

**Ratings: See "RATINGS" herein**

**SUPPLEMENT DATED JANUARY 18, 2007  
TO OFFICIAL STATEMENT DATED OCTOBER 28, 2005**

**NOT TO EXCEED \$750,000,000  
KENTUCKY ASSET/LIABILITY COMMISSION  
PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES  
CONSISTING OF**

**NOT TO EXCEED \$363,000,000  
2005 GENERAL FUND SECOND SERIES A-1**

**NOT TO EXCEED \$365,000,000  
2005 GENERAL FUND SECOND SERIES A-2**

**AND**

**NOT TO EXCEED \$22,000,000  
2005 TAXABLE GENERAL FUND SECOND SERIES C-1**

**Dated: Date of Delivery**

**Price of all Notes: 100%**

**Final Maturity: November 1, 2025**

This Supplement to Official Statement dated January 18, 2007 (this "Supplement") updates and incorporates by reference the Official Statement dated October 28, 2005 (the "Official Statement") of the Kentucky Asset/Liability Commission with respect to the Notes (defined below). Reference is made to the Official Statement, which is incorporated herein by reference, and which should be reviewed in its entirety.

The Kentucky Asset/Liability Commission (the "Commission") is issuing its not to exceed \$750,000,000 Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series (the "Notes") in tranches over time, consisting of Project Notes, 2005 General Fund Second Series A-1 (the "Series 2005 A-1 Notes"), Project Notes, 2005 General Fund Second Series A-2 (the "Series 2005 A-2 Notes") and Project Notes, 2005 Taxable General Fund Second Series C-1 (the "Taxable Series 2005 C-1 Notes"). To date, \$50,000,000 of Series 2005 A-1 Notes and \$50,000,000 of Series 2005 A-2 Notes have been issued and are outstanding (the "Outstanding Notes"). The Commission is issuing at this time an additional \$50,000,000 of Series 2005 A-1 Notes and an additional \$50,000,000 of Series 2005 A-2 Notes (the "Second Tranches of Notes").

The Notes may bear interest in any of four different interest rate modes: the Commercial Paper Rate, the Daily Rate, the Weekly Rate or the Fixed Rate. The interest rate mode of the Notes may be converted to any of the other interest rate modes under the provisions described herein. The Notes will initially bear interest at the Commercial Paper Rate. The Notes will be subject to redemption under certain circumstances. See "THE NOTES" in the Official Statement for a description of the interest rate modes and purchase and redemption provisions for the Notes. The remarketing agent for the Series 2005 A-1 Notes and Taxable Series 2005 C-1 Notes is J. P. Morgan Securities Inc. and the remarketing agent for the Series 2005 A-2 Notes is UBS Securities LLC (each, a "Remarketing Agent").

The Notes are subject to optional tender and mandatory purchase prior to maturity as described in the Official Statement. Purchases of tendered Notes of each series that are not remarketed by the Remarketing Agent initially will be funded, subject to certain conditions described herein, under a Standby Note Purchase Agreement (each, a "Liquidity Facility") among the Commission, The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee") and Dexia Credit Local, acting through its New York Branch (the "Liquidity Provider").



Each Liquidity Facility expires on October 31, 2008, unless extended or terminated sooner in accordance with the terms thereof. Upon the occurrence of certain events of default under each Liquidity Facility as more fully described herein, the rights of owners of each series of Notes to tender their Notes for purchase may be immediately terminated without notice or demand to any person. See "THE NOTES – Purchase of Notes" and "LIQUIDITY FACILITIES" in the Official Statement.

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing/Lease Agreement (the "Financing Agreement") among the Commission, the SPBC and the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") and certain subleases (the "Subleases") between the Cabinet as sublessor and various state agencies described herein, as sublessees (the "State Agencies"). The Kentucky General Assembly has appropriated to the Cabinet and various State Agencies amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2008. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2008 or in future biennia or that the Governor, in the performance of his or her obligation to balance the Commonwealth of Kentucky's annual budget, will not reduce or eliminate such appropriations. **The Notes are special obligations of the Commission and are payable solely from the revenues and funds specifically pledged by the Commission for the payment of the principal of, premium, if any, and interest on the Notes.** See "SECURITY FOR THE NOTES" in the Official Statement and [Exhibit E](#) thereto.

The Notes are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice. Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, has issued its opinion with respect to the Notes, the form of which is set forth in [Exhibit D](#) to the Official Statement. Certain legal matters have been passed on for the Underwriters by their co-counsel, Frost Brown Todd LLC, Louisville, Kentucky, and Ungaretti & Harris LLP, Chicago, Illinois. It is expected that the Second Tranches of Notes in definitive form will be available for delivery in New York, New York, on or about January 25, 2007.

**JPMorgan  
(Series 2005 A-1 Notes and  
Taxable Series 2005 C-1 Notes)**

**UBS Investment Bank  
(Series 2005 A-2 Notes)**

January 18, 2007



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**KENTUCKY ASSET/LIABILITY COMMISSION**

**COMMISSION MEMBERS**

John R. Farris, Secretary of the Finance and Administration Cabinet, Chairman

Gregory D. Stumbo, Attorney General

Jonathan Miller, State Treasurer

Bradford L. Cowgill, State Budget Director

Ed C. Ross, State Controller

**SECRETARY TO THE COMMISSION**

F. Thomas Howard, Executive Director of the Office of Financial Management

**TRUSTEE**

The Bank of New York Trust Company, N.A.

**LIQUIDITY PROVIDER**

Dexia Credit Local, acting through its New York Branch

**BOND COUNSEL**

Peck, Shaffer & Williams LLP  
Covington, Kentucky

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**SUPPLEMENT DATED JANUARY 18, 2007 TO  
OFFICIAL STATEMENT DATED OCTOBER 28, 2005**

**NOT TO EXCEED \$750,000,000**  
**KENTUCKY ASSET/LIABILITY COMMISSION**  
**PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES**  
**CONSISTING OF**

<b>NOT TO EXCEED \$363,000,000</b>		<b>NOT TO EXCEED \$365,000,000</b>
<b>2005 GENERAL FUND SECOND SERIES A-1</b>	<b>AND</b>	<b>2005 GENERAL FUND SECOND SERIES A-2</b>

**NOT TO EXCEED \$22,000,000**  
**2005 TAXABLE GENERAL FUND SECOND SERIES C-1**

**INTRODUCTION**

This Supplement to Official Statement (this "Supplement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of not to exceed \$750,000,000 aggregate principal amount of its Project Notes, 2005 General Fund Second Series (the "Notes") consisting of not to exceed \$363,000,000 2005 General Fund Second Series A-1 Notes (the "Series 2005 A-1 Notes"), not to exceed \$365,000,000 2005 General Fund Second Series A-2 Notes (the "Series A-2 Notes") and not to exceed \$22,000,000 2005 Taxable General Fund Second Series C-1 Notes (the "Taxable Series 2005 C-1 Notes" and together with the Series 2005 A-1 Notes and the Series 2005 A-2 Notes, the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on August 15, 2005 (the "Resolution"), and the Trust Indenture dated as of November 1, 2005 (the "Trust Indenture"), between the Commission and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), as amended by a First Supplemental Trust Indenture dated as of July 1, 2006 (the "First Supplemental Trust Indenture") and a Second Supplemental Trust Indenture dated as of October 1, 2006 (the "Second Supplemental Trust Indenture") (the Trust Indenture, as amended, the "Indenture"). The Commission adopted resolutions on June 14, 2006 and September 18, 2006 approving the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, adding certain projects to be funded in part or in whole through issuance of the Notes.

