

NEW ISSUE – Book-Entry-Only

Ratings: See “RATINGS” herein

Interest on the Notes is includable in gross income for Federal income tax purposes. Interest on the Notes is exempt from Kentucky income tax and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See “TAX TREATMENT” herein.

\$11,275,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT NOTES, 2005 AGENCY FUND TAXABLE FIRST SERIES**

Dated: Date of Delivery

Due: June 1, as shown below

The Project Notes, 2005 Agency Fund Taxable First Series (the “Notes”), will be issued only as fully registered notes, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. The Notes will be issued in denominations of \$5,000 or any integral multiples thereof. Principal of and interest on the Notes will be paid directly to DTC by J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as Trustee and Paying Agent (the “Trustee” and “Paying Agent”).

The Notes will bear interest payable on each June 1 and December 1, commencing on December 1, 2005. The Notes mature on the dates, in the principal amounts, bear interest at the rates per annum and have the prices as follows:

Maturity (June 1)	Principal Amount	Interest Rate	Price	Maturity (June 1)	Principal Amount	Interest Rate	Price
2007	\$385,000	4.01%	100%	2012	\$475,000	4.41%	100%
2008	400,000	4.17	100	2013	495,000	4.52	100
2009	415,000	4.20	100	2014	515,000	4.66	100
2010	435,000	4.32	100	2015	540,000	4.71	100
2011	455,000	4.44	100				

\$3,130,000 5.06% Term Note due June 1, 2020, price 100%

\$4,030,000 5.23% Term Note due June 1, 2025, price 100%

The Notes are subject to optional and mandatory sinking fund redemption prior to maturity, as set forth herein. See “THE NOTES – Redemption” herein.

The Kentucky Asset/Liability Commission (the “Commission”) is issuing the Notes pursuant to a Resolution of the Commission adopted April 18, 2005, to (i) pay certain expenditures in certain amounts in connection with the construction of two new buildings and related facilities at Bluegrass Station, Lexington, Kentucky, for the benefit of the Kentucky Department of Military Affairs (the “State Agency”), (ii) pay the interest coming due on the Notes through and including December 1, 2006, (iii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iv) pay the costs of issuing the Notes. See “THE PROJECT” herein. The Notes are being issued pursuant to the Trust Indenture dated as of May 1, 2005 (the “Indenture”) between the Commission and the Trustee. See “THE NOTES” herein.

The Notes and any interest due thereon are payable solely and only from a special fund created under the Indenture and defined therein as the Note Payment Fund (the “Note Payment Fund”), into which Financing Payments (as defined herein) received from the State Agency are to be deposited, and from amounts deposited into the Debt Service Reserve Fund. The Financing Payments arise under a Financing/Lease Agreement, dated as of May 1, 2005 (the “Financing Agreement”), among the Commission, the State Agency and the Commonwealth of Kentucky Finance and Administration Cabinet (the “Cabinet”). The General Assembly (the “General Assembly”) of the Commonwealth of Kentucky (the “Commonwealth”) has approved a budget for the State Agency having amounts projected to be sufficient to pay required rent under the Financing Agreement through June 30, 2006. See “SECURITY FOR THE NOTES” herein for a discussion of the various circumstances that could limit or eliminate the availability of Financing Payments in the biennium beginning July 1, 2006 and in future biennia. See also “SUMMARY OF THE PRINCIPAL DOCUMENTS” herein.

The scheduled payment of principal of and interest on the Notes, when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Notes by MBIA Insurance Corporation.



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

The Notes are offered when, as and if issued and accepted by the Underwriter, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Frost Brown Todd LLC, Louisville, Kentucky. It is expected that delivery of the Notes will be made on or about June 8, 2005, through the facilities of DTC, against payment therefore.

Citigroup

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

Dated: May 24, 2005

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

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

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

KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

R. B. Rudolph, Jr., Secretary of the Finance and Administration Cabinet, Chairman
Gregory D. Stumbo, Attorney General
Jonathan Miller, State Treasurer
Bradford L. Cowgill, State Budget Director

