,152		(2,175) 4,200 2,133		(646) 1,142 292		67,408 14,240		1,422,859 649,995 164,466 33,122 83,063	
	974,714		4,158		788		81,648		2,353,505	
	4,670 17,455		218				2,222		25,056 74,969	
	952,589 1,718,559		3,940 10,475		788 1,756		79,426 202,754		2,253,480 3,855,839	
	1,105,761 10,985		12,654 15		2,618 2		89,406		2,170,960 34,898	
	10,724		170		155		4,521		34,233 166,892	
	1,127,470		12,839		2,775		93,927		2,406,983	
	591,089		(2,364)		(1,019)		108,827		1,448,856	
	13,076,752		255,035 50		64,830 (50)		1,053,003		28,031,093	
\$	13,667,841	\$	252,721	\$	63,761	\$	1,161,830	\$	29,479,949	

AGENCY FUNDS

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

Commonwealth Choice accounts for flexible benefits spending accounts.

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

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

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF FIDUCIARY NET ASSETS AGENCY FUNDS JUNE 30, 2005 (Expressed in Thousands)

				County Fees Trust Fund		cial Deposit rust Fund	Totals June 30, 2005	
Assets Cash and cash equivalents	\$	_	\$	184	\$	237,457	\$	237,641
Cash with fiscal agents	*	9,096	*		*	,	*	9,096
Investments, net of amortization						76,012		76,012
Invested security collateral						387,006		387,006
Receivables, net				4,435		43,503		47,938
Total Assets	\$	9,096	\$	4,619	\$	743,978	\$	757,693
Liabilities								
Accounts payable	\$		\$		\$	199,205	\$	199,205
Obligations under securities lending						387,006		387,006
Amounts held in custody for others		9,096		4,619		157,767		171,482
Total Liabilities	\$	9,096	\$	4,619	\$	743,978	\$	757,693

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS FOR THE YEAR ENDED JUNE 30, 2005 (Expressed in Thousands)

	Balances June 30, 2004	Additions	Deductions	Balances June 30, 2005
COMMONWEALTH CHOICE PROGRAM				
Assets Cash with fiscal agents	\$ 5,974	\$ 44,521	\$ 41,399	\$ 9,096
Total assets	\$ 5,974 \$ 5,974	\$ 44,521 \$ 44,521	\$ 41,399 \$ 41,399	\$ 9,096 \$ 9,096
	<u> </u>	<u> </u>		<u>·</u>
<u>Liabilities</u> Amounts held in custody for others				
Total liabilities	\$ 5,974 \$ 5,974	\$ 44,521 \$ 44.521	\$ 41,399 \$ 41.399	\$ 9,096 \$ 9.096
rotal habilities	\$ 5,974	\$ 44,521	\$ 41,399	\$ 9,096
COUNTY FEES TRUST FUND				
<u>Assets</u>				
Cash & cash equivalents Accounts Receivable	\$ 1,994	\$ 95,478	\$ 97,288	\$ 184
Total assets	A 4.004	4,435	A 07.000	4,435
10010000	\$ 1,994	\$ 99,913	\$ 97,288	\$ 4,619
<u>Liabilities</u>				
Amounts held in custody for others	\$ 1,994	\$ 99,913 \$ 99,913	\$ 97,288	\$ 4,619
Total liabilities	\$ 1,994	\$ 99,913	\$ 97,288	\$ 4,619
SPECIAL DEPOSIT TRUST FUND				
Assets				
Cash & cash equivalents	\$ 221,191	\$ 755,976	\$ 739,710	\$ 237,457
Investments	57,722	37,355	19,065	76,012
Invested security collateral Accounts receivable		387,006		387,006
Total assets	359 \$ 279,272	43,144 \$ 1,223,481	\$ 758,775	43,503
Total addots	\$ 219,212	3 1,223,461	3 730,773	\$ 743,978
<u>Liabilities</u>				
Accounts payable	\$ 120,307	\$ 78,898	\$	\$ 199,205
Obligations under securities lending		387,006		387,006
Amounts held in custody for others Total liabilities	158,965	738,512	739,710	157,767
Total liabilities	<u>\$ 279,272</u>	<u>\$ 1,204,416</u>	\$ 739,710	\$ 743,978
ALL AGENCY FUNDS				
<u>Assets</u>				
Cash & cash equivalents	\$ 223,185	\$ 851,454	\$ 836,998	\$ 237,641
Cash with fiscal agents Investments	5,974	44,521	41,399	9,096
Invested security collateral	57,722	37,355 387,006	19,065	76,012 387,006
Accounts receivable	359	47,579		47,938
Total assets	\$ 287,240	\$ 1,367,915	\$ 897,462	\$ 757,693
Land 190				
<u>Liabilities</u> Accounts payable	¢ 420.207	¢ 70,000	¢	c 100.005
Obligations under securities lending	\$ 120,307	\$ 78,898 387,006	\$	\$ 199,205 387,006
Amounts held in custody for others	166,933	882,946	878,397	171,482
Total liabilities	\$ 287,240	\$ 1,348,850	\$ 878,397	\$ 757,693
		<u> </u>		

NON-MAJOR COMPONENT UNITS - COMBINING

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF NET ASSETS NON-MAJOR COMPONENT UNITS JUNE 30, 2005

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2005
Assets			
Current assets:			_
Cash and cash equivalents	\$ 172,713	\$ 157,455	\$ 330,168
Restricted cash	5,898	36,604	42,502
Investments, net of amortization	90,857	21,854	112,711
Accounts receivable, net	6,070	60,381	66,451
Interest receivable	4,608	740	5,348
Inventories	1,057	6,068	7,125
Prepaid expenses	1,084	4,026	5,110
Other current assets	29,954	5,850	35,804
Total Current Assets	312,241	292,978	605,219
Noncurrent assets:			
Restricted cash	2,926	60,029	62,955
Restricted long-term investments	4,371	5,198	9,569
Long-term investments, net	178,179	277,295	455,474
Long-term receivables	433,209	35,527	468,736
Deferred charges	306		306
Land	26,370	42,623	68,993
Improvements other than buildings	380	49,941	50,321
Buildings	294,013	1,128,431	1,422,444
Machinery and equipment	68,366	252,929	321,295
Other capital assets	1,045		1,045
Less: Accumulated depreciation	,		,
and amortization	(188,294)	(717,678)	(905,972)
Construction in progress	47,313	76,044	123,357
Total Capital Assets	249,193	832,290	1,081,483
Other assets	33,176	53,291	86,467
Total Noncurrent Assets	901,360	1,263,630	2,164,990
Total Assets	1,213,601	1,556,608	2,770,209
Liabilities Current liabilities:			
	E 77E	F2 226	E0 101
Accounts payable and accruals	5,775	53,326	59,101
Current portion of long-term debt:	73	2.404	2.474
Notes payable		2,401	2,474
Bonds payable	16,127 2,036	22,301	38,428 8,505
Capital lease obligations		6,469	
Compensated absences	1,891	11,771	13,662
Claims liability	7,911	3,687	11,598
Deferred revenues	6,362	27,792	34,154
Payable from restricted assets	0.44	18,449	18,449
Other current liabilities	841	12,956	13,797
Total Current Liabilities	41,016	159,152	200,168
Noncurrent liabilities:	22	22.222	00.000
Notes payable	30	22,933	22,963
Bonds payable	192,522	205,731	398,253
Capital lease obligations	53,008	68,549	121,557
Compensated absences	881	290	1,171
Other long-term liabilities		55,509	55,509
Total Noncurrent Liabilities	246,441	353,012	599,453
Total Liabilities	287,457	512,164	799,621
Net Assets	222.22	500.050	704.00-
Invested in capital assets, net of related debt	238,637	526,258	764,895
Restricted for:			
Debt service		24,163	24,163
Capital projects	11,235	13,457	24,692
Other purposes	580,235	336,157	916,392
Unrestricted	96,037	144,409	240,446
Total Net Assets	\$ 926,144	\$ 1,044,444	\$ 1,970,588