The Kentucky Asset/Liability Commission (the "Commission") is issuing its Notes in tranches over time. To date, \$50,000,000 of Series 2005 A-1 Notes and \$50,000,000 of Series 2005 A-2 Notes have been issued and are outstanding (the "Outstanding Notes"). The Commission is issuing at this time an additional \$50,000,000 of Series 2005 A-1 Notes and an additional \$50,000,000 of Series 2005 A-2 Notes (the "Second Tranches of Notes").

This Supplement updates and incorporates by reference the Official Statement dated October 28, 2005 with respect to the Notes (the "Original Official Statement"). This Supplement generally presents updated or new information that was not available at the time the Original Official Statement was printed, except that, in certain cases, this Supplement amends and restates information presented in the Original Official Statement, as further indicated herein. Reference is made to the Original Official Statement, which is incorporated herein by reference, and which should be reviewed in its entirety.

The proceeds of the Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to provide financing for the Project (as defined herein) in anticipation of Bonds to be issued by the State Property and Buildings Commission of the Commonwealth of Kentucky (the "SPBC") and/or permanent financing for such Project.

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to an Amended and Restated Financing/Lease Agreement dated as of January 1, 2006 among the Commission, the SPBC and the Finance and Administration Cabinet (the "Cabinet"), as supplemented by a Supplemental Financing/Lease Agreement dated as of July 1, 2006 and a Supplemental Financing/Lease Agreement dated as of October 1, 2006 (collectively, the "Financing Agreement"). The current term of the Financing Agreement ends on June 30, 2008, and the Financing Agreement renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Notes. The Financing Agreement requires the Cabinet, for each biennial period during which Notes are outstanding, to seek legislative appropriations to the Cabinet in amounts which are projected to be sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Notes.

The Cabinet has subleased portions of the Project under subleases dated as of November 1, 2005 (certain of which have been amended by supplemental subleases dated as of December 1, 2006) and subleases dated as of December 1, 2006 to the following state agencies: the Cabinet for Economic Development, the Cabinet for Health and Family Services, the Commerce Cabinet (including the Kentucky State Fair Board, the Kentucky Horse Park Commission, the Kentucky Historical Society and the Department of Parks), the Council on Postsecondary Education (including Eastern Kentucky University, the Kentucky Community and Technical College System, Kentucky State University, Morehead State University, Murray State University, Northern Kentucky University, University of Kentucky, University of Louisville, and Western Kentucky University), the Department of Military Affairs, the Department of Veterans Affairs, the Education Cabinet (including the Department of Education, Kentucky Educational Television and the Department of Vocational Rehabilitation), the Environmental and Public Protection Cabinet (including the Petroleum Storage Tank Environmental Assurance Fund), the Governor's Office for Local Development (including the Kentucky Infrastructure Authority), the Governor's Office of Agricultural Policy, the Justice and Public Safety Cabinet (including the Department of Corrections, the Kentucky State Police and the Department of Juvenile Justice), and the Personnel Cabinet. The state agencies referred to in this paragraph are referred to collectively as the "State Agencies." See "THE STATE AGENCIES" herein for information on the State Agencies. See Exhibit A for lists of the separate projects that comprise the Project (as defined herein).

The General Assembly has appropriated to the Cabinet and the State Agencies amounts projected to be sufficient to meet interest requirements on the Notes (and/or the interest component of the reimbursement obligations of the Commission to the Liquidity Provider) through June 30, 2008. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary sessions of the General Assembly. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

The Notes are payable as described under the caption "THE NOTES" in the Original Official Statement. The remarketing agent for the Series 2005 A-1 Notes and the Taxable Series 2005 C-1 Notes is J. P. Morgan Securities Inc. and the remarketing agent for the Series 2005 A-2 Notes is UBS Securities LLC (each, a "Remarketing Agent"). The Notes are secured by the sources discussed under the caption "SECURITY FOR THE NOTES" in the Original Official Statement. The purchase price of Notes that are tendered but not remarketed are payable from the related Liquidity Facility. See "LIQUIDITY FACILITIES" in the Original Official Statement.

The summaries and references to the Act, the Indenture, the Financing Agreement (as defined herein), the Liquidity Facilities and the Notes included in this Supplement and in the Original Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management ("OFM"), 702 Capitol Avenue, Room 76, Frankfort, Kentucky

40601, (502) 564-2924 or, during the initial offering period, at the office of J. P. Morgan Securities Inc., 10 South Dearborn Street, 32<sup>nd</sup> Floor, Mail Code IL1-0826, Chicago, Illinois 60670-0826, (312) 385-8444, with respect to the Series 2005 A-1 Notes and the Taxable Series 2005 C-1 Notes and UBS Securities LLC, One North Wacker Drive, Chicago, Illinois 60606, (312) 525-4651, with respect to the Series 2005 A-2 Notes.

All references to the Notes, the Liquidity Facilities, the Remarketing Agreement, the Remarketing Agent and other defined terms set forth herein should be read as referring separately to each series of the Notes and to the related Liquidity Facility, Remarketing Agreement and Remarketing Agent.

All references in the Original Official Statement, the Indenture and the Financing Agreement to "J.P. Morgan Trust Company, National Association" as trustee and paying agent are deemed to be references to The Bank of New York Trust Company, N.A., which is the successor trustee and paying agent.

Capitalized terms used in this Supplement and not otherwise defined will have the meanings given them in Exhibit E to the Original Official Statement, in the Indenture or in the Financing Agreement.

## **THE PROJECT**

Exhibit A contains (i) a list of projects that were authorized by the General Assembly of the Commonwealth in 2005, such projects having a total aggregate authorized project amount of \$726,454,000 and (ii) a list of projects that were authorized by the General Assembly of the Commonwealth in 2006, such projects having a total aggregate authorized project amount of \$1,242,991,000. Some or all of the projects identified in Exhibit A may be financed in whole or in part with proceeds of the Notes (such projects, collectively, the "Project"). The Indenture authorizes the issuance of Notes in the total amount of not to exceed \$950,000,000; provided, however, that the total amount of Notes to be issued and remarketed under the Remarketing Agreements is limited to \$750,000,000.

The Cabinet leases the Project from the Commission and the SPBC under the Financing Agreement. Portions of the Project are subleased to the respective State Agencies under subleases.