SECRETARY TO THE COMMISSION

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

DEPARTMENT OF MILITARY AFFAIRS

Major General Donald C. Storm
The Adjutant General of Kentucky

TRUSTEE AND PAYING AGENT

J.P. Morgan Trust Company, National Association
Louisville, Kentucky

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITERS' COUNSEL

Frost Brown Todd LLC
Louisville, Kentucky

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TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	S-1
INTRODUCTION	1
THE NOTES	2
General	2
Optional Redemption	2
Mandatory Sinking Fund Redemption	2
Book-Entry-Only System	3
Authorization	3
SECURITY FOR THE NOTES	3
General	3
Additional Notes	5
BOND INSURANCE	6
The Bond Insurance Policy	6
MBIA	7
Regulation	7
Financial Strength Ratings of MBIA	7
MBIA Financial Information	8
Incorporation of Certain Documents by Reference	8
THE PROJECT	9
ESTIMATED SOURCES AND USES OF FUNDS	10
THE KENTUCKY ASSET/LIABILITY COMMISSION	10
General Information	10
Financings of the Commission	11
THE FINANCE AND ADMINISTRATION CABINET	12
THE STATE AGENCY	13
General Information on the State Agency	13
Bluegrass Station Division	15
THE COMMONWEALTH	17
Financial Information Regarding the Commonwealth	17
Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth	17
Budgetary Process in the Commonwealth	19
Fiscal Year 2003	19
Fiscal Year 2004	21
Fiscal Year 2005 (Unaudited)	22
Investment Policy	23
SUMMARY OF THE PRINCIPAL DOCUMENTS	25
Definitions	25
The Indenture	30
The Financing Agreement	42
TAX TREATMENT	46
General	46

TABLE OF CONTENTS
(Continued)

LITIGATION.....	46
APPROVAL OF LEGALITY.....	46
RATINGS	47
CONTINUING DISCLOSURE.....	47
UNDERWRITING	47
MISCELLANEOUS	48

EXHIBIT A - Debt Information Pertaining to the Commonwealth of Kentucky

EXHIBIT B - Form of Bond Counsel Opinion

EXHIBIT C - Book-Entry-Only System

EXHIBIT D - Bond Insurance Policy

SUMMARY

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

The Commission The Commission is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.

The Offering The Commission is offering its Project Notes, 2005 Agency Fund Taxable First Series in an aggregate principal amount of \$11,275,000 (the "Notes"). See "THE NOTES" herein.

Authority 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 April 18, 2005 (the "Resolution"), and a Trust Indenture dated as of May 1, 2005 (the "Indenture"), between the Commission and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent"). The State Property and Buildings Commission of the Commonwealth also has approved the issuance of the Notes.

Use of Proceeds The proceeds of the Notes will be used by the Commission to (i) pay certain expenditures in certain amounts in connection with the construction of two new buildings and related facilities at Bluegrass Station, Lexington, Kentucky, for the benefit of the Kentucky Department of Military Affairs (the "State Agency"), (ii) pay the interest coming due on the Notes through and including December 1, 2006, (iii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iv) pay the costs of issuing the Notes. See "THE PROJECT" herein.

Features The Notes will be dated as of the Date of Delivery, and will bear interest on each June 1 and December 1, commencing December 1, 2005, at the rates set forth on the cover page of this Official Statement and will mature on the dates set forth on the cover page of this Official Statement.

The Notes are subject to optional and mandatory sinking fund redemption prior to their respective maturities as described herein.

The Notes are issuable only as fully registered Notes, without coupons. The Notes are being offered in the authorized denominations of \$5,000 or any integral multiples thereof, at the rates shown on the cover page hereof. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC.

Principal of and interest on the Notes will be paid directly to DTC by the Trustee.

It is expected that delivery of the Notes will be made on or about June 8, 2005, through the facilities of DTC, against payment therefor.

Security

The Notes and the interest thereon are payable solely from payments of the Financing Payments (as defined herein) to be made by the State Agency, as lessee of the Project, to the Commission, as lessor of the Project, under the Financing/Lease Agreement dated as of May 1, 2005 (the "Financing Agreement") among the Commission, the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") and the State Agency, and from the other sources described herein. The Commission has pledged to the payments of its obligations with respect to the Notes, the Financing Payments to be received from the State Agency under the Financing Agreement.

When the Project is completed, the Cabinet (for the State Agency) expects to enter into a sublease for the Project (the "Lease" as defined herein) with the United States Government, which will have rent payable to the State Agency in an amount that is anticipated to be sufficient to pay the Financing Payments under the Financing Agreement and, in turn, the principal of and interest on the Notes. Payments received under the Lease will constitute Revenues. The Lease will be annually renewable by the United States Government (as defined herein), with rental payments fixed for at least 10 years (subject to adjustments based on increases in the consumer price index). See "THE PROJECT" for more information regarding the Lease and "THE STATE AGENCY" for more information regarding the Revenues and the expenditures of the State Agency.

The Notes are also secured by the Revenues (as defined herein) of the State Agency and certain other funds and accounts pledged therefor and described herein, including either a Debt Service Reserve Fund (as

defined herein) or a Debt Service Reserve Guaranty (as defined herein). See "SECURITY FOR THE NOTES" and "SUMMARY OF THE PRINCIPAL DOCUMENTS " herein.