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF ACTIVITIES NON-MAJOR COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2005

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2005
Expenses:		<u> </u>	
Operating and other expenses	\$ 212,419	\$ 1,028,120	\$ 1,240,539
Depreciation	2,565		2,565
Total expenses	214,984	1,028,120	1,243,104
Program Revenues:			
Charges for services	79,611	341,650	421,261
Operating grants and contributions	78,033	272,746	350,779
Capital grants and contributions	13,037	9,357	22,394
Total Program Revenues	170,681	623,753	794,434
Net Program (Expense) Revenue	(44,303)	(404,367)	(448,670)
General Revenues:			
Unrestricted grants and contributions	312	35,841	36,153
Unrestricted investment earnings	5,791	14,495	20,286
Gain on sale of capital assets		408	408
Miscellaneous general	60,705	442,883	503,588
Total General Revenues	66,808	493,627	560,435
Change in Net Assets	22,505	89,260	111,765
Net Assets at July 1, as Restated	903,639	955,184	1,858,823
Net Assets at June 30	\$ 926,144	\$ 1,044,444	\$ 1,970,588

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NON-MAJOR COMPONENT UNITS - AUTHORITIES

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

Bluegrass State Skills Corporation - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

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

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

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

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

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

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

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

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

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

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

Kentucky Horse Park Foundation – is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park.

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF NET ASSETS NON-MAJOR COMPONENT UNITS - AUTHORITIES JUNE 30, 2005

A	Kentucky River Authority	Blueg State S Corpor	Skills	Sta	ntucky ate Fair Board	Ce tl	entucky enter for ne Arts poration	Ed: Te	entucky ucational levision uthority	Ed Dev F	entucky conomic relopment rinance uthority
Assets Current assets:											
Cash and cash equivalents	\$ 546	\$	12	\$	8,789	\$	1,813	\$	3,609	\$	38,403
Restricted cash	5,898	Ψ	12	Ψ	0,709	Ψ	1,013	Ψ	3,009	Ψ	30,403
Investments, net of amortization	5,090								1,935		11,462
Accounts receivable, net	454		215		1,673		698		1,280		3
Interest receivable	22		210		1,070		32		31		112
Inventories							46		674		112
Prepaid expenses					694		376		074		
Other current assets							0.0		383		5,462
Total Current Assets	6,920	-	227		11,156		2,965		7,912		55,442
Total Garrent /1050t5	0,020				11,100		2,000		7,512		00,442
Noncurrent assets:											
Restricted cash					1,881				1,045		
Restricted long-term investments					1,001				4,371		
Long-term investments, net			31		19,455		15.187		491		1,914
Long-term receivables			31		13,433		10,107		431		37,467
Deferred charges									4		37,407
Land	478				24,520		129		76		
Improvements other than buildings	83				24,020		120		70		
Buildings	00				242,991		31.571		12,867		
Machinery and equipment	456				4,708		16,151		45,427		
Other capital assets	450				1,045		10,131		40,421		
Less: Accumulated depreciation					1,040						
and amortization	(4,970)				(110,938)		(31,189)		(40,169)		
Construction in progress	(4,370)				47,313		(31,103)		(40,103)		
Total Capital Assets	(3,953)	-			209,639		16,662		18,201		
•					209,039						
Other assets	25,880		0.4		000.075		4,334		1,298		00.004
Total Noncurrent Assets	21,927		31		230,975		36,183		25,410		39,381
Total Assets	28,847		258		242,131		39,148		33,322		94,823
Liabilities											
Current liabilities:											
Accounts payable and accruals	220		37		1,817		448		950		6
Current portion of long-term debt:	220		31		1,017		440		930		U
Notes payable									73		
Bonds payable									73		
Capital lease obligations					2,036						
Compensated absences	27		27		1,004		134		666		
Claims liability	21		21		1,004		134		000		
Deferred revenues					4,407		373		512		
Other current liabilities					378		3/3		463		
Total Current Liabilities	247		64				055				6
Total Current Liabilities	247		64		9,642		955		2,664		6
Noncurrent liabilities:											
Notes payable									30		
Bonds payable									30		
					53,008						
Capital lease obligations Compensated absences	65		10		55,006				801		
-			10		50.000						
Total Noncurrent Liabilities	65				53,008		055		831		
Total Liabilities	312		74		62,650		955		3,495		6
Not Appata											
Net Assets											
Invested in capital assets,	04.00=				470.047		40.000		40.040		
net of related debt	21,927				172,317		16,662		19,340		
Restricted for:	2.22				0.500				4.050		
Capital projects	6,083				3,502		0.000		1,650		00.000
Other purposes			464		0.000		3,396		4,180		22,302
Unrestricted	525	•	184	•	3,662	<u> </u>	18,135	•	4,657	_	72,515
Total Net Assets	\$ 28,535	\$	184	\$	179,481	\$	38,193	\$	29,827	\$	94,817

Kentucky Artisan Center		Kentucky Infrastructure Authority		Infrastructure		Agı F	entucky ricultural inance poration	In	entucky Grain surance rporation	Co F Co	cucky Local rrectional acilities nstruction athority	Centucky Access	Но	Kentucky rse Park undation, Inc.		Totals June 30, 2005
\$	183	\$	61,929	\$	2,634	\$	3,516	\$	4,331	\$ 46,469	\$	479	\$	172,713		
	F11		75.057				400					000		5,898		
	511		75,857 539		2		492		462	647		600 97		90,857 6,070		
			4,221		2		2		66	122		31		4,608		
	333		,									4		1,057		
												14		1,084		
			23,901						208					29,954		
	1,027		166,447		2,636		4,010		5,067	 47,238		1,194	_	312,241		
			136,987 393,574		779				2,335 2,060			1,000 108		2,926 4,371 178,179 433,209		
			333,374						302			100		306		
	1,167								332					26,370		
	297													380		
	6,570											14		294,013		
	641											983		68,366 1,045		
	(284)											(744)		(188,294) 47,313		
	8,391											253		249,193		
			1,664											33,176		
	8,391		532,225		779				4,697			1,361		901,360		
-	9,418		698,672		3,415		4,010		9,764	 47,238		2,555		1,213,601		
	57		1,437		4				157	641		1		5,775		
														73		
			14,282						1,845					16,127		
	20													2,036		
	33									7,911				1,891 7,911		
	1									1,069				6,362		
										,				841		
	91		15,719		4				2,002	9,621		1		41,016		
			172,209						20,313					30 192,522		
	_													53,008		
	5		470.000						00.040				_	881		
	5 96		172,209						20,313	 0.004			_	246,441		
	96		187,928		4				22,315	 9,621		1_	_	287,457		
	8,391													238,637		
														11,235		
			510,744							37,617		1,996		580,235		
	931				3,411		4,010		(12,551)			558		96,037		
\$	9,322	\$	510,744	\$	3,411	\$	4,010	\$	(12,551)	\$ 37,617	\$	2,554	\$	926,144		