## **THE KENTUCKY ASSET/LIABILITY COMMISSION**

### **General Information**

*The information presented under this heading is in addition to, or replaces, the information presented under the same heading in the Original Official Statement.*

John R. Farris now serves as Secretary of the Finance and Administration Cabinet and is chairman of the Commission. Ed C. Ross, State Controller, was added to the Commission by Executive Order 2006-679 dated June 19, 2006 and effective June 16, 2006.

### **Financings of the Commission**

*The information presented under this heading replaces, in its entirety, the information under the same heading in the Original Official Statement.*

**General.** The Commission has had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes have been issued as General Fund

Series, Agency Fund Series, Road Fund Series and Federal Highway Trust Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreement. Each type of obligation, described below, is secured by the trust indenture to which such types of obligations relate, and holders of notes issued under a particular trust indenture do not have any claim on the pledged receipts of the Commission arising under any other trust indenture.

The holders of the Notes do not have a claim against the moneys pledged under the trust indenture related to any other project notes issued as General Fund Series, Agency Fund Series, Road Fund Series or Federal Highway Trust Fund Series. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations as of December 31, 2006 are described below.

**General Fund Tax and Revenue Anticipation Notes.** Since 1997, with the exception of 2003, the Commission has issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. The TRANs are payable from taxes and certain revenues collected by the Commonwealth in the Fiscal Year in which they are issued. The 2006 TRAN Series was issued on July 3, 2006 in the amount of \$150,000,000 and will mature on June 28, 2007.

**Project Notes, General Fund Series.** The Commission from time to time issues separate series of project notes, the proceeds of which are used to fund capital projects (the "General Fund Project Notes") authorized by the General Assembly. All General Fund Project Notes are payable from payments to be received by the Commission under separate financing/lease agreements and, as to bond anticipation notes, the issuance of bonds by the State Property and Buildings Commission. These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. The Commission has authorized the issuance of an aggregate principal amount not to exceed \$950,000,000 of Project Notes, 2005 General Fund Second Series. The Commission has the following General Fund Project Notes outstanding:

<u>General Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2001 General Fund First Series	\$37,450,000	\$11,925,000
2003 General Fund Series A	171,260,000	52,985,000
2005 General Fund First Series	81,850,000	78,860,000
2005 General Fund Second Series	<u>100,000,000*</u>	<u>100,000,000*</u>
Total	\$390,560,000	\$243,770,000

\*Upon issuance of the additional \$50,000,000 of Series A-1 Notes and the additional \$50,000,000 of Series A-2 Notes, there will be a total of \$200,000,000 of 2005 General Fund Second Series Notes outstanding. It is expected that SPBC Project No. 87 Bonds will be issued in February 2007 and will currently refund \$50,000,000 of Series A-1 Notes and \$50,000,000 of Series A-2 Notes.

**Project Notes, Agency Fund Series.** The Commission from time to time also issues separate series of project notes (the "Agency Fund Project Notes"), which are payable from payments to be received by the Commission under financing/lease agreements with various state agencies and from proceeds of bonds to be issued by the State Property and Buildings Commission or a state agency. The payments used to pay Agency Fund Project Notes are ultimately dependent upon Agency Fund appropriations by the General Assembly of the Commonwealth. The Commission has authorized the issuance of an aggregate principal amount not to exceed \$250,000,000 of Project Notes, 2005 Agency Fund Second Series. These notes may be issued incrementally as needed by various state agencies.

<u>Agency Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 Agency Fund Taxable First Series	\$11,275,000	\$11,275,000
2005 Agency Fund Second Series	28,280,000	27,430,000
2005 UK General Receipts Series A	107,540,000	107,540,000
2006 UK General Receipts Series A	66,305,000	66,305,000
2006 UK General Receipts Series B	<u>2,220,000</u>	<u>2,220,000</u>
Total	\$215,620,000	\$214,770,000

2007 UK General Receipts Series A Project Notes in the principal amount of \$77,905,000 were priced on October 6, 2006 on a forward-delivery basis and are expected to be delivered on November 1, 2007.

**Project Notes, Road Fund Series.** There are currently no Road Fund Project Notes outstanding.

**Project Notes, Federal Highway Trust Fund Series.** The Commission is authorized to issue project notes (the "Federal Highway Trust Fund Project Notes") which are payable from payments to be received by the Commonwealth of Kentucky Transportation Cabinet from the Federal Highway Administration. Amounts used to pay those notes are ultimately dependent upon receipt of federal highway funds.

<u>Federal Highway Trust Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 First Series	\$ 139,635,000	\$ 127,780,000

**Future Financings.** The 2005 General Assembly enacted a State Budget for the biennium ending June 30, 2006, which authorized \$2.056 billion of bond funded capital projects. The General Fund authorization was \$1,204 million; the Road Fund authorization was \$450 million; Agency Funds were authorized at \$251.7 million; and \$150 million was authorized to be supported by the Federal Highway Trust Funds. The Road Fund and Federal Highway Trust Fund authorizations have been issued. A portion of the Agency Fund and General Fund projects have been permanently funded.

The 2006 General Assembly adopted a State Budget for the biennium ending June 30, 2008 which authorized an additional \$2.3 billion of capital projects to be funded with debt. The General Fund authorization is \$1,392.9 million; the Agency Fund authorizations total \$267.5 million; while the Road Fund and Federal Highway Trust Fund authorizations are \$350 million and \$290 million, respectively. The timing of the issuance of the various obligations is uncertain.

In 2006, the Commission entered into interest rate swap transactions to hedge the future issuance of approximately \$300 million of State Property and Buildings Commission Revenue Bonds that are expected to fund a portion of the remaining authorized, but un-issued bonds for General Fund projects. The interest rate swaps were executed in anticipation of approximately \$150 million of State Property and Buildings Commission bonds being sold in each of February 2007 and February 2008.

The Commission may enter into additional interest rate swaps or other agreements to manage the state's interest rate risk profile and/or hedge the future issuance of bonds authorized by the 2005, 2006 and future sessions of the Kentucky General Assembly.

#### **THE FINANCE AND ADMINISTRATION CABINET**

*The information presented under this heading is in addition to the information presented under the same heading in the Original Official Statement.*

Under the Financing Agreement, the Cabinet may cause a portion of the proceeds of the Notes to be used for projects for the benefit of those State Agencies described under the heading "THE FINANCE AND ADMINISTRATION CABINET" in the Original Official Statement. In addition, under the Financing Agreement, the Cabinet may cause a portion of the proceeds of the Notes to be used for a project for the benefit of the Louisville Arena Authority, Inc., described below.

