

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2005

Exhibit B-1

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3).....	\$ 1,775,132	\$ 405,973	\$ 147,578	\$ 1,135,854	\$ 3,464,537
Investments (Note 3).....	2,093	—	—	1,578,018	1,580,111
Securities lending collateral (Note 3).....	2,689,730	390,197	67,400	783,906	3,931,233
Receivables, net: (Note 4)					
Taxes receivable.....	849,478	92,651	32,575	4,970	979,674
Accounts receivable.....	289,418	804	414	29,787	320,423
Intergovernmental receivable.....	831,762	53,651	505	6,828	892,746
Interest receivable.....	9,682	412	640	5,875	16,609
Other receivables.....	—	13,017	—	—	13,017
Due from fiduciary funds (Note 4).....	1	—	—	—	1
Due from other funds (Note 9).....	74	85,551	264	9,618	95,507
Due from component units (Note 17).....	5,939	—	—	7,279	13,218
Inventories.....	59,987	71,405	—	33,065	164,457
Prepaid items.....	—	—	—	170	170
Advances to other funds (Note 9).....	—	—	800	—	800
Advances to component units (Note 17).....	—	—	58	21,742	21,800
Notes receivable, net (Note 4).....	5,024	1,051	113	314,998	321,186
Securities held in trust.....	603	4,261	—	38,225	43,089
Endowment investments (Note 3).....	—	—	—	58,080	58,080
Total Assets.....	\$ 6,518,923	\$ 1,118,973	\$ 250,347	\$ 4,028,415	\$ 11,916,658
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable.....	\$ 95,702	\$ 157,957	\$ 57,449	\$ 92,615	\$ 403,723
Accrued payroll.....	6,300	35,623	—	927	42,850
Intergovernmental payable.....	653,098	94,383	44,648	8,379	800,508
Claims payable.....	—	—	—	29,564	29,564
Medical claims payable.....	928,501	—	—	—	928,501
Tax refunds payable.....	1,279,117	—	—	—	1,279,117
Obligations under securities lending.....	2,689,730	390,197	67,400	783,906	3,931,233
Interest payable.....	2,011	—	—	—	2,011
Due to fiduciary funds (Note 9).....	36,160	—	—	47	36,207
Due to other funds (Note 9).....	18,903	5,339	82,113	3,181	109,536
Due to component units (Note 17).....	50,823	—	—	297,081	347,904
Deferred revenue.....	836,525	19,339	1,641	11,580	869,085
Advance from other funds (Note 9).....	—	800	—	—	800
Deposits payable.....	51	—	—	9	60
Funds held for others.....	811	45,904	5	38,267	84,987
Total Liabilities.....	6,597,732	749,542	253,256	1,265,556	8,866,086
Fund Balances:					
Reserved (Note 10).....	172,633	53,446	971	857,549	1,084,599
Unreserved, reported in:					
General Fund.....	(251,442)	—	—	—	(251,442)
Special Revenue Funds.....	—	315,985	(3,880)	1,858,428	2,170,533
Capital Projects Funds.....	—	—	—	44,237	44,237
Permanent Funds.....	—	—	—	2,645	2,645
Total Fund Balance.....	(78,809)	369,431	(2,909)	2,762,859	3,050,572
Total Liabilities and Fund Balances.....	\$ 6,518,923	\$ 1,118,973	\$ 250,347	\$ 4,028,415	\$ 11,916,658

The accompanying Notes to the Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2005

Exhibit B-1a

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		\$ 3,050,572
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 (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds).....	\$ 34,251,188	
Less: Accumulated depreciation (excluding internal service funds).....	<u>(6,832,117)</u>	
Net capital assets.....		27,419,071
- Some assets , such as receivables, are not available soon enough to pay for current-period expenditures and thus, are offset by deferred revenue in the governmental funds.		354,265
- Pension assets , resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 11).		407
- Long-term debt instruments , such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 7). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable.....	(5,698,535)	
Lease-purchase revenue bonds payable.....	(265,045)	
Certificates of participation payable.....	(475,170)	
Unamortized debt premiums (to be amortized as interest expense).....	(339,004)	
Less: Unamortized debt discounts (to be amortized as interest expense).....	1,175	
Less: Unamortized loss on refunding (to be amortized as interest expense).....	119,653	
Notes payable.....	(34,007)	
Capital leases payable.....	<u>(330)</u>	
Net long-term debt.....		(6,691,263)
- Other liabilities not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of:		
Accrued interest payable.....	(85,512)	
Compensated absences (excluding internal service funds).....	(323,855)	
Obligations for workers compensation.....	(5,500)	
Deferred death benefit payable.....	(400)	
Cost settlement payable.....	(5,000)	
Net pension obligation.....	<u>(2,044)</u>	
Total other liabilities.....		(422,311)
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		<u>198,301</u>
Total net assets - governmental activities (see Exhibit A-1)		\$ 23,909,042

The accompanying Notes to the Financial Statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Fiscal Year Ended June 30, 2005