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF ACTIVITIES NON-MAJOR COMPONENT UNITS - AUTHORITIES FOR THE YEAR ENDED JUNE 30, 2005 (Expressed in Thousands)

	Kentucky River Authority		•			Kentucky State Fair Board		Kentucky Center for the Arts Corporation		Kentucky Educational Television Authority		entucky conomic elopment inance uthority
Expenses: Operating and other expenses	\$	2,860	\$	2,529	\$	40,559	\$	9.204	\$	27,096	\$	13,198
Depreciation	\$ 2,000		Ψ 	2,529 \$		40,559	3 9,204 2,565		3 27,090		J 13,190	
Total expenses	2,860		2,529		40,559		11,769		27,096		13,198	
Program Revenues:												
Charges for services		1,332				36,861		3,533		1,375		1,323
Operating grants and contributions	g grants and contributions						2,167		10,495			
Capital grants and contributions		13,037										
Total Program Revenues	14,369					36,861		5,700		11,870		1,323
Net Program (Expense) Revenue	11,509		(2,529)		(3,698)			(6,069)		(15,226)		(11,875)
General Revenues:												
Unrestricted grants and contributions						(50)		362				
Unrestricted investment earnings		198				96		1,213		254		924
Miscellaneous general		297		2,516		12,056		3,711		14,447		2,624
Total General Revenues	495		2,516		12,102		5,286		14,701		3,548	
Change in Net Assets		12,004		(13)		8,404		(783)		(525)		(8,327)
Net Assets at July 1, as Restated		16,531		197		171,077		38,976		30,352		103,144
Net Assets at June 30	\$	28,535	\$	184	\$	179,481	\$	38,193	\$	29,827	\$	94,817

Kentucky Artisan Center		Kentucky Infrastructure Authority		Kentucky Agricultural Finance Corporation		Kentucky Grain Insurance Corporation		Kentucky Local Correctional Facilities Construction Authority		Kentucky Access		The Kentucky Horse Park Foundation, Inc.		Totals June 30, 2005	
\$	1,914	\$	68,402	\$	89	\$		\$	1,939	\$	43,397	\$	1,232	\$	212,419 2,565
	1,914		68,402		89				1,939	_	43,397		1,232	_	214,984
	1,300 90		11,250 33,412				8		4,997 108		17,285 30,841		355 912		79,611 78,033 13,037
	1,390	-	44,662				8	-	5,105		48,126	-	1,267		170,681
	(524)		(23,740)		(89)		8		3,166		4,729		35		(44,303)
	96		1,875 25,047		66		93				859		117 7		312 5,791 60,705
	96		26,922		66		93				859		124	-	66,808
			20,022												00,000
	(428)		3,182		(23)		101		3,166		5,588		159		22,505
\$	9,750 9,322	\$	507,562 510,744	\$	3,434 3,411	\$	3,909 4,010	\$	(15,717) (12,551)	\$	32,029 37,617	\$	2,395 2,554	\$	903,639 926,144

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF CASH FLOWS COMPONENT UNITS-AUTHORITIES FOR THE YEAR ENDED JUNE 30, 2005

	Major			Non-				
	K F Coi Co	Kentucky Agricultural Finance Corporation		Kentucky Grain Insurance Corporation			Totals ne 30, 2005	
Cash Flows from Operating Activities	_		_				_	
Cash received from customers - public	\$	35,191	\$		\$	6	\$	35,197
Cash payments to suppliers for goods and services		(18,606)						(18,606)
Cash payments for employee salaries and benefits		(214)		(86)				(300)
Cash payments from other sources		1,117						1,117
Cash payments to other sources		(19,157)						(19,157)
Net Cash Provided by Operating Activities		(1,669)		(86)		6		(1,749)
Cash Flows from Investing Activities								
Purchase of investment securities				(235)				(235)
Proceeds from the sale of investment securities		1,860				214		2,074
Interest and dividends on investments		671		66		93		830
Net Cash Used in Investing Activities		2,531		(169)		307		2,669
Net Increase (Decrease) in Cash and Cash Equivalents		862		(255)		313		920
Cash and Cash Equivalents at July 1		10,300		2,889		3,203		16,392
Cash and Cash Equivalents at June 30	\$	11,162	\$	2,634	\$	3,516	\$	17,312
Reconciliation of Operating Income to Net Cash								
Provided by Operating Activities:								
Operating income (loss)	\$	21,623	\$	(89)	\$	8	\$	21,542
Adjustments to reconcile operating income to								
net cash provided by operating activities:								
Miscellaneous nonoperating income (expense)		(25,522)						(25,522)
Change in assets and liabilities:								
(Increase) Decrease in assets:								
Receivables, net				(1)		(2)		(3)
Prepaid Expenses		(435)						(435)
Increase (decrease) in liabilities:								
Accounts payable		(3,700)		4				(3,696)
Other liabilities		6,365						6,365
Net Cash Provided by Operating Activities	\$	(1,669)	\$	(86)	\$	6	\$	(1,749)
		<u> </u>						<u> </u>
Noncash Investing, Capital, and Financing Activities								
Change in fair value of investments	\$	(1)	\$	(3)	\$	2	\$	(2)
Total Noncash Investing, Capital, and Financing Activities	\$	(1)	\$	(3)	\$	2	\$	(2)

NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES

Universities, Colleges and Related Entities

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

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

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

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF NET ASSETS NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES JUNE 30, 2005

(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			<u> </u>
Current assets:			
Cash and cash equivalents	\$ 32,577	\$ 33,173	\$ 21,492
Restricted cash			1,316
Investments, net of amortization	5,916	4,031	
Accounts receivable, net	16,196	7,682	8,005
Interest receivable	160	412	23
Inventories	440	1,545	1,837
Prepaid expenses	74	520	
Other current assets		3,683	110
Total Current Assets	55,363	51,046	32,783
Noncurrent assets:			
Restricted cash	13,960	15,678	
Restricted long-term investments			
Long-term investments, net	51,366	83,216	36,737
Long-term receivables	6,828	15,892	5,623
Land	6,421	7,146	12,869
Improvements other than buildings	12,725	17,209	,
Buildings	220,015	273,178	158,623
Machinery and equipment	27,324	66,574	55,676
Less: Accumulated depreciation	,	,	,
and amortization	(144,285)	(132,314)	(116,320)
Construction in progress	10,425	17,971	12,821
Total Capital Assets	132,625	249,764	123,669
Other assets	34,003	6,208	86
	238,782	370,758	166,115
Total Noncurrent Assets, Net			
Total Assets	294,145_	421,804	198,898
Liabilities			
Current liabilities:			
Accounts payable and accruals	10,734	10,788	12,143
Current portion of long-term debt:			
Notes payable		229	110
Bonds payable	5,910	5,249	2,820
Capital lease obligations	1,125	617	637
Compensated absences	3,000	2,284	
Claims liability	1,632	976	
Deferred revenues	7,307	8,979	1,998
Payable from restricted assets	9,851	1,554	
Other current liabilities	293	4,391	769
Total Current Liabilities	39,852	35,067	18,477
Noncurrent liabilities:			
Notes payable		2,323	240
Bonds payable	37,150	91,745	25,485
Capital lease obligations	22,261	1,074	6,481
Compensated absences			
Other long-term liabilities	54	45,282	4,979
Total Noncurrent Liabilities	59,465	140,424	37,185
Total Liabilities	99,317	175,491	55,662
Net Assets			
Invested in capital assets, net of related debt	98,653	119,326	87,308
Restricted for:	20,000	110,020	31,330
Debt service	7,513	5,148	
Capital projects	7,010	10,283	
Other purposes	56,388	73,771	41,322
Unrestricted	32,274	37,785	14,606
Total Net Assets	\$ 194,828	\$ 246,313	\$ 143,236
	+ 101,020	2 10,010	7 110,200