*Louisville Arena Authority, Inc.* Governor Fletcher created the Louisville Arena Authority, Inc. (the "Authority"), a non-profit corporation to oversee the design, construction and operation of the proposed Louisville Arena complex. The Authority is able to buy and hold property, negotiate and sign contracts and sell bonds to pay for the construction of the arena complex. The Authority will coordinate with the Kentucky State Fair Board, which is an independent managing agent for the Arena and who will have complete authority over the day to day operations, including but not limited to event attractions, scheduling, and coordination between the Arena and other facilities operated by the Fair Board. The Authority is proposing the construction of a 22,000-seat arena in downtown Louisville, Kentucky on a site bounded by the Ohio River, 2<sup>nd</sup> Street, 3<sup>rd</sup> Street, and Main Street. The arena will be the home of the University of Louisville's intercollegiate basketball programs (men and women) as well as other sports and entertainment uses. The arena's projected completion date is 2010.

## **THE STATE AGENCIES**

*The information presented in this Section replaces, in its entirety, information presented under the same heading in the Original Official Statement.*

### **Cabinet for Economic Development**

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

### **Cabinet for Health and Family Services**

The Cabinet for Health and Family Services is composed of five main agencies directed toward the goal of fostering a coordinated approach to health care issues in Kentucky. Administrative and Fiscal Affairs, along with the Office of the Secretary, provides internal services and oversight. Children and Family Services provides family support, child support, child and adult protection, and determines Medicaid and food stamp eligibility. It is also responsible for the foster care and adoption system as well as providing medical treatment for children up to 21 years old. The Department of Health oversees Medicaid, public health emergency preparedness, disability prevention, and promotes the affordability of healthcare in the Commonwealth by preventing the proliferation of healthcare facilities, services, and major medical equipment, which serves to increase the cost of quality healthcare. The Department of Human Services assists in determining eligibility for SSI while also providing key services such as child abuse and domestic violence programs.

### **Commerce Cabinet**

The Commerce Cabinet combines Kentucky's assets in parks, tourism, cultural heritage, outdoor attractions and arts to effectively promote and market these assets. The Commerce Cabinet is comprised of the Department of Parks, Department of Tourism, Fish and Resources, Frankfort Convention Complex, Governor's School for the Arts, Kentucky Artisans Center at Berea, Kentucky Arts Council, Kentucky Center of the Performing Arts, Kentucky Heritage Council, Kentucky Historical Society, Kentucky Horse

Park, Kentucky State Fair Board, Creative Services, Kentucky Humanities Council and the Kentucky Sports Authority.

*Kentucky State Fair Board.* The Kentucky State Fair Board is charged with stimulating the public interest in the Commonwealth by providing the Kentucky Fair & Exposition Center and the Kentucky International Convention Center for exhibitions, conventions, trade shows, public gatherings, cultural activities and other functions, thereby promoting the tourism industry and economy of the Commonwealth while serving the entertainment, cultural and educational interests of the public. The Kentucky Fair & Exposition Center includes arenas and theaters, such as Freedom Hall, Cardinal Stadium, Broadbent Arena and New Market Hall, and exhibit halls and convention center space. Annual events at the Kentucky State Fair & Exposition Center include the Kentucky State Fair, the National Farm Machinery Show, the North American International Livestock Convention and many other conventions and events.

*Kentucky Horse Park Commission.* The Kentucky Horse Park Commission has seventeen members who provide broad management expertise and direction in the operation of the Kentucky Horse Park and represents the diverse interest of the Kentucky horse industry. The Kentucky Horse Park is located in Lexington, Kentucky, the heart of the Bluegrass. It is a working horse farm with 1,224 acres surrounded by 34 miles of white plank fencing with 110 structures and 260 campsites. The park features two outstanding museums, twin theaters and nearly 50 different breeds of horses. It is also the site for the 2010 World Equestrian Games, which will be the first time the Games have been hosted outside of Europe.

*The Kentucky Historical Society.* The Kentucky Historical Society was founded in 1836 to collect and preserve the artifacts, papers and other documentation of Kentucky's history however the society's new mission is to engage all people in the discovery and interpretation of Kentucky's past. The Historical Society maintains museums at the Kentucky History Center and the Old State Capitol and operates the Kentucky Military History Museum. The society facilitates educational programs like museum theater and hands-on workshops aimed at all age groups from schoolchildren to senior adults. It also has the finest genealogical research library in the state and special events like Boone Day and the reenactment of the Perryville Battle, the most destructive battle in Kentucky during the Civil War.

*Department of Parks.* The Department of Parks was created in 1924 by the General Assembly and has grown to include 49 parks and historic sites and one interstate park. The parks have facilities for meetings and conferences with fine accommodations and camping, golf, and education. The Department of Parks maintains 32 campgrounds, 260 miles of trails and offers seventeen state resort parks, more than any other state. The Kentucky State Parks also operate three airfields at Rough River, Lake Barkley and Kentucky Dam Village and oversees three cafeterias in Frankfort. Nearly 8 million people visit Kentucky State Parks each year.

### **Council on Postsecondary Education**

The Council on Postsecondary Education ("CPE"), created and governed by the provisions of KRS 164.011, is an agency, instrumentality and political subdivision of the Commonwealth. It is composed of the Commissioner of Education, a faculty member, a student member and 13 citizen members appointed by the Governor. Its work involves coordinating the change and improvement of Kentucky postsecondary education. It is responsible for general planning and oversight of a system that includes the eight universities of the Commonwealth and the Kentucky Community and Technical College System.

Information on each of the individual institutions can be found at <http://cpe.ky.gov/institutions>.

## **Department of Military Affairs**

The Department of Military Affairs oversees the National Guard which consists of the Kentucky division of the US Army and US Air Force and the Air National Guard. The Kentucky National Guard is comprised of over 7,000 soldiers. The National Guard is unique because it is the only military force in the world with a dual mission: federal and state. Soldiers train to assist the federal government in combat and peace-time missions.

## **Department of Veterans Affairs**

Kentucky is home to more than 367,000 veterans and the Kentucky Department of Veterans Affairs serves veterans in three primary areas of support: healthcare, benefits, and cemeteries. The department also helps with burial honors and coordinates special programs of interest to Kentucky's veterans such as the Republic of Korea War Service Medal, High School Diploma Program for Veterans of World War II, Korean War and Vietnam War, and the Korean War Missing DNA Project.

## **Education Cabinet**

The Kentucky Education Cabinet (the "Education Cabinet") provides life-long educational and workforce services through learning opportunities for all Kentucky's residents, from pre-school to senior citizens. The Education Cabinet was reorganized by Executive Order 2005-0576 dated June 20, 2005 and combines several departments and offices from the former Education, Arts and Humanities Cabinet and the former Workforce Development Cabinet.

*Department of Education.* The Kentucky Department of Education (the "Department") provides services and resources to Kentucky's public school system, grades preschool through 12. The department's responsibilities include data reporting, assistance to local school districts, assessment and accountability for school improvement, and implementation of state and federal education legislation. Some of the Department's activities include: administering the statewide assessment and accountability system; providing technical assistance to schools and districts in the areas of finance, management and curriculum; providing support and information to the Kentucky Board of Education as it promulgates state education regulations; overseeing the state's education technology system; and monitoring school and district compliance with state and federal laws.

Education Technology Pool is intended to provide modern instructional devices, stationary or mobile for public K-12 schools and to address issues such as technological equity, standards-based planning and accountability.