THERE CAN BE NO ASSURANCE (i) THAT THE STATE AGENCY WILL RECEIVE AMOUNTS UNDER THE LEASE THAT WILL BE SUFFICIENT TO PAY THE FINANCING PAYMENTS, WHEN DUE; (ii) THAT THE STATE AGENCY WILL INCLUDE FINANCING PAYMENTS IN FUTURE BUDGETS SUBMITTED TO THE GENERAL ASSEMBLY, (iii) THAT THE GENERAL ASSEMBLY WILL APPROVE APPROPRIATIONS IN AMOUNTS SUFFICIENT TO ENABLE THE STATE AGENCY TO PAY THE FINANCING PAYMENTS, (iv) THAT THE GOVERNOR, IN THE PERFORMANCE OF HIS OR HER OBLIGATION TO BALANCE THE COMMONWEALTH'S ANNUAL BUDGET, WILL NOT REDUCE OR ELIMINATE SUCH APPROPRIATIONS, OR (v) THAT THE COMMISSION WILL BE ABLE TO MAKE OR CAUSE TO BE MADE PAYMENTS OF FINANCING PAYMENTS SO THAT GROSS RECEIPTS AND REVENUES FROM THE FINANCING AGREEMENT WILL BE SUFFICIENT TO MAKE REQUIRED PAYMENTS INTO THE NOTE PAYMENT FUND.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE STATE AGENCY NOR IS THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE FINANCING AGREEMENT. THE NOTES ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM A PLEDGE OF FINANCING PAYMENTS UNDER THE FINANCING AGREEMENT AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE NOTES" herein.

**Bond Insurance
Policy**

The scheduled payment of principal of and interest on the Notes, when due, will be guaranteed under a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Notes by MBIA Insurance Corporation.

Tax Status

In the opinion of Bond Counsel for the Notes, interest on the Notes is includable in gross income for Federal income tax purposes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the

Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" herein, and Exhibit B.

**Continuing
Disclosure**

Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, generally prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide, annually, certain information, including audited financial information, and notice of various events, if material. To enable the purchaser to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee.

General

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

Information

Information regarding the Notes is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924 or, during the initial offering period, the Underwriter, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093.

OFFICIAL STATEMENT

\$11,275,000

KENTUCKY ASSET/LIABILITY COMMISSION PROJECT NOTES, 2005 AGENCY FUND TAXABLE FIRST SERIES

INTRODUCTION

This Official Statement (this "Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), to furnish pertinent information to the purchasers of \$11,275,000 aggregate principal amount of its Project Notes, 2005 Agency Fund Taxable First Series (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 April 18, 2005 (the "Resolution"), and a Trust Indenture dated as of May 1, 2005 (the "Indenture"), between the Commission and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent").

The proceeds of the Notes will be used to (i) provide financing for the Project (as defined and described herein), (ii) pay the interest coming due on the Notes through and including December 1, 2006, (iii) make the required deposit into the Debt Service Reserve Fund (as defined herein) and (iv) pay the costs of issuing the Notes. See "THE PROJECT" herein.

The Notes and the interest thereon are payable solely from payments of the Financing Payments (as defined herein) to be made by the Kentucky Department of Military Affairs (the "State Agency") to the Commission under the Financing/Lease Agreement dated as of May 1, 2005 (the "Financing Agreement") among the Commission, the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") and the State Agency. The Notes are also secured by certain other funds and accounts pledged therefor and described herein, including a Debt Service Reserve Fund or a Debt Service Reserve Guaranty (as defined herein). See "SECURITY FOR THE NOTES" herein.

The scheduled payment of the principal of and interest on the Notes, when due, will be guaranteed under a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Notes by MBIA Insurance Corporation ("MBIA"). See "BOND INSURANCE" herein.

The summaries and references to the Act, the Indenture, the Financing Agreement described herein, and the Notes included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management ("OFM"), 702 Capitol Avenue, Room 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093, the underwriter of the Notes (the "Underwriter").

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

THE NOTES

General

The Notes are issuable only as fully registered Notes. The Notes will be issuable in the denominations of \$5,000 or any integral multiples thereof, will be dated as of the date of delivery, will bear interest payable on each June 1 and December 1, commencing December 1, 2005, at the rates set forth on the cover page of this Official Statement and will mature on the dates set forth on the cover page of this Official Statement. Principal of and interest on the Notes are payable in lawful money of the United States to the registered owner of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York, pursuant to the global book-entry system operated by DTC. See "EXHIBIT C – Book-Entry-Only System."

Optional Redemption

The Notes maturing on or before June 1, 2015 are not subject to optional redemption prior to maturity. The Notes maturing on and after June 1, 2016 are subject to redemption at the option of the Commission on or after June 1, 2015, in whole or in part at any time, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Notes maturing on June 1, 2020 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates and in the principal amounts as follows:

<u>Redemption Date</u>	<u>Principal Amount</u>
June 1, 2016	\$565,000
June 1, 2017	595,000
June 1, 2018	625,000
June 1, 2019	655,000
June 1, 2020*	690,000

*Maturity

The Notes maturing on June 1, 2025 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates and in the principal amounts as follows:

<u>Redemption Date</u>	<u>Principal Amount</u>
June 1, 2021	\$725,000
June 1, 2022	765,000
June 1, 2023	805,000
June 1, 2024	845,000
June 1, 2025*	890,000

*Maturity

Book-Entry-Only System

The Notes initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by DTC. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Indenture. For additional information about DTC and the book-entry-only system see "EXHIBIT C – Book-Entry-Only System."