	Murray	Northern		entucky		cky Council		
	State	Kentucky		State	on Pos	stsecondary		Totals
	Jniversity	University	Ur	niversity	Ed	lucation	Jui	ne 30, 2005
¢	25,627	\$ 37,233	\$	6,929	\$	424	\$	157,455
\$	25,021	7,354	Φ	0,929	Φ	27,934	Φ	36,604
		7,554		11,907		21,304		21,854
	4,664	14,210		2,557		7,067		60,381
	15	89		22		19		740
	1,983	222		41				6,068
	911	1,192				1,329		4,026
	1,695	55		146		161		5,850
	34,895	60,355		21,602		36,934		292,978
	16,757	13,634				5,198		60,029 5,198
	62,552	39,569		2,826		1,029		277,295
	3,778	2,467		479		460		35,527
	8,376	6,162		1,649				42,623
	9,624	7,255		3,128				49,941
	184,353	196,607		95,655				1,128,431
	47,034	45,995		9,737		589		252,929
	(130,793)	(107,010)		(86,637)		(319)		(717,678)
	3,056	6,490		25,281				76,044
	121,650	155,499		48,813		270	<u> </u>	832,290
	1,939	579		10,476	'		'	53,291
	206,676	211,748		62,594		6,957		1,263,630
	241,571	272,103		84,196		43,891		1,556,608
	5,711	6,957		2,289		4,704		53,326
	1,915	122		25				2,401
	2,317	5,035		970				22,301
	181	3,145		167		597		6,469
	3,438	1,751		1,298				11,771
	1,079	, -		,				3,687
	3,662	4,460		1,386				27,792
	1,411	5,633						18,449
		296		527		6,680		12,956
	19,714	27,399		6,662		11,981		159,152
	40.057	0.400		40				22.255
	18,257	2,100		13				22,933
	13,256	31,905		6,190				205,731
	1,462	30,500		6,771		000		68,549
	400	4,062		732		290		290 55,509
	33,375	68,567		13,706		290		353,012
	53,089	95,966		20,368		12,271		512,164
	·	_						
	93,143	82,548		45,010		270		526,258
	4,144	7,358						24,163
		.,555						13,457
	3.174							
	3,174 58,936	59,105		17,536		29,099		
	3,174 58,936 29,085	59,105 27,126		17,536 1,282		29,099 2,251		336,157 144,409

COMMONWEALTH OF KENTUCKY COMBINING STATEMENT OF ACTIVITIES NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES JUNE 30, 2005

(Expressed in Thousands)

	I	Eastern Centucky Iniversity	ı	Western Kentucky Jniversity	lorehead State niversity
Expenses:					
Operating and other expenses	\$	205,727	\$	222,952	\$ 113,663
Total Expenses		205,727		222,952	 113,663
Program Revenues:					
Charges for services		50,151		105,085	37,953
Operating grants and contributions		80,184		32,187	33,615
Capital grants and contributions		75			
Total Program Revenues		130,410		137,272	71,568
Net Program (Expense) Revenue		(75,317)		(85,680)	(42,095)
General Revenues:					
Unrestricted grants and contributions		2,483		26,402	
Unrestricted investment earnings		2,957		3,993	406
Gain on sale of capital assets				73	
Miscellaneous general		73,805		77,106	49,124
Total General Revenues		79,245		107,574	49,530
Change in Net Assets		3,928		21,894	7,435
Net Assets at July 1		190,900		224,419	135,801
Net Assets at June 30	\$	194,828	\$	246,313	\$ 143,236

	Murray State Jniversity	Kentucky		Kentucky State University		Y Council stsecondary ducation	Ju	Totals June 30, 2005	
\$	135,144	\$	130,289	\$ 54,613	\$	165,732	\$	1,028,120	
	135,144		130,289	 54,613		165,732		1,028,120	
	62,115		73,149	12,137		1,060		341,650	
	20,130		25,126 6,186	17,832 2,614		63,672 482		272,746 9,357	
	82,245		104,461	32,583		65,214	_	623,753	
	(52,899)		(25,828)	(22,030)		(100,518)		(404,367)	
	5,570		177	1,209				35,841	
	5,334 335		1,530	228		47		14,495 408	
	51,361		45,585	25,291		120,611		442,883	
	62,600		47,292	26,728		120,658		493,627	
	9,701		21,464	4,698		20,140		89,260	
-	178,781		154,673	 59,130		11,480		955,184	
\$	188,482	\$	176,137	\$ 63,828	\$	31,620	\$	1,044,444	

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STATISTICAL SECTION

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

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

SOURCE	1996	1997	1998	1999
Taxes:				
Sales & gross receipts	\$ 2,873,176	\$ 3,018,770	\$ 3,167,442	\$ 3,255,990
Individual income	2,080,418	2,201,574	2,390,823	2,538,948
Corporation income	289,508	291,536	338,354	312,579
Property	409,175	440,973	405,528	424,471
License & privilege	130,778	145,178	162,122	170,480
Severance	185,019	185,744	187,126	173,094
Inheritance & estate	82,673	93,962	105,550	79,168
Miscellaneous	104,819	109,451	114,903	120,765
Total Taxes	 6,155,566	6,487,188	6,871,848	7,075,495
Intergovernmental revenue	3,394,888	3,625,241	3,809,686	3,825,985
Charges for services	277,165	262,366	289,555	298,952
Licenses, fees & permits	163,331	164,557	170,454	188,304
Fines & forfeitures	40,485	48,538	47,265	53,024
Interest & investments	148,908	155,878	191,986	140,328
Other income	133,524	193,206	218,883	185,881
Total Non-Tax Income	4,158,301	4,449,786	4,727,829	4,692,474
Total Revenues	\$ 10,313,867	\$ 10,936,974	\$ 11,599,677	\$ 11,767,969

NOTE:

Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

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

<u>FUNCTIONS</u>	1996	1997	1998	1999
General government	\$ 494,599	\$ 593,500	\$ 652,980	\$ 556,913
Legislative & judicial	147,563	150,604	165,645	186,168
Commerce	42,704	44,408	45,953	49,927
Education & humanities	2,962,449	3,076,843	3,187,712	3,250,456
Human resources	3,819,907	4,208,762	4,253,354	4,368,927
Justice	282,999	340,100	402,149	451,532
Natural resources and				
environmental protection	96,094	103,356	112,923	120,938
Public protection and				
regulation	94,124	105,763	115,479	130,245
Transportation	1,061,589	1,092,563	1,135,102	1,356,322
Securities lending expense				
Capital outlay	79,245	99,702	135,106	266,165
Debt service	392,130	332,127	438,029	357,698
Total Expenditures	\$ 9,473,403	\$ 10,147,728	\$ 10,644,432	\$ 11,095,291

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report

NOTE: Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund

and the Debt Service Fund.