*Kentucky Educational Television.* Kentucky Educational Television ("KET") signed on the air in September 1968 as Kentucky's statewide public broadcasting network. Today, 32 transmitters (16 analog, 16 digital) and three translators deliver the PBS national schedule; a wide range of local arts, cultural, documentary, and public affairs productions; and adult education programs and college-credit courses to viewers throughout Kentucky and in parts of seven surrounding states. Through digital broadcast and multimedia products, KET also brings hundreds of hours of instructional programs and professional development seminars to Kentucky schools each year. KET Distance Learning offers fully accredited high school classes in foreign languages, the humanities, and physics via videotape/DVD and online delivery.

*Department of Vocational Rehabilitation.* The Department of Vocational Rehabilitation provides vocational rehabilitation services to individuals who have disabilities that impede employment and provide training and technical assistance to their employers.

## **Environmental and Public Protection Cabinet**

The Environmental and Public Protection Cabinet ("EPPC") was created when the former Natural Resources and Environmental Protection Cabinet, the Kentucky Labor Cabinet and the Public Protection and Regulation Cabinet were combined through reorganization by Senate Bill 41 of the 2005 General Assembly. The EPPC is divided into four departments: The Department for Environmental Protection, the Department for Natural Resources, the Department of Labor and the Department of Public Protection. The Environmental and Public Protection Cabinet is charged with the protection and preservation of land, air and water resources, supervision and regulation of industries providing services to the citizens of the Commonwealth and the administration of rules for the state concerning employer-employee relationships. The Cabinet is responsible for environmental leadership, monitoring environmental trends and shaping a vision for Kentucky's environmental future. The Cabinet enforces statutes and regulations ensuring the integrity of supervised industries and the safety of employees through oversight activities relating to wages and hours, occupational safety and employee health, child labor, apprenticeship, and workers' compensation.

*Petroleum Storage Tank Environmental Assurance Fund.* The Petroleum Storage Tank Environmental Assurance Fund is for owners and/or operators of regulated petroleum underground storage tank systems (UST). The monies come through either the Financial Responsibility Account or the Petroleum Storage Tank Account. It can also be used for UST removal for those owners that meet the criteria for reimbursement from the Small Owner Tank Removal Account.

## **Governor's Office for Local Development**

The Governor's Office for Local Development ("GOLD") provides financial help in the way of grant and loan assistance, as well as advising local governments in matters of budget, personnel and other items relevant to those entities. The mission of GOLD is to empower partners with effective advocacy, information, and funding resources. GOLD includes six divisions and programs: Division of Financial Management and Administration, Division of Grants, Kentucky Community Development Office, Renaissance on Main, Local Initiatives for a New Kentucky, and the Kentucky Infrastructure Authority. GOLD also partners with the state's fifteen Area Development Districts in serving the local governments of Kentucky.

*Kentucky Infrastructure Authority.* The Kentucky Infrastructure Authority ("KIA") was created to provide a mechanism for funding infrastructure projects for governmental agencies in the Commonwealth. KIA will administer the Infrastructure for Economic Development Funds Bond Pool projects. KIA also administers the Water and Sewer Resources Development Funds Bond Pool Projects which were financed by the SPBC Project No. 79, in addition to the following four programs:

The Clean Water State Revolving Fund ("Fund A") is used to finance local wastewater treatment and collection facilities that qualify under the U.S. Environmental Protection Agency requirements. The state match for Fund A projects is funded through bonds supported by General Fund appropriations.

The Infrastructure Revolving Loan Program ("Fund B") provides financing for construction or acquisition of any type of infrastructure project. Fund B also includes the 2020 Water Service Account, which has been used to fund drinking water projects and improvements to drinking water systems. General Fund appropriations are the source of payment for Fund B bonds.

The Governmental Agencies Program ("Fund C") is a pooled loan program that seeks to provide local governmental agencies access to funding at better terms than could be obtained on an individual basis. Financing for approved projects is provided through the issuance of Fund C bonds secured by local governmental agency receipts.

The Drinking Water State Revolving Fund ("Fund F") is used to finance local drinking water treatment facilities that qualify under the U.S. Environmental Protection Agency requirements. The state match for Fund F projects is funded through bonds supported by General Fund appropriations.

### **Governor's Office of Agricultural Policy**

The Governor's Office of Agricultural Policy ("GOAP") provides a direct link between the Governor and one of the state's most important industries. The office administers the Governor's Commission on Family Farms, the Kentucky Agricultural Resource Development Authority ("KARDA"), the Kentucky Agricultural Development Board (Phase I), the Kentucky Tobacco Settlement Trust Corporation (Phase II), and the Kentucky Aquaculture Infrastructure Development Fund. Additionally, this office represents Kentucky's interests as national agricultural policy is developed.

### **Justice and Public Safety Cabinet**

The Kentucky Justice and Public Safety Cabinet is responsible for criminal justice services which encompass law enforcement and training; adult and juvenile incarceration; autopsies, death certifications and toxicology analyses; special investigations; paroling of eligible convicted felons; and long range planning and recommendations on statewide criminal justice reform issues.

*Department of Corrections.* The Department of Corrections manages the daily operations of the state correctional institutions and a variety of community-based services.

*Kentucky State Police.* The Kentucky State Police are responsible for highway safety and traffic control, and work to detect and prevent crime, apprehend criminals, and maintain law and order throughout the Commonwealth.

*Department of Juvenile Justice.* The Department of Juvenile Justice is responsible for prevention programs for at-risk youth, court intake, pre-trial detention, residential placement/treatment services, probation, community aftercare/reintegration programs and youth awaiting adult placement or court.

### **Personnel Cabinet**

The Personnel Cabinet provides the vast majority of human resource services for the Commonwealth of Kentucky. Its many departments serve to provide guidance and support to other state government agencies in attracting and retaining a diverse, motivated, skilled, and knowledgeable workforce. The Cabinet is also responsible for employee deferred compensation, insurance, and training programs while pushing forward initiatives such as an integrated personnel and payroll system for the Commonwealth.

## **THE COMMONWEALTH**

*The information presented in this Section updates, and is in addition to, the information presented under the same heading in the Original Official Statement.*

### **Comprehensive Annual Financial Report**

*The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2006 is incorporated herein by reference. The Commonwealth has filed The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2006 with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") identified in the Original Official Statement.*

## **Fiscal Year 2005**

The Government-Wide Financial Statements provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. 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) on the statement of net assets.

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.

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). 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.

As of the end of the 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 percent of the total fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of the 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 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 Transportation 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.

The Commonwealth of Kentucky's bonded debt increased by \$11 million to \$3,236,766,000, a .35 percent increase during the 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.

## **Fiscal Year 2006**

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$17.9 billion at the end of 2006, as compared to \$17.4 billion at the end of the previous year.

At \$17.9 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 \$1.77 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 \$1.80 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) on the statement of net assets.