Authorization

The Commission, at a meeting on April 18, 2005, adopted the Resolution, which, among other things (i) authorized the Indenture, (ii) authorized and approved the issuance of the Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the "Authorized Officer"), (iii) authorized the Financing Agreement and (iv) directed the preparation and distribution of this Official Statement.

The State Property and Buildings Commission of the Commonwealth also has approved the issuance of the Notes.

SECURITY FOR THE NOTES

General

The Notes and the interest thereon are payable solely from payments of the Financing Payments to be made by the State Agency, as lessee of the Project, to the Commission, as lessor of the Project, under the Financing Agreement and from other sources described under this heading.

The State Agency, as lessee, has entered into the Financing Agreement with the Commission and the Cabinet in order to provide the Commission, as lessor, with amounts to pay the principal of and interest on the Notes as they become due. The Commission has pledged to

the payments of its obligations with respect to the Notes, the Financing Payments to be received from the State Agency under the Financing Agreement.

Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the term of the current biennial budget. The initial term of the Financing Agreement ends June 30, 2006. The Financing Agreement requires the State Agency, for each biennial period during which Notes are outstanding, to request legislative appropriations in amounts which are sufficient to permit the State Agency to make Financing Payments to the Commission in amounts sufficient to pay principal of and interest on the Notes. Additionally, the Commission has covenanted in the Indenture that, in the event the State Agency for any reason fails to pay any Financing Payments or Additional Payments, the Commission will use its best efforts to make or cause to be made payments of Financing Payments or Additional Payments so that the aggregate of the gross receipts and revenues from the financing Agreement will at all times be sufficient to make required payments into the Note Payment Fund.

The Kentucky General Assembly has approved a budget for the State Agency having amounts projected to be sufficient to pay required rent under the Financing Agreement through June 30, 2006. Capitalized interest to be received by the Trustee from the proceeds of sale of the Notes will be used to pay all Financing Payments, to and including December 1, 2006. The Financing Agreement will be automatically renewed for successive biennial periods to and including the biennial period which includes the final maturity of the Notes, unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

It is anticipated that Agency Funds will be appropriated in future budgets and used by the State Agency to pay the Financing Payments under the Financing Agreement. Under the Financing Agreement, the State Agency has pledged all Revenues as security for its payment obligations thereunder. "Revenues" is defined as the totality of all fees, service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the State Agency, together with other funds received by the State Agency, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

When the Project is completed, the Cabinet (for the State Agency) expects to enter into a sublease for the Project (the "Lease" as defined herein) with the United States Government, which will have rent payable to the State Agency in an amount that is anticipated to be sufficient to pay the Financing Payments under the Financing Agreement and, in turn, the principal of and interest on the Notes. Payments received under the Lease will constitute Revenues. The Lease will be annually renewable by the United States Government, with rental payments fixed for at least 10 years (subject to adjustments based on increases in the consumer price index). The Lease is cancellable by the United States Government upon 30 days' prior written notice to the State Agency. See "THE PROJECT" for more information regarding the Lease and "THE STATE AGENCY" for more information regarding the Revenues and the expenditures of the State Agency.

The Notes are also secured by certain other funds and accounts pledged therefore and described herein, including a Debt Service Reserve Fund, or, alternatively, a Debt Service Reserve Guaranty. The Commission is required to maintain either (i) an amount equal to the maximum annual debt service requirement on the outstanding Notes (the "Debt Service Reserve Requirement") on deposit in a Debt Service Reserve Fund or (ii) a Debt Service Reserve Guaranty, all as described under "SUMMARY OF THE PRINCIPAL DOCUMENTS - The Indenture" herein. See "SUMMARY OF THE PRINCIPAL DOCUMENTS" herein.

THERE CAN BE NO ASSURANCE (i) THAT THE STATE AGENCY WILL RECEIVE AMOUNTS UNDER THE LEASE THAT WILL BE SUFFICIENT TO PAY THE FINANCING PAYMENTS, WHEN DUE; (ii) THAT THE STATE AGENCY WILL INCLUDE FINANCING PAYMENTS IN FUTURE BUDGETS SUBMITTED TO THE GENERAL ASSEMBLY, (iii) THAT THE GENERAL ASSEMBLY WILL APPROVE APPROPRIATIONS IN AMOUNTS SUFFICIENT TO ENABLE THE STATE AGENCY TO PAY THE FINANCING PAYMENTS, (iv) THAT THE GOVERNOR, IN THE PERFORMANCE OF HIS OR HER OBLIGATION TO BALANCE THE COMMONWEALTH'S ANNUAL BUDGET, WILL NOT REDUCE OR ELIMINATE SUCH APPROPRIATIONS, OR (v) THAT THE COMMISSION WILL BE ABLE TO MAKE OR CAUSE TO BE MADE PAYMENTS OF FINANCING PAYMENTS SO THAT GROSS RECEIPTS AND REVENUES FROM THE FINANCING AGREEMENT WILL BE SUFFICIENT TO MAKE REQUIRED PAYMENTS INTO THE NOTE PAYMENT FUND.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE STATE AGENCY NOR IS THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE FINANCING AGREEMENT. THE NOTES ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM A PLEDGE OF FINANCING PAYMENTS UNDER THE FINANCING AGREEMENT AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

The scheduled payment of principal of and interest on the Notes, when due, will be guaranteed under an insurance policy on the Notes to be issued concurrently with the delivery of the Notes by MBIA. See "BOND INSURANCE" and EXHIBIT D.