Exhibit B-2

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax.....	\$ 8,206,026	\$ —	\$ —	\$ 1,604	\$ 8,207,630
Corporate income tax.....	1,065,374	—	—	78,356	1,143,730
Sales and use tax.....	4,587,542	—	—	25,213	4,612,755
Gasoline tax.....	—	972,559	324,269	60,281	1,357,109
Franchise tax.....	613,093	—	—	—	613,093
Highway use tax.....	—	—	580,118	—	580,118
Insurance tax.....	431,664	—	—	10,564	442,228
Beverage tax.....	220,782	—	—	—	220,782
Inheritance tax.....	134,419	—	—	—	134,419
Other taxes.....	181,357	—	—	125,509	306,866
Federal funds.....	9,755,067	1,134,639	—	397,748	11,287,454
Local funds.....	731,368	15,136	1,016	19,547	767,067
Investment earnings.....	132,685	35,696	11,769	112,256	292,406
Interest earnings on loans.....	—	5	—	5,659	5,664
Sales and services.....	85,760	1,022	—	149,112	235,894
Rental and lease of property.....	11,376	22,559	1,101	3,549	38,585
Fees, licenses, and fines.....	462,736	459,447	99,207	197,041	1,218,431
Tobacco settlement.....	148,641	—	—	—	148,641
Contributions, gifts, and grants.....	34,480	3,124	97	70,749	108,450
Funds escheated.....	—	—	—	49,684	49,684
Miscellaneous.....	110,365	18,614	2,232	15,318	146,529
Total revenues.....	<u>26,912,735</u>	<u>2,662,801</u>	<u>1,019,809</u>	<u>1,322,190</u>	<u>31,917,535</u>
Expenditures:					
Current:					
General government.....	687,040	—	—	67,135	754,175
Primary and secondary education.....	7,483,347	—	—	229,918	7,713,265
Higher education.....	2,761,825	—	—	814,941	3,576,766
Health and human services.....	13,291,260	—	—	85,104	13,376,364
Economic development.....	230,851	—	—	391,149	622,000
Environment and natural resources.....	234,017	—	—	345,836	579,853
Public safety, corrections, and regulation.....	1,771,095	—	—	352,742	2,123,837
Transportation.....	—	2,527,858	983,303	—	3,511,161
Agriculture.....	75,290	—	—	7,218	82,508
Capital outlay.....	—	—	—	313,932	313,932
Debt service:					
Principal retirement.....	266,178	63	36,965	612	303,818
Interest and fees.....	205,324	353	32,071	4,188	241,936
Debt issuance costs.....	2,889	—	758	3,807	7,454
Total expenditures.....	<u>27,009,116</u>	<u>2,528,274</u>	<u>1,053,097</u>	<u>2,616,582</u>	<u>33,207,069</u>
Excess revenues over (under) expenditures.....	<u>(96,381)</u>	<u>134,527</u>	<u>(33,288)</u>	<u>(1,294,392)</u>	<u>(1,289,534)</u>
Other Financing Sources (Uses):					
Bonds issued.....	—	—	300,000	775,140	1,075,140
Certificates of participation issued.....	—	—	—	188,385	188,385
Refunding bonds issued.....	959,665	—	—	—	959,665
Other debt issued.....	12,886	—	—	—	12,886
Premium on debt issued.....	101,047	—	24,278	84,791	210,116
Payment to refunded bond escrow agent.....	(1,059,663)	—	—	—	(1,059,663)
Capital leases.....	212	—	—	—	212
Sale of capital assets.....	1,819	7,725	560	4,570	14,674
Transfers in (Note 9).....	738,842	222,160	—	793,446	1,754,448
Transfers out (Note 9).....	(470,433)	(225,589)	(560,550)	(504,229)	(1,760,801)
Total other financing sources (uses).....	<u>284,175</u>	<u>4,296</u>	<u>(235,712)</u>	<u>1,342,103</u>	<u>1,394,862</u>
Net change in fund balances.....	187,794	138,823	(269,000)	47,711	105,328
Fund balances — July 1, as restated (Note 22).....	(271,901)	231,189	266,091	2,710,911	2,936,290
Increase (decrease) in reserve for related assets.....	5,298	(581)	—	4,237	8,954
Fund balances — June 30.....	<u>\$ (78,809)</u>	<u>\$ 369,431</u>	<u>\$ (2,909)</u>	<u>\$ 2,762,859</u>	<u>\$ 3,050,572</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2005

Exhibit B-2a

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2) \$ 105,328

Amounts reported for governmental activities in the Statement of Activities are different because:

- Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	\$ 2,535,265	
Less: Depreciation expense (excluding internal service funds)	(527,794)	
Net capital outlay adjustment		2,007,471
- Proceeds from the sale of capital assets increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(86,395)
- Donations of capital assets do not appear in the governmental funds because they are not financial resources, but increase net assets in the Statement of Activities.		268
- Long-term debt proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued	(1,276,211)	
Refunding bonds issued	(959,665)	
Capital lease financings	(212)	
Premiums on debt issued	(209,324)	
Principal repayments:		
Bonds, notes, and similar debt	303,632	
Capital leases	186	
Payments to escrow agent for refundings	1,059,663	
Net debt adjustments		(1,081,931)
- Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are deferred in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		41,619
- Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	(29,139)	
Compensated absences (excluding internal service funds)	(9,193)	
Workers compensation	695	
Arbitrage rebate	43	
Deferred death benefit	(130)	
Cost settlement	2,500	
Net pension obligation	271	
Amortization of deferred amounts	17,522	
Net expense accruals		(17,431)
- Inventories of governmental funds are recorded as expenditures when purchased but in the Statement of Activities are recorded as expenses when consumed.		8,954
- Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).		3,872
Change in net assets - governmental activities (see Exhibit A-2)		<u>\$ 981,755</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.