The Commonwealth received program revenues of \$8.7 billion and general revenues (including transfers) of \$10.0 billion for total revenues of \$18.7 billion during Fiscal Year 2006. Expenses for the Commonwealth during Fiscal Year 2006 were \$18 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$662 million, net of contributions, transfers and special items.

As a result of the improving economy during the fiscal year, the net assets of governmental activities increased by \$431 million or 2.47 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 34 percent resulted from grants and contributions (including federal aid). 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. As of the end of Fiscal Year 2006, the Commonwealth's governmental funds reported combined ending fund balances of \$3.14 billion, an increase of \$527 million in comparison with the prior year. The unreserved portion of fund balance (\$2.36 billion), which is the portion of fund balance available for spending in the coming year, has increased to 75 percent of the total fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of Fiscal Year 2006, total fund balance reached \$897 million, with an unreserved balance of \$713 million. This compares to a General Fund unreserved Fund Balance of \$593 million as of June 30, 2005. 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 \$226 million during Fiscal Year 2006. This is a 33.8 percent increase in fund balance from the prior year. The contributing factors to this increase were continuing spending reduction efforts, an improving economy and tax reform.

The major special revenue funds had moderate increases in revenues and slight fluctuations in expenditures with no significant changes in fund balance. The major contributing factors include an increase in motor fuels tax receipts, in the Transportation Fund, increased benefit payments in the Federal Fund, and increased spending in the Transportation function in the Agency Revenue Fund.

The Commonwealth of Kentucky's bonded debt increased by \$310 million to \$3,546,468,000 a 9.57 percent increase during Fiscal Year 2006. No general obligation bonds were authorized or outstanding at June 30, 2006. The key factor in this increase was the issuance of new debt during fiscal year 2006.

### **Fiscal Year 2007 (Unaudited)**

On December 20, 2005, the Consensus Forecasting Group released the official General Fund revenue estimates for Fiscal Years 2007 and 2008. The official General Fund revenue estimate for Fiscal Year 2007 was set at \$8,341.2 million, an increase of \$78.6 million over the preliminary estimate made in October 2005 of \$8,262.6 million. The official General Fund revenue estimate for Fiscal Year 2008 was set at \$8,675.7 million, an increase of \$83.9 million.

These official General Fund revenue estimates exclude Phase I Tobacco Settlement Agreement ("MSA") payments, expected to be \$88.8 million and \$94.0 million in Fiscal Years 2007 and 2008, respectively.

Fiscal Year 2007 General Fund revenues total \$4,259 million through December 2006, an increase of 2.5 percent over the first six months of Fiscal Year 2006. No revenue growth over the actual receipts of the prior fiscal year is required in the remaining fiscal months to satisfy the current fiscal year's estimate. When year-to-date growth is considered, General Fund revenues may decline by 3.3 percent and still satisfy the growth requirement of the fiscal year 2007 official revenue estimate.

General Fund revenues for December 2006 were \$900.3 million, the highest one-month receipt total in the history of the Commonwealth and an increase of 5.1 percent compared to December 2005.

During December 2006, sales and use tax revenues grew by 4.4 percent over December 2005. Individual income tax receipts rose by 5.9 percent due to strong withholding growth. The Corporation income taxes were up by 12.8 percent due to strength in final payments received from corporations. Property tax revenues, which are historically volatile during the fall and early winter months, fell by 6.1 percent. Coal severance tax receipts rose 6.9 percent, while Lottery revenues were up 7.1 percent from the previous December.

### **Investment Policy**

At December 31, 2006, the Commonwealth's operating portfolio was approximately \$3.8 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (7%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (40%); repurchase agreements collateralized by the aforementioned (20%); municipal securities (8%); and corporate and

asset backed securities, including money market securities (25%). The portfolio had a current yield of 5.30% and an effective duration of 0.62 years.

As of December 31, 2006, the Commonwealth had two asset-based interest rate swaps outstanding. The first swap has a notional amount of \$23,000,000 and matures June 15, 2008. The second swap has a notional amount of \$10,000,000 and matures June 15, 2011. The net of these positions partially hedges the Commonwealth from widening spreads in a yield curve steepening environment.

## **State Retirement Systems**

Following is information about the state's retirement system, including pension plans and other post employment benefits. Capitalized terms used under this heading and not otherwise defined shall have the respective meanings given by the CAFRs, as herein defined.

### **Pension Plans**

Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems ("KRS") and the Kentucky Teacher's Retirement System ("KTRS"). KRS is comprised of four retirement plans: Employees Non-Hazardous, Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the KRS information provided herein. KRS and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in the Commonwealth's Comprehensive Annual Financial Report. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see the Commonwealth's 2006 Comprehensive Annual Financial Report, Note 8 on page 78. Additional information regarding KRS and KTRS can be found in their respective web sites at <http://www.kyret.com> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under "Other Post Employment Benefits" ("OPEB").

### **Pension Funding**

Based upon the assumptions employed in the Pension Plans' June 30, 2006 actuarial valuation reports used in preparing the associated Pension Plans' 2006 CAFRs, KRS had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$3,853.9 million, while KTRS had a UAAL of \$5,467.1 million. The state supported portion of the Pension Plans for Fiscal Year end June 30, 2006 had funding percentages of 61.5 percent for KRS and 73.1 percent for KTRS. The KRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 pension benefits was \$156.3 million versus the Actual Contribution of \$75.7 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 was \$406.1 million, which was the amount contributed.

### **Other Post Employment Benefits ("OPEB")**

The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"). The State has not yet adopted these standards and is not required to do so until Fiscal Year ending June 30, 2008.

The State is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. KRS also adopted, on January 1, 2006, a self funding health care plan for Medicare

Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was just completed for KRS and the next scheduled experience study period will be prepared in January, 2011. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2006 has been estimated to not exceed \$8,089.5 million for KRS and \$4,210.3 million for KTRS. These estimates represent the amount of healthcare benefits under the respective Health Plans, payable for the ensuing 30-year period and allocated by the actuarial cost method, as of June 30, 2006. The actuarial estimates for KRS OPEB liabilities substantially exceed the \$2,406.3 million amount previously reported in KRS' 2005 CAFR, primarily due to changes in actuarial assumptions regarding investment return. The actuarial estimates for KTRS actually declined from \$4,616.6 million to \$4,210.3 million due to changes in claims valuation and certain assumptions.

The KRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 healthcare benefits was \$129.2 million versus the Actual Contribution of \$66.0 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 was \$89.3 million, which was the contributed amount. Previously, the state legislature directed transfers of \$62.3 million and \$29.1 million in Fiscal Year 2005 and Fiscal Year 2006 respectively, from the KTRS Guarantee Fund to the Medical Insurance Stabilization Fund. This amount is to be repaid from the State General Fund over a 10-year period. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2006 had funding percentages of 10.3 percent for KRS and 3.0 percent for KTRS.