Additional Notes

The State Agency has reserved the right to pledge the Revenues on a parity basis if additional notes are issued in the future by the Commission to provide funds for additional capital projects of the State Agency or if the State Agency enters into any other obligations for the repayment of borrowed money, the proceeds of which are used to pay the costs of additional capital projects. See "SUMMARY OF THE PRINCIPAL DOCUMENTS – The Financing Agreement – Parity Obligations."

BOND INSURANCE

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Exhibit D for a specimen of the Bond Insurance Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurance Policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Notes or the advisability of investing in the Notes.

The Bond Insurance Policy

The Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Commission to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Notes as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Notes pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Notes. The Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Notes upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Notes resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Notes.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Note the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Notes or presentment of

such other proof of ownership of the Notes, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Notes as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Notes in any legal proceeding related to payment of insured amounts on the Notes, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Notes, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. ("Moody's") rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's") rates the financial strength of MBIA "AAA."

Fitch Ratings ("Fitch") rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to

pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Notes, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Notes. MBIA does not guaranty the market price of the Notes nor does it guaranty that the ratings on the Notes will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2004, MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of \$10.6 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$3.6 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2005 and for the three month periods ended March 31, 2005 and March 31, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2004; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly

Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Notes offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

THE PROJECT

The Project consists of the construction of two new buildings and related facilities at Bluegrass Station Division, Lexington, Kentucky, for the benefit of the State Agency. The United States Government transferred ownership of the former Army Depot to the Commonwealth in 1995. The State Agency operates the facility for the Commonwealth. The Cabinet (for the State Agency) leases major portions of the facility to the United States Government.

The two new buildings and related facilities to be constructed include a 60,000 square foot hangar building and a 45,000 square foot warehouse. Construction is expected to take approximately 18 months. Once the buildings have been completed, the Cabinet (for the State Agency) is expected to enter into the Lease with respect to the Project with the United States Government. See "THE STATE AGENCY" herein for more information regarding the United States Government and Bluegrass Station Division.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources

Par Amount of Notes	<u>\$11,275,000.00</u>
Total Sources	\$11,275,000.00

Uses

Deposit to Project Fund	\$9,395,852.49
Deposit to Note Payment Fund (capitalized interest)	791,414.82
Deposit to Debt Service Reserve Fund	937,851.50
Costs of Issuance*	<u>149,881.19</u>
Total Uses	\$11,275,000.00

*Includes premium payable to MBIA with respect to the Bond Insurance Policy, underwriter's discount, legal fees, rating agency fees, printing, and other costs of issuance.

THE KENTUCKY ASSET/LIABILITY COMMISSION

General Information

The Act created the Kentucky Asset/Liability Commission, which is composed of five members, each serving in an ex officio capacity. Under the Act, the members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairman; the Attorney General; the State Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. Senate Bill 49 of the 2005 General Assembly reorganized the Finance and Administration Cabinet to assume the responsibilities of the former Revenue Cabinet and the Governor's Office of Technology.

The current members of the Commission are as follows:

R. B. Rudolph, Jr.	Secretary of the Finance and Administration Cabinet, Chairman
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Gregory D. Stumbo	Attorney General
Jonathan Miller	State Treasurer
Bradford L. Cowgill	State Budget Director

The Secretary to the Commission is the Executive Director of OFM.

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

Financings of the Commission

General. The Commission has had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes are issued as General Fund Series, Agency Fund Series, Road Fund Series and Federal Highway 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 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.

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. On the date of delivery of the Notes, the Commission will have the following General Fund Project Notes outstanding.

<u>Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding as of June 8, 2005</u>
2001 General Fund First Series	\$37,450,000	\$17,475,000
2003 General Fund Series A	171,260,000	123,755,000
2005 General Fund First Series	<u>81,850,000</u>	<u>81,850,000</u>
Total	\$290,560,000	\$223,080,000

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. On the date of delivery of the Notes, the Commission will have \$11,275,000 in Agency Fund Project Notes outstanding.

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 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. As of the date of delivery of the Notes, the Commission will have the first issue of those notes outstanding in the aggregate principal amount of \$139,635,000.

Future Financings. On April 18, 2005, the Commission authorized the issuance of the Notes, as well as the issuance of TRANS in an amount not to exceed \$800 million to fund expenditure demands on the General Fund in fiscal year 2006. The Commission may issue additional Project Notes to fund financing needs for projects authorized by the Budget Act.