2000	 2001	 2002	 2003	_	2004	 2005
\$ 3,546,343	\$ 3,609,499	\$ 3,699,098	\$ 3,653,169	\$	3,766,057	\$ 4,056,411
2,701,349	2,768,302	2,681,443	2,763,769		2,785,161	3,059,877
307,939	288,418	211,382	283,436		311,741	476,434
440,438	457,216	480,890	492,507		516,106	542,811
139,922	146,422	120,902	166,222		140,987	147,018
169,154	177,774	187,588	177,868		195,782	237,833
76,751	83,267	89,753	96,784		65,977	66,634
3,390	3,203	3,653	143,857		151,387	158,340
7,385,286	7,534,101	7,474,709	 7,777,612		7,933,198	 8,745,358
4,602,881	4,208,631	4,821,756	5,093,078		5,150,705	5,351,830
359,782	426,173	506,924	548,226		616,638	728,998
203,608	200,239	308,209	252,123		265,699	287,045
49,986	54,297	54,169	73,691		95,745	86,771
163,893	232,100	201,933	149,146		50,971	110,245
230,325	616,361	406,869	506,272		625,008	611,966
 5,610,475	5,737,801	6,299,860	6,622,536		6,804,766	 7,176,855
\$ 12,995,761	\$ 13,271,902	\$ 13,774,569	\$ 14,400,148	\$	14,737,964	\$ 15,922,213

2000	2001	2002	2003	2004	2005
\$ 541,008	\$ 672,605	\$ 2,036,798	\$ 1,889,243	\$ 1,933,909	\$ 2,131,008
212,978	216,608	239,515	246,838	265,847	277,792
52,941	51,283	58,741	62,486	65,518	66,609
3,351,422	3,442,741	3,584,412	3,752,918	3,823,798	4,091,135
5,109,752	5,110,365	5,563,087	5,650,039	5,984,514	6,188,350
511,106	553,499	564,427	575,237	563,890	633,662
125,724	127,048	143,924	135,349	149,401	161,899
131,350	124,725	120,764	139,299	112,587	73,868
1,502,356	1,588,052	1,724,061	1,695,652	1,724,342	1,520,371
				13,123	15,619
225,409	309,011	483,145	244,419	293,761	279,953
302,708	410,058	337,546	460,256	545,642	464,089
\$ 12,066,754	\$ 12,605,995	\$ 14,856,420	\$ 14,851,736	\$ 15,476,332	\$ 15,904,355

DESCRIPTION OF TAX SOURCES ALL GOVERNMENTAL FUND TYPES

JUNE 30, 2005

SALES AND USE - On July 1, 1960, Kentucky became the 34th state to enact a sales and use tax. Although the tax was broad based at the time of its inception, the sales and use tax has been significantly eroded over the years with the passage of numerous exemptions. This has been partially offset with rate increases in 1968 (3% to 5%) and 1990 (5% to 6%), and expansion of the tax base in 1985 to cover leases and rentals of tangible personal property. Effective January 1, 2001, the sales tax base expanded to include interstate communications services. During fiscal year 2004, the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

COAL SEVERANCE-Kentucky's coal severance tax became effective April 1, 1972, and was intended to replace a major portion of the revenue expected to be lost by the exemption of groceries from the sales tax. It was the first major severance tax among the states. The initial rate of 4% on the gross value of coal mined in Kentucky or thirty cents per ton, whichever is greater, was raised to 4.5% of the gross value of coal mined or fifty cents per ton, whichever is greater, in 1976. In 1978, the statutes were revised to include the taxation of coal processing and add a deduction from the gross value for the cost of transportation. A 1986 amendment provided that coal producing and coal impact counties were to receive a minimum of 10% of coal severance and processing taxes for FY 1986-87 and 12% for subsequent years. The percentage has increased over the years to a level of approximately 40% for FY 2001-02. The 2000 session of the General Assembly produced legislation that allowed for a tax credit of 2.25% to 3.75% of the gross value of coal produced from thin seams of coal from newly permitted production.

MOTOR FUELS - In 1920, Kentucky became the fifth state to adopt a gasoline tax. The initial rate of one cent per gallon reached five cents per gallon by 1926. Effective April 1, 1948, the tax per gallon was raised to seven cents, with two-seventh of the total set aside for rural and secondary roads. In 1952, the tax was expanded to include special fuels which were to be taxed at the same rate as gasoline. On July 1, 1972, the tax rate increased to nine cents per gallon. Effective July 1, 1980, the rate was changed to 9% of the weighted average wholesale tank wagon price for sale in Kentucky. In no case shall the average wholesale price be deemed to be less than one dollar and eleven cents per gallon, nor more than one dollar and fifty cents per gallon. On July 1, 1986, the tax on gasoline and LP gas was increased five cents per gallon and the tax on special fuels was increased two cents per gallon. The current total motor fuels tax rates are \$.15 per gallon on gasoline and liquefied petroleum gas and \$.12 per gallon on special fuels.

MOTOR VEHICLE USAGE TAX - Motor vehicles were originally taxed under the 3 percent gross receipts tax that was repealed in 1936.

After repeal, a special 3 percent tax on motor vehicles was enacted. This tax is based on the "retail price" of the motor vehicles as defined by statute. The tax was increased to 5 percent on April, 1968 and to 6 percent on July 1, 1990. The tax is paid to the county clerk when a vehicle is first registered in the owner's name. The proceeds derived from the tax are deposited to the Road Fund for use in the construction and maintenance of Kentucky's roads and bridges.

MOTOR VEHICLE REGISTRATION - The 1936 General Assembly fixed a flat \$4.50 registration fee (plus \$.50 for the County Clerk) for passenger cars. Similar fees were enacted in 1938 for farm trucks and in 1944 for church buses, water well drillers, and certain wreckers. Truck licenses were changed to a graduated "gross weight" basis in 1964. The current \$11.50 fee for passenger cars, farm trucks, and the lightest trucks was passed in 1968. Effective January 1, 1993 there was an additional \$.50 added to cover the cost of reflectorizing plates (KRS 186.240(2) (c)). In 1973, all motor vehicle registration functions were transferred from the Department of Revenue to the Department of Transportation. The apportioned registration of commercial vehicles began April 1, 1974. Current rates for heavier trucks range from \$24(6,001-10,000 lbs.) to \$1,250.50(73,281-80,000 lbs.) with extended weight tags available for coal haulers.