The Commonwealth's 2006-2008 biennial budget increased employer contribution rates by 44 percent for KRS and 40 percent for KTRS over the two-year budget cycle. Additionally, Governor Fletcher deposited \$12 million each to KRS and KTRS from the Fiscal Year 2006 General Fund surplus to offset a portion of the Pension Plans UAAL including the Health Plans. On December 15, 2006, the Governor announced that he will recommend to the General Assembly that a portion of the projected Fiscal Year 2007 General Fund surplus be applied to cover a portion of healthcare cost as well as the establishment of a Blue Ribbon Task Force to study what actions are needed to fulfill the state's current obligations and to ensure the financial integrity of each of the Pension and Health Plans. Pending the report of the Blue Ribbon Task Force, the state expects to continue to fund its share of the cost of retiree healthcare benefits under the Health Plans on a pay-as-you-go basis.

## RATINGS

*The information presented in this Section replaces, in its entirety, information presented under the same heading in the Original Official Statement.*

The following rating agencies (each a "Rating Agency") have affirmed the following respective original ratings as of the date of this Supplement. The original ratings were assigned as of the date of the Original Official Statement (October 28, 2005): Moody's Investor's Service, Inc., "Aa3/VMIG-1"; Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc. "A+/A-1," and Fitch Ratings, "AA-/F1+." Each rating reflects only the views of the respective Rating Agency and relates only to the Notes, which are secured by the initial Liquidity Facility. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, (212) 583-0300; Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041, (212) 438-1000; and Fitch Ratings, One State Street Plaza, New York, New York 10004 (212) 908-0500. No rating is a recommendation to buy, sell or hold the Notes, and there is no assurance that any rating will be maintained for any given period of time by a Rating Agency or that it will



**EXHIBIT A  
THE PROJECT LIST**

*The information included in this Exhibit A replaces, in its entirety, the information presented as Exhibit B in the Original Official Statement.*

This Exhibit contains (i) a list of projects that have been authorized by the General Assembly of the Commonwealth in 2005, such projects having a total aggregate authorized project amount of \$726,454,000 and (ii) a list of projects that have been authorized by the General Assembly of the Commonwealth in 2006, such projects having a total aggregate authorized project amount of \$1,242,991,000. Some or all of the projects identified in this Exhibit may be financed in whole or in part with proceeds of the Notes (such projects, collectively, the "Project"). The Indenture authorizes the issuance of Notes in the total amount of not to exceed \$950,000,000; provided, however, that the total amount of Notes to be issued and remarketed under the Remarketing Agreements is limited to \$750,000,000.

**LIST OF PROJECTS AUTHORIZED BY THE GENERAL ASSEMBLY IN 2005**

<u>Project Description</u>	<u>Authorized Project Amount<sup>(1)</sup></u>
<b><u>State Fair Board</u></b>	
Design East Wing/Hall Renovation Project	\$50,000,000
<b><u>Council on Postsecondary Education</u></b>	
Eastern Kentucky University - Science Complex	5,000,000
Eastern Kentucky University - Construct Business Technology Center – Phase II	32,850,000
Eastern Kentucky University - Manchester Postsecondary Education Center	9,000,000
Kentucky Community and Technical College System - Jefferson Community College Building – Design	600,000
Kentucky Community and Technical College System - Somerset Aviation	1,650,000
Kentucky Community and Technical College System - Henderson CC Technology Center	13,066,000
Kentucky Community and Technical College System - Madisonville Technology Center	14,000,000
Kentucky Community and Technical College System - Gateway CTC – Expand Edgewood Campus	15,477,000
Kentucky Community and Technical College System - Ashland Technology Center	18,030,000
Kentucky Community and Technical College System - LCC Classroom/Lab Building	31,741,000
Kentucky State University - Young Hall Renovation	5,339,000
Kentucky State University - Hathaway Hall Renovation – Phase II	7,400,000
Morehead State University - Design Health Science Classroom Building	1,500,000
Morehead State University - NASA Space Science Center	12,200,000
Murray State University - New Science Complex	15,000,000
Northern Kentucky University - Regional Special Events Center	54,000,000
University of Kentucky - Expand & Upgrade Livestock Disease Diag. Center	8,500,000
University of Kentucky - Biological/Pharmaceutical Complex	40,000,000
University of Louisville - HSC Research Campus Facility, Phase III	39,150,000
Western Kentucky University - Math and Science Academy Renovation	3,750,000
Western Kentucky University - Renovate Science Campus, Phase II	33,000,000
<b><u>Education Cabinet</u></b>	
Department of Education Operation and Support Services - Facility for Education Arts Programs	1,800,000
Department of Education Operation and Support Services - Various Major Maintenance – KSD	3,839,000

Department of Education Operation and Support Services - Rockcastle Area Vocational Technical School	8,000,000
Kentucky Educational Television - Replace Roof at Network Center	1,000,000
Vocational Rehabilitation - Replace Roof Perkins Rehabilitation Center	1,320,000
<b><u>Cabinet for Economic Development</u></b>	
Financial Incentives - Innovation and Commercialization for a Knowledge-Based Economy Bond Pool	5,000,000
Financial Incentives - Economic Development Bond Pool	10,000,000
Financial Incentives - Economic Development Bond Pool	2,860,000 <sup>(2)</sup>
<b><u>Environmental and Public Protection Cabinet</u></b>	
Environmental Protection - State-Owned Dam Repair	1,000,000
<b><u>Finance and Administration Cabinet</u></b>	
Facilities and Support Services - Improve Site Infrastructure – KY Capitol Complex II	6,000,000
COT - UCJIS -Court Improvements (E-Warrants)	4,500,000
COT - Public Safety Communications Infrastructure - KEWS	13,768,000
Revenue - Collection System Interface Phase I	1,500,000
Revenue - Business Refund Off-Set System	1,750,000
Revenue - Develop Streamlined Sales Tax Simplification System	14,062,000
<b><u>Governor's Office of Agricultural Policy</u></b>	
Kentucky Agriculture Finance Corporation - Loan Pool	17,000,000
<b><u>Governor's Office for Local Development</u></b>	
Southeastern Regional Agricultural and Exposition Center in Corbin	12,000,000
KIA Fund A – Federally Assisted Wastewater Program	2,200,000
KIA Fund F Drinking Water Revolving Loan Program	2,600,000
KIA Infrastructure for Economic Development Fund for Coal-Producing Counties	60,000,000 <sup>(3)</sup>
KIA Infrastructure for Economic Development Fund for Tobacco-Producing Counties	94,500,000 <sup>(3)</sup>
<b><u>Cabinet for Health and Family Services</u></b>	
General Administration and Program Support - Network Infrastructure Upgrade	782,000
General Administration and Program Support - Child Support Enforcement (KASES II)	2,040,000
General Administration and Program Support - Safeguarding Children at Risk (TWIST Re-Write)	2,205,000
Mental Health and Mental Retardation - Upgrade HVAC Pipes & Electric – Glasgow	2,200,000
Mental Health and Mental Retardation - Replace Roof – Oakwood	2,200,000
Public Health - Upgrade KASPER System DPH	5,000,000
<b><u>Justice and Public Safety Cabinet</u></b>	
Corrections - Replace Electronic Offender Mgt. Systems Ph I	5,000,000
State Police - Replace Records and Secure Evidence Facility	6,075,000
<b><u>Personnel Cabinet</u></b>	
General Operations - Replace Commonwealth's Personnel Payroll System	<u>25,000,000</u>
 TOTAL	 \$726,454,000

<sup>(1)</sup> Excludes allocable costs of issuance.