THE FINANCE AND ADMINISTRATION CABINET

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

Senate Bill 49 of the 2005 General Assembly reorganized the Finance and Administration Cabinet to assume the responsibilities of the former Revenue Cabinet and the Governor's Office of Technology. In addition to the newly assumed responsibilities, Cabinet functions include, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) the construction, maintenance and operation of public buildings, except those provided for the exclusive use of certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) the investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

Under the Act, the Cabinet is required to be a party to the Financing Agreement. In addition, because the Cabinet is required by Kentucky law to hold title to real property owned by the Commonwealth and its agencies, the Cabinet is party to the Lease with the United States described in "THE PROJECT" and "THE STATE AGENCY – Bluegrass Station Division."

THE STATE AGENCY

General Information on the State Agency

The Kentucky Department of Military Affairs (the "State Agency" or "DMA") is a unique and diverse organization within state government, having both a state government organizational component and a federal government component under the Office of the Adjutant General for Kentucky.

The strategic mission of DMA is: "To provide highly trained, appropriately resourced and properly equipped professionals and unique services required to successfully meet state and federal missions worldwide". This is the department's core purpose and the functional role it plays within the public health and safety arena of the state government environment. The primary goals of DMA are readiness to accomplish militarily both the state and federal missions of the Kentucky Army and Air National Guard and readiness to perform important response functions before, during and after a disaster or emergency.

The state government component of DMA is organized under Kentucky Revised Statutes (KRS) Chapter 36 through Chapter 39F. DMA has a wide array of complex missions that encompass support of the Governor and the Commonwealth, per Section 75 of the Kentucky Constitution, in state domestic affairs as well as supporting national defense planning and operations for the Kentucky Army and Air National Guard per U.S. Code, Title 32 or Title 16 when activated for war-time duty. The department executes these requirements through a multi-component workforce made up of 315 full-time state employees, 240 Department of Defense contractual state employees, and a federal full-time workforce comprised of 716 military technicians, 599 Title 32 Active-duty Guard Reserve military personnel, as well as approximately 8,000 traditional Army and Air National Guard members that typically serve one weekend each month and two weeks each year unless called into active military service of the state by the Governor or federal command authority. This total workforce is housed in 351 state-owned buildings and on 10,000 acres of field training sites managed by DMA.

DMA has both a state budget and a federal military budget totaling over \$220 million dollars. DMA's state budget averages around \$70 million dollars annually and consists of a mix of approximately 59% Federal grant funds, 27% Restricted Funds and 14% General Fund appropriations. The Federal grant funds are "ear-marked" federal funds provided to directly support catalog of federal domestic assistance operational programs and can only be used to support the required federal grant program activities; they cannot be used to support 'infrastructure maintenance' of state-owned facilities or other 'state' related operational costs. The vast majority of all Restricted Funds are generated and used in the operation of the three not-for-profit divisional elements consisting of Bluegrass Station, Capital City Airport, and the Logistics Operations Division's Central Clothing Distribution Facility. *See "Bluegrass Station Division" discussion below.* These are self-sustaining, semi-commercial organizational entities or contract activities which normally receive no General Fund or Federal Fund appropriations. The department's General Fund appropriations support the state full-time personnel cost and current services operating costs for all the remaining divisions.

DMA is attached to the Office of the Governor and consists of the Office of the Adjutant General for Kentucky and nine state divisional elements and two federal organizational elements which oversee fourteen federal divisions organized as follows:

State Organizations:

- (1) Office of Management and Administration, containing the:
 - (a) Division of Administrative Services;
 - (b) Division of Facilities;
 - (c) Bluegrass Station Division;
 - (d) Division of Air Transport; and
 - (e) Logistics Operations Division
- (2) Division of Emergency Management;
- (3) Kentucky Guard Youth Challenge Division; and
- (4) Kentucky Civil Air Patrol.

Federal Organizations:

- (5) Office of the Chief of Staff for Federal Army Guard;
- (6) Office of the Chief of Staff for Air Guard.

Additionally, KRS 36.255 administratively attaches the Kentucky Community Crisis Response Board to DMA.

A table showing DMA's historic revenues, expenditures and net funds for Fiscal Years 2000 through 2004 and projected revenues, expenditures and net funds for Fiscal Years 2005 and 2006 is on the following page.