INDIVIDUAL INCOME TAX - The individual income tax became effective for income earned during calendar year 1936 and produced its first revenue during fiscal year 1936-37. The initial rates ranged from 2% on the first \$3,000 of income to 5% on all over \$5,000. In 1950, a rate of 6% was imposed on income in excess of \$8,000. In 2005, the rate was lowered to 5.8% for income between \$8,000 and \$75,000; the rate for all over \$75,000 remains 6%. 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, 2004 for tax years beginning after December 31, 2004, except that depreciation and expense deduction are allowable under Sections 168 and 179 fo the IRC in effect on December 31, 2001 and modified for differences between federal and Kentucky tax laws. Primary differences include the tax treatment of pension income (excludable up to \$41,110 in 2005) and interest on federal obligations.

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2004 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly.

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 5.8% of the next \$67,000 and 6% of the excess over \$75,000.00. The personal tax credit of \$20 went into effect in 1961 and a standard deduction of \$650 was adopted in 1976. The 1996 General Assembly

COMMONWEALTH OF KENTUCKY

increased the standard deduction over a period of four years to \$1,700 for 2000. The standard deduction is indexed annually based on changes in the CPIU and is currently set at \$1,910 for 2005. The low income tax credit enacted in 1990 was replaced in 2005 with the family size tax credit. The family size tax credit provides a 100% tax credit based on modified gross income, federal poverty guidlines, and the number of qualifying members in the family up to four, and is phased out at 133% of poverty. A child and dependent care credit equal to 20% of the Federal credit is also allowed. A post-seondary education tuition tax credit equal to 25% of the qualifying federal credit is allowed for tax years beginning on or after January 1, 2005.

CORPORATION INCOME TAX - The corporate income tax was enacted to first apply to calendar year 1936 income. The rate was 4% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to 5% of the first \$25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4% of the first \$25,000 and 5.8% on the excess. Tax rates beginning on January 1, 1980, were: first \$25,000 at 3%; next \$25,000 at 4%; next \$50,000 at 5%; and the excess over \$100,000 at 6%. The 1985 Special Session of the General Assembly passed the Kentucky Equity Tax Act (KETA) into law. KETA mandated a State depreciation system separate from the federal system. This new Kentucky system allowed corporate taxpayers to recover the entire cost of property through depreciation compared to recovery of 71% of cost using the Accelerated Cost Recovery System (ACRS) as adjusted for under prior Kentucky Law. KETA also added a new graduated rate of 7.25% of taxable income in excess of \$250,000 of taxable income effective August 1, 1985.

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

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

The 2000 General Assembly amended KRS 141.200 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept. Affiliated corporations may elect to file consolidated Kentucky income tax returns, with such election being binding for 96 consecutive calendar months.

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

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2001 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly. The General Assembly has not adopted the 30 percent federal bonus depreciation, five-year net operating loss carryback and other provisions of the Job Creation and Worker Assistance Act of 2002. Also, the General Assembly has not adopted the 50 percent federal bonus depreciation and increase in the Section 179 election to expense deduction and other provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

The 2004 General Assembly passed legislation to allow bank holding companies to take a corporation license tax deduction for investments in majority owned subsidiaries. By executive order corporations whose returns were due, without regard to extension on or after April 15, 2004 but before April 15, 2005 were allowed to follow the provisions of House Bill 390 that was passed by the 2003 General Assembly but vetoes by then Governor Patton. This enabled holding companies to take a deduction or file a consolidated return under the provisions of KRS 136.071 with a 10% add-back provision.

The 2005 General Assembly passed legislation to repeal the Kentucky license tax. It also permitted all corporations whose tax periods without regard to extension that ended on or after April 15, 2004 to take a deduction or file a consolidated return under the provisions of KRS 136.071. This supersedes the executive order to permit corporations to follow the provisions of HB 390 passed by the 2003 General Assembly.

PROPERTY TAX - Kentucky has levied a property tax since the creation of the state in 1792. Prior to 1934, the property tax was the State's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from 30 cents to 5 cents per \$100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five cents to 1.5 cents and on tangible property from 50 cents to 15 cents. House Bill4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from 1.5 cents to 31.5 cents per \$100 of assessed value and the tax rate on tangible personal property from 15 cents to 45 cents per \$100 of assessed value. This increase in the State property tax rate was accompanied by 30 cents

per \$100 of assessed value decrease in local school tax rates. The tax rate on intangible personal property, which is not subject to local rates, remained at 25 cents per \$100. House Bill 44, enacted by the 1979 extraordinary legislative session, established a new rate setting mechanism which limited the increase in aggregate revenues for all taxing districts in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 58% from 31.5 cents per \$100 in 1978 to 13.1 cents per \$100 in 2004.

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

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

A major change was made in 1985 to the Kentucky inheritance tax when a surviving spouse was given an exemption of the total amount inherited. Effective for dates of death on or after July 1, 1995, the inheritance tax for parents, children (natural, step, or adopted during infancy or adopted during adulthood and reared by the decedent during infancy), grandchildren, brothers (half or whole) and sisters (half or whole) was phased out over a four year period. The exemption during the phase-out period was the greater of the exemption permitted under the pre-July 1, 1995 law or a percentage of the inheritable interest. The inheritance tax for these beneficiaries was completely phased-out for deaths that occurred after June 30, 1998. If the entire estate passes to exempt beneficiaries inheritance tax would not be due; however there could be Kentucky estate tax due if the estate is large enough to require that a Federal Estate Tax Return be filed and a state death tax credit is allowed. Due to the repeal of the federal state death tax credit, the Kentucky estate tax will not apply to deaths occurring after December 31, 2004.

Other beneficiaries such as nieces, nephews, daughters-in-law, sons-in-law, great-grandchildren, cousins and relatives were not affected by the 1995 phase-out of the inheritance tax. All transfers to educational, religious or other institutions whose sole purpose are to carry on charitable, educational, or religious work are exempt from the Kentucky inheritance tax.

PROVIDER TAX - House Bill 250, enacted during the 1994 Regular Session of the General Assembly, continued the Kentucky Health Care Provider Tax. The bill, which was effective July 15, 1994, imposed a 2.5% tax on gross revenues received by all providers of hospital services, a 2% tax on gross revenues received by other providers of specified health care items or services, and a 25 cent tax per outpatient prescription drug dispensed by pharmacies or other persons dispensing outpatient prescription drugs (KRS Chapter 142). The purpose of the Health Care Provider Tax is to help fund Kentucky's \$2 billion Medicaid program. The Medicaid program is a joint federal state medical assistance program that is operated and administered by the state. Approximately 25% of the funding for the program is provided by the state with the remaining 75% being funded by the federal government.

KRS Chapter 142 was amended in 1996 to phase out the health care provider tax on physician services. The rate is 1% for the period July 1,1997, through June 30, 1998; and 0.5% for July 1,1998, through June 30, 1999. The tax on physician services has been entirely removed as of July 1, 1999.

KRS Chapter 142 was amended in 1998 to phase out the tax on outpatient prescription drugs. The tax on outpatient prescription drugs will be reduced from 25 cents to 15 cents per prescription for the period July 1, 1999, through June 20, 2000. Effective July 1, 2000, the tax on outpatient prescription drugs expired.