<sup>(2)</sup> Remaining EDB Pool authorization from 2003 General Assembly House Bill 269.

<sup>(3)</sup> Remaining ¾ authorization (¼ authorization financed by SPBC 85).

**PROJECTS AUTHORIZED BY THE GENERAL ASSEMBLY IN 2006**

<u>Project Description</u>	<u>Authorized Project Amount<sup>(1)</sup></u>
<b><u>Commerce Cabinet</u></b>	
Kentucky Horse Park Commission - Construct New Indoor Arena	\$36,500,000
Department of Parks - Parks Development Pool	60,000,000
Kentucky State Fair Board - Replace Roof for the Pavilion	1,250,000
Kentucky Historical Society - Perryville Battlefield	617,000
<b><u>Cabinet for Economic Development</u></b>	
Office of the Secretary - New Economy High-Tech Construction/Investment Pool	20,000,000
Office of Financial Incentives - Economic Development Bond Pool	17,500,000
<b><u>Education Cabinet</u></b>	
Department of Education - Kentucky Education Network	8,900,000
Department of Education - Student Information System	10,000,000
Department of Education - Rockcastle County Vocational and Technical Center	1,500,000
Department of Education - Education Technology Pool	50,000,000
Department of Education - Letcher County Central Vocational Center	2,000,000
Kentucky Educational Television - Replace Master Control & Production Infrastructure	15,707,000
Kentucky Community Technical College System - Mercer County Technical Center	4,000,000
<b><u>Environmental and Public Protection Cabinet</u></b>	
Petroleum Storage Tank Environmental Assurance Fund	25,000,000
<b><u>Finance and Administration Cabinet</u></b>	
General Administration - The Louisville Arena	75,000,000
Department of Facilities and Support Systems - Renovate Kentucky State Office Building - Additional	13,600,000
Department of Facilities and Support Services - Capital Plaza Complex - Renovation and Design	4,942,000
Department of Facilities and Support Services - Statewide Repair, Maintenance and Replacement	10,000,000
Commonwealth Office for Technology - Public Safety Commission Infrastructure - KEWS - Additional	13,000,000
Commonwealth Office for Technology - Data Center Readiness	1,400,000
Department of Revenue - Implement a Comprehensive Tax System - Phase I	23,250,000
<b><u>General Government</u></b>	
Governor's Office for Local Development - Owenton/Owen County Natural Gas Line Project	5,000,000
Governor's Office for Local Development - Warren County Fiscal Court - Transpark - Rail Spur	4,500,000
Governor's Office for Local Development - Community Development Fund Projects	73,958,000
Kentucky Infrastructure Authority - KIA Fund A - Federally Assisted Wastewater Program - Matching Funds	4,000,000
Kentucky Infrastructure Authority - KIA Fund F – Drinking Water Revolving Loan Program	4,000,000
Kentucky Infrastructure Authority/Other - Infrastructure for Economic Development Fund for Non-Coal Producing Counties	150,000,000
Kentucky Infrastructure Authority/Other - Infrastructure for Economic Development Fund for Coal-Producing Counties	100,000,000
Department of Military Affairs - Acquire Land for Wendell H. Ford Regional Training Center	4,500,000
Department of Veterans Affairs - Western Kentucky Veterans' Center - Alzheimer's/General Care unit	1,757,000

**Cabinet for Health and Family Services**

General Administration and Program Support - Safeguarding Children at Risk (TWIST Re-Write II) - Additional	3,134,000
Department of Mental Health Mental Retardation - Oakwood - Replace Chillers, Heating & Cooling Lines	2,131,000
Department of Community Based Services - Home of the Innocents - Phase II Children's Village	8,250,000
Department of Public Health - Health Departments Infrastructure Pool	10,000,000

**Justice and Public Safety Cabinet**

Department of Juvenile Justice - Renovate Lonnie Watson Building - KCIW	1,697,000
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**Council on Postsecondary Education**

Eastern Kentucky University - Construct Science Building	54,108,000
Eastern Kentucky University - Construct Manchester Postsecondary Education Center	3,500,000
Kentucky State University - Renovate Hathaway Hall, Phase II	4,920,000
Morehead State University - Construct Center for Health, Education and Research	23,000,000
Morehead State University - Space Science Center - Completion	3,400,000
Murray State University - Construct New Science Complex, Phase III	15,000,000
Northern Kentucky University - Construct Center for Informatics	35,500,000
University of Kentucky - Construct Biological/Pharmaceutical Complex - Phase II	79,892,000
University of Louisville - Construct HSC Research Facility Phase III - Additional	69,680,000
Western Kentucky University - Replace College of Education Building - Tate Page Hall	35,000,000
Kentucky Community Technical College System - Advanced Manufacturing Technology Center-Gateway Community and Technical College - Design	28,000,000
Kentucky Community Technical College System - Construct Emerging Technology Center - West KY CTC	16,518,000
Kentucky Community Technical College System - Construct Allied Health/Technical Educational Building - Laurel Campus	14,015,000
Kentucky Community Technical College System - Construct Administration Building, Phase I - Maysville CC	5,008,000
Kentucky Community Technical College System - Construct Science/Allied Health Building - Jefferson CTC	25,557,000
Kentucky Community Technical College System - Construct Central Regional Postsecondary Education Center Phase II - Elizabethtown CTC	20,000,000
Kentucky Community Technical College System - Advanced Manufacturing Center - Design - Bluegrass CTC	1,500,000
Kentucky Community Technical College System - Franklin Technology Center - Expansion	2,700,000
Kentucky Community Technical College System - Construct Tech Drive Campus, Phase III - Ashland CTC	17,600,000
Kentucky Community Technical College System - Springfield Community and Technical College	14,500,000
Kentucky Community Technical College System - McCreary Center - Somerset CC	6,500,000

TOTAL \$1,242,991,000

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<sup>(1)</sup> Excludes allocable costs of issuance.

## **EXHIBIT B LIQUIDITY PROVIDER**

*The information included in this Exhibit B replaces, in its entirety, the information presented as Exhibit F in the Original Official Statement.*

### ***Dexia Credit Local***

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 21 billion euros as of December 31, 2005, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2005 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2005, total funding raised by Dexia and Dexia Municipal Agency was 13.2 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2005, Dexia had total consolidated assets of 272 billion euros, outstanding medium and long-term loans to customers of 215.60 billion euros and shareholders' equity of over 7.48 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 861 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2005, the exchange rate was 1.0000 euro equals 1.173895 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7<sup>th</sup> Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

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