DMA Operating Revenues and Expenditures	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005*	FY2006*
General Fund Revenues	\$16,481,075	\$15,660,596	\$16,429,863	\$16,290,599	\$18,338,840	\$17,071,500	\$17,500,000
Federal Fund Revenues	\$15,135,337	\$15,190,217	\$25,823,280	\$44,371,550	\$74,504,447	\$55,787,600	\$45,900,000
Restricted Fund Revenues	\$18,405,953	\$23,770,035	\$22,891,445	\$19,654,638	\$17,637,073	\$23,741,500	\$24,100,000
Total Revenues	\$50,022,365	\$54,620,848	\$65,144,588	\$80,316,787	\$110,480,360	\$96,600,600	\$87,500,000
General Fund Expenditures	\$16,481,075	\$15,660,596	\$16,429,863	\$16,290,599	\$18,338,840	\$17,071,500	\$17,500,000
Federal Fund Expenditures	\$16,164,740	\$12,804,137	\$23,757,434	\$40,664,176	\$72,265,141	\$55,787,600	\$45,900,000
Restricted Fund Expenditures	\$16,284,175	\$20,113,928	\$20,210,734	\$17,170,414	\$18,972,941	\$20,187,500	\$20,200,000
Total Expenditures	\$48,929,990	\$48,578,661	\$60,398,031	\$74,125,189	\$109,576,922	\$93,046,600	\$83,600,000
Net Agency Revenues	\$1,092,375	\$6,042,187	\$4,746,557	\$6,191,598	\$903,438	\$3,554,000	\$3,900,000

*Budgeted, without new lease.

Bluegrass Station Division

DMA conducts operations that directly and indirectly support Kentucky's public policy initiatives such as promoting economic development. The operation of the Bluegrass Station Division is a focal point for DMA and tenant activities that directly contribute to economic development in central Kentucky.

The Bluegrass Station Division of DMA is located at a former Army Depot, which is situated in Fayette County, Kentucky. The 780-acre installation includes over 2 million square feet of rentable space in 110 buildings, 17 miles of paved roads, 25 acres of asphalt/concrete parking lots, its own water and electrical systems, a wastewater treatment plant and rail lines.

The United States Congress voted in 1989 to close the Army Depot, as part of the federal Base Re-Alignment and Closure Act. DMA and the United States reached an agreement in 1994 providing for a sixty year lease of the facility from the United States Government to the Commonwealth, accompanied by a plan to actually deed the Army Depot real property and improvements to the Commonwealth over time. To date, all but four buildings and related property have been deeded to the Commonwealth. The final transfers of property are expected to be completed by September, 2005.

The mission of the Bluegrass Station Division is to maintain an existing job base and bring new employment opportunities to Kentucky and the Lexington/Central Kentucky area through the leasing of space to private industry and governmental agencies. When Congress

enacted the federal Base Re-Alignment and Closure Act in 1989, there were 1,200 persons working at the Army Depot. Today there are in excess of 1,700 persons employed by tenants of the facilities now operated by the Division. The Division itself directly employs 38 persons.

The Division is charged with establishing and maintaining extensive coordination and cooperation at all levels of government, civic and professional organizations as well as local businesses. It is estimated that the existing Bluegrass Station facilities provide over \$200 million annually in economic benefit through its business and tenant activities and operations. Success for Bluegrass Station is contingent upon leasing facilities to a variety of long-term tenants that bring jobs and economic growth to the area. Tenants include state agencies, federal agencies and contractors, commercial and private operations, as well as some residential tenants. Bluegrass Station has 43 tenants occupying 2,054,158 square feet of building space, which represents a 99.5% occupancy rate for all currently available rental space.

The tenant with the largest workforce employed on site (more than 1,000 personnel) is the United States Government, which operates under a government-owned, contractor-operated concept. Upon completion, the Project is expected to be subleased to the United States Government pursuant to the Lease. See "THE PROJECT" herein. Another major tenant is the Kentucky Logistics Operations Center, which is leasing 660,631 square feet of space for (i) the National Guard Material Management Center, which orders, stores and distributes wheel and track vehicle and aircraft repair parts for National Guard units throughout the United States and (ii) the Central Clothing Distribution facility, which distributes military clothing to Army National Guard soldiers, Marine Corps reservists, Seabees and Naval reserve members. Other major tenants include private sector manufacturers, fabricators, distributors and repair facilities.

A table showing Bluegrass Station Division's historic revenues, expenditures, net funds and capital project transfers for Fiscal Years 2000 through 2004 and projected revenues, expenditures, net funds and capital project transfers for Fiscal Years 2005 and 2006 is shown below.

BGS Operating Revenues and Expenditures	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005*	FY2006*
Rentals	\$4,559,709	\$4,140,210	\$3,874,480	\$3,722,874	\$1,838,595	\$3,754,800	\$3,700,000
Other Receipts	\$753	\$461,955	\$1,367,917	\$3,071,460	\$3,211,039	\$2,811,000	\$2,900,000
Total Revenues	\$4,560,462	\$4,602,165	\$5,242,397	\$6,794,334	\$5,049,634	\$6,565,800	\$6,600,000
Expenditures (less capital project transfers)	\$3,671,533	\$4,123,475	\$4,345,319	\$4,164,404	\$4,469,313	\$4,390,700	\$4,500,000
Capital Project Fund Transfers	\$687,303	\$260,328	\$1,011,000	\$1,409,642	\$1,257,630	\$2,500,000	\$2,500,000
Ending Carryforward	\$1,030,286	\$990,004	\$829,840	\$864,017	\$154,003	\$625,300	\$700,000

*Budgeted, without new lease.