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

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

COMMONWEALTH OF KENTUCKY ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY FOR CALENDAR YEARS 1995-2004

(Expressed in Thousands, Except Ratio Data)

							Ratio of Total Assessed
	Real Pro	operty	Personal F	Property	Tota	als	to Total
For the		Estimated		Estimated		Estimated	Estimated
Year Ended	Assessed	Actual	Assessed	Actual	Assessed	Actual	Actual
December 31	Value	Value	Value	Value	Value	Value	Value
1995	\$ 94,579,246	100,616,219	161,791,401	161,791,401	256,370,647	262,407,620	97.7%
1996	101,534,494	108,015,419	152,832,983	152,832,983	254,367,477	260,848,402	97.5%
1997	109,108,366	116,072,730	126,697,051	126,697,051	235,805,417	242,769,781	97.1%
1998	116,105,606	123,516,602	135,870,575	135,870,575	251,976,181	259,387,177	97.1%
1999	124,798,246	132,764,091	138,392,876	138,392,876	263,191,122	271,156,967	97.1%
2000	134,604,823	143,196,620	141,579,703	141,579,703	276,184,525	284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%
2002	153,558,852	163,360,481	178,290,246	178,290,246	331,849,099	341,650,727	97.1%
2003	162,167,033	172,518,120	188,846,577	188,846,577	351,013,610	361,364,697	97.1%
2004	171,533,143	182,482,067	190,803,292	190,803,292	362,336,435	373,285,359	97.1%

SOURCE: Kentucky Revenue Cabinet

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

COMMONWEALTH OF KENTUCKY PROPERTY TAX LEVIES AND COLLECTIONS FOR FISCAL YEARS 1995-2004

(Expressed in Thousands, Except Percentages)

For the Year	Total	Current Tax	Percent of Levy	Delinguent Tax	Total Tax	Percent of Total Tax Collections
Ended June 30	Levied	Collections	Collected	Collections	Collections	to Tax Levy
1995	417,799	377,710	90.4%	17,615	395,325	94.6%
1996	424,505	391,977	92.3%	17,200	409,177	96.4%
1997	410,755	399,759	97.3%	15,099	414,858	101.0%
1998	365,014	349,774	95.8%	13,019	362,793	99.4%
1999	377,835	358,478	94.9%	11,927	370,405	98.0%
2000	402,428	371,715	92.4%	15,543	387,258	96.2%
2001	416,490	386,890	92.9%	20,605	407,495	97.8%
2002	429,425	407,380	94.9%	25,650	433,030	100.8%
2003	450,348	414,399	92.0%	20,369	434,768	96.5%
2004	478,017	432,937	90.6%	15,829	448,766	93.9%

SOURCE: Kentucky Revenue Cabinet

NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation

Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two

different assessment years.

COMMONWEALTH OF KENTUCKY RATIO OF GENERAL LONG-TERM BONDED DEBT TO ASSESSED VALUE AND DEBT PER CAPITA FOR THE LAST TEN FISCAL YEARS

(Expressed in Thousands, Except Ratio and Per Capita Debt)

							General Bonded Debt			
For the Year Ended June 30	Estimated Population		Assessed Value		G	eneral Long-Term Bonded Debt	Ratio to Assessed Value	Per Capita		
1996	3,920	\$	254,367,477		\$	3,134,342	1.2%	800		
1997	3,953		235,805,417			3,133,332	1.3%	793		
1998	3,985		251,976,181			2,833,433	1.1%	711		
1999	4,018		263,191,122			2,178,683	0.8%	542		
2000	4,049		276,184,525			2,315,533	0.8%	572		
2001	4,069		293,913,645			2,944,839	1.0%	724		
2002	4,093		331,849,099			3,405,046	1.0%	832		
2003	4,118		351,013,610			3,165,223	0.9%	769		
2004	4,146		373,285,359			3,225,431	0.9%	778		
2005	4,171	Projected	396,055,766	Estimated		3,236,766	0.8%	776		

SOURCE:

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

NOTE:

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

maturity, and adjustments of maturity.

COMMONWEALTH OF KENTUCKY RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL EXPENDITURES FOR GENERAL GOVERNMENTAL FUNCTIONS FOR THE LAST TEN FISCAL YEARS

(Expressed in Thousands, Except Ratio Data)

	General		
For the Year	Long - Term	Total	
Ended June 30	Debt Service	Expenditures	Ratio
1996	\$ 392,130	\$ 9,473,403	4.1%
1997	332,127	10,147,728	3.3%
1998	438,029	10,644,432	4.1%
1999	357,698	11,095,291	3.2%
2000	302,708	12,066,754	2.5%
2001	410,058	12,605,995	3.3%
2002	416,619	14,856,420	2.8%
2003	460,256	14,851,736	3.1%
2004	545,642	15,476,332	3.5%
2005	464,089	15,904,355	2.9%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Reports.

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

(Expressed in Thousands, Except Ratio Data)

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
1996	\$ 251,153	\$ 84,791	2.96
1997	270,837	84,962	3.19
1998	276,395	88,252	3.13
1999	329,681	84,782	3.89
2000	293,988	86,164	3.41
2001	301,649	83,069	3.63
2002	269,609	66,828	4.03
2003	112,670	53,825	2.09
2004	337,945	54,034	6.25
2005	326,099	57,375	5.68

SOURCE: Commonwealth of Kentucky Comprehensive Annual

Financial Reports; State universities' audited financial statements

COMMONWEALTH OF KENTUCKY DEMOGRAPHIC STATISTICS FOR CALENDAR YEARS 1995-2004

For the Year	Estimated	Per Capita	Unemployment
Ended December 31	Population	Income	Rate
1995	3,887,427	\$ 19,056	5.4%
1996	3,919,535	19,957	5.6%
1997	3,952,747	20,979	5.4%
1998	3,985,390	22,118	4.6%
1999	4,018,053	22,702	4.5%
2000	4,048,832	24,258	4.1%
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%
2003	4,117,827	26,252	6.2%
2004	4,145,922	27,709	5.3%

SOURCE:

Website Addresses: http://www.bea.gov/bea/regional/spi/drill.cfm http://www.bls.gov/lau/lastrk04.htm

COMMONWEALTH OF KENTUCKY CONSTRUCTION AND BANK DEPOSITS FOR CALENDAR YEARS 1995-2004

(Expressed in Thousands, Except Number of Units)

		Non-Residenti Construction			sidential estruction	
For the Year Ended December 31	Number of Units		Value	Number of Units	Value	Bank Deposits
1995	10,025	\$	1,247,662	17,625	\$ 1,276,432	\$ 37,893,000
1996	See Note		See Note	18,778	1,484,079	39,769,000
1997	See Note		See Note	18,114	1,483,895	38,247,000
1998	See Note		See Note	20,640	1,730,505	39,921,000
1999	See Note		See Note	21,581	1,909,051	37,173,000
2000	See Note		See Note	18,460	1,767,181	39,497,000
2001	See Note		See Note	17,685	1,817,684	42,282,000
2002	See Note		See Note	19,459	2,080,766	40,092,000
2003	See Note		See Note	20,404	2,346,693	34,325,268
2004	See Note		See Note	22,623	2,679,105	38,096,849

SOURCE:

Website Addresses: http://www.census.gov/const/C40/Table2/tb2u2004.txt

http://www.census.gov/const/C40/Table2/tb2v2004.txt

http://www3.fdic.gov/sdi/rpt_Financial.asp

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 1995-2004 (Expressed in Thousands, Except Percent Data)

	1995	5	1996	i	1997		199	8	1999	
Source	Amount	Percent	Amount	Percent	Amount	Percent	 Amount	Percent	 Amount	Percent
Farm	\$ 651,984	1.3%	\$ 1,005,924	1.8%	\$ 1,089,030	1.9%	\$ 957,190	1.6%	\$ 730,192	1.1%
Agriculture services, forestry, fisheries										
and others	341,495	0.7%	343,124	0.6%	381,650	0.7%	423,380	0.7%	462,975	0.7%
Mining	1,322,910	2.6%	1,280,840	2.4%	1,285,732	2.2%	1,348,968	2.2%	1,350,661	2.1%
Manufacturing	11,424,900	22.1%	11,589,170	21.3%	12,115,301	21.0%	12,666,832	20.8%	13,373,527	20.7%
Construction	2,877,756	5.6%	3,076,508	5.7%	3,327,836	5.8%	3,612,018	5.9%	3,922,877	6.1%
Wholesale and retail										
trade	7,828,796	15.1%	8,196,534	15.1%	8,799,661	15.3%	9,356,004	15.3%	10,032,800	15.5%
Finance, insurance and										
real estate	2,469,422	4.8%	2,638,070	4.8%	2,879,266	5.0%	3,102,800	5.1%	3,296,512	5.1%
Transportation and										
public utilities	3,702,916	7.2%	3,923,834	7.2%	4,139,689	7.2%	4,687,916	7.7%	5,005,048	7.7%
Services	11,128,883	21.5%	11,967,410	22.0%	12,756,524	22.1%	13,716,312	22.5%	14,716,433	22.8%
Government and										
government enterprises	10,032,371	19.4%	10,424,575	19.1%	10,820,753	18.8%	11,125,965	18.2%	11,770,589	18.2%
Earnings by Place of Work	\$ 51,781,433	100.0%	\$ 54,445,989	100.0%	\$ 57,595,442	100.0%	\$ 60,997,385	100.0%	\$ 64,661,614	100.0%

	2000			2001		2002	,	2003**		2004**	+
Source	Amount	Percent	_	Amount	Percent	Amount	Percent	Amount	Percent	 Amount	Percent
Farm	\$ 1,361,530	2.0%	\$	973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%	\$ 580,000	0.7%
Agriculture services,											
forestry, fisheries											
and others	502,305	0.7%		521,571	0.7%	521,000	0.7%	383,250	0.5%	359,250	0.4%
Mining	1,197,845	1.7%		1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%	1,495,250	1.7%
Manufacturing	13,945,732	20.3%		13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%	16,142,000	18.9%
Construction	4,196,268	6.1%		4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%	4,819,750	5.6%
Wholesale and retail											
trade	10,537,792	15.3%		10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%	10,475,250	12.3%
Finance, insurance and											
real estate	3,690,749	5.4%		3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%	5,274,250	6.2%
Transportation and											
public utilities	5,337,433	7.8%		5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%	5,386,750	6.3%
Services	15,629,585	22.7%		16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%	24,756,000	29.0%
Government and											
government enterprises	12,452,644	18.1%		13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%	16,196,000	18.9%
Earnings by Place of Work	\$ 68,851,883	100.0%	\$	70,491,141	100.0%	\$ 72,498,000	100.0%	\$ 80,127,750	100.0%	\$ 85,484,500	100.0%

SOURCE: NOTE:

NAICS will be used in the future fiscal years.

U.S. Department of Commerce, Bureau of Economic Analysis (http://www.bea.gov/bea/regional)

Percentages may not add to 100% due to rounding.

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

** 2003 and 2004 annual estimates computed with BEA table SQ5N by adding 4 quarters of 2003 and dividing by 4.

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

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

NAICS will be used in the future fiscal years

COMMONWEALTH OF KENTUCKY TOP 10 MANUFACTURERS (Ranked by Number of Employees) June 30, 2005

	Number	Number
	of	of
Company	Locations	Employees
United Parcel Service, Inc.	15	10,788
Ford Motor Co.	2	10,054
Toyota Motor Corp.	4	8,574
General Electric Co.	9	7,691
Dana Corp.	14	4,919
Delta Air Lines, Inc.	1	4,900
Humana, Inc.	2	4,800
Johnson Controls, Inc.	14	4,547
Citigroup	2	3,700
Lexmark International, Inc.	1	3,600

SOURCE: Website Address: http://www.thinkkentucky.com/kyedc/pdfs/kytop10m.pdf

COMMONWEALTH OF KENTUCKY SCHEDULE OF MISCELLANEOUS STATISTICS JUNE 30, 2005

Form of Government Legislative, Executive, Judicia Land Area (square miles) 39,55 Miles of Highways, Roads and Streets 77,365 Police Protection: Statewide Jurisdiction Number of Kentucky State Police Posts 11 Number of Other Statewide Agencies 94 Number of Other Statewide Agencies 62 County Jurisdictions 12 Number of Sheriffs 1,23 Number of Deputies 1,23 Number of Deputies 1,23 Number of County Officers 1,21 Local Jurisdictions 1,24 Number of County Officers 4,46 College and Universities 1,46 College and Universities 1,5 Number of Departments 1,5 Number of Sworn Officers 1,6 Other law Enforcement/Task Forces/Airport Security 1,5 Courty Schools Security 1,5 Number of Sworn Officers 1,6 Higher Education: 1,6 State-Supported Universities and Community and Technical Colleges 1,6 Number of Full-Tim
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Number of Resort Parks Number of Recreation Parks Number of Historic Sites Area of State Parks (acres) 11 12 13 14 15 16 17 17 18 18 18 18 18 18 18 18
Number of Recreation Parks Number of Historic Sites Area of State Parks (acres) 58,29
Number of Historic Sites Area of State Parks (acres) 58,29
Area of State Parks (acres) 58,29
Number of 2004 Overnight Visitors 542,50
Permanent Full-Time Executive Branch Employees 36,22
SOURCES: Kentucky Revised Statutes
Kentucky Transportation Cabinet
Kentucky State Police
Kentucky Council on Postsecondary Education
Kentucky Department of Parks
Kentucky Personnel Cabinet
NOTE: * Reduction in local miles due to update of inventory from estimation to actual miles

ACKNOWLEDGMENTS

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

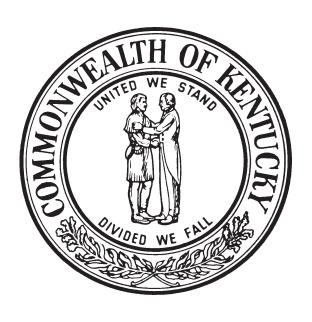
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The Finance and Administration Cabinet, Department of Administration, Division of Printing staff who provided printing services.

Also, we wish to acknowledge William Lloyd "Bill" Perry, who died January 12, 2005. Bill was a 15 year career employee with the Commonwealth of Kentucky and contributed greatly to the production of the Commonwealth's Comprehensive Annual Financial Report during his time with the Office of the Controller. The time spent with us was too short and he will be sincerely missed.



Commonwealth of Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

Ernie Fletcher, Governor