Further information regarding DMA and Bluegrass Station can be found, respectively, at <http://www.military.ky.gov/> and <http://www.bluegrass-station.com/>.

THE COMMONWEALTH

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

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

Financial Information Regarding the Commonwealth

Information regarding debt issuing authorities of the Commonwealth is included in EXHIBIT A attached hereto.

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. The *Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2004 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 with the following Nationally Recognized

Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

- (i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Internet: munis@bloomberg.com
Tel: (609) 279-3225
Fax: (609) 279-5962
- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Internet: nrmsir@dpcdata.com
Tel: (201) 346-0701
Fax: (201) 947-0107
- (iii) Standard & Poor's Securities Evaluations, Inc.
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 770-4595
Fax: (212) 770-7994
- (iv) FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Internet: nrmsir@ftid.com
Tel: (212) 771-6899
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Website: <http://www.InteractiveData.com>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 and certain other fiscal years may be found on the Internet at:

<http://finance.ky.gov/ourcabinet/caboff/ooc/cafr.htm>

Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

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

Budgetary Process in the Commonwealth

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

In each of the last two even numbered years, the regular legislative session of the General Assembly adjourned without adoption of a State Budget. On both occasions, the Governor signed Executive Orders authorizing the Secretary of the Finance and Administration Cabinet to issue warrants for the payment of all claims made by the Executive Branch of government in accordance with a Public Services Continuation Plan providing for the continued operation of state government in the absence of a legislatively adopted State Budget (the "Continuation Plan"). The Continuation Plans provided full spending authority for the total debt service payments. In both cases, the Kentucky General Assembly enacted a State Budget in March of the following odd numbered year, which incorporated the Continuation Plans and appropriated funds for the remainder of the biennium.

Fiscal Year 2003

The Commonwealth began Fiscal Year 2003 without a legislatively enacted budget for the Executive branch of government and operated under an Executive Spending Plan implemented by an Executive Order of the Governor. In the General Assembly's 2003 Regular Session, which concluded on March 25, 2003, the legislature enacted House Bill 269, which included a budget for the Executive branch of government for the 2003-2004 biennium. The General Assembly also passed separate legislation that effectively ratified all amounts previously spent under the Executive Spending Plan.

The Commonwealth's Government-Wide Financial Statements provide a broad view of the state's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$16.2 billion at the end of 2003, as compared to \$15.4 billion at the end of the previous year. Over time, net assets may serve as a useful indicator of a government's financial position.

The largest portion of the Commonwealth's net assets \$16.6 billion reflects its investment in capital assets (e.g. land, infrastructure, 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.

An additional portion of the Commonwealth's net assets \$1.65 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 \$(2.06) 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 \$7.7 billion and general revenues of \$8.1 billion for total revenues of \$15.8 billion during Fiscal Year 2003. Expenses for the Commonwealth during Fiscal Year 2003 were \$15 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$770 million, net of contributions, transfers and special items.

During the fiscal year, the net assets of governmental activities increased by \$724 million or 4.6 percent. Approximately 57 percent of the governmental activities' total revenue came from taxes, while 43 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. The net program expenses of these governmental activities were therefore supported by general revenues, mainly taxes.

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of a Fiscal Year.

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.16 billion, a decrease of \$196 million in comparison with the prior year. Just over two-thirds (\$1.47 billion or 68 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. 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, the total fund balance reached \$298 million, with an unreserved balance of \$184 million. This compares to a General Fund unreserved balance of \$(36) million as of June 30, 2002. 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 \$214 million during the fiscal year. This is a 253 percent increase from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

The Transportation Fund balance at June 30, 2003 totaled \$439 million, a decrease of \$114 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

The Commonwealth of Kentucky's bonded debt decreased by \$240 million to \$3,165,223,000, a seven percent decrease during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2003. The key factor in this decrease was the payment of principal on bonds outstanding and the absence of any new money bonds issued during Fiscal Year 2003.

Fiscal Year 2004

The Commonwealth's Government-Wide Financial Statements provide a broad view of the state's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$16.6 billion at the end of 2004, as compared to \$16.2 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 \$1.38 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 \$2.2 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 \$7.3 billion and general revenues of \$8.5 billion for total revenues of \$15.8 billion during Fiscal Year 2004. Expenses for the Commonwealth during Fiscal Year 2004 were \$15.5 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$311 million, net of contributions, transfers and special items.

During the fiscal year, the net assets of governmental activities increased by \$344 million or 2.10 percent. Approximately 54 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.

The focus of the Commonwealth's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commonwealth's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of a Fiscal Year.

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.03 billion, a decrease of \$74 million in comparison with the prior year. Approximately half (\$999 million or 49 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. 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 \$389 million, with an unreserved balance of \$304 million. This compares to a General Fund unreserved balance of \$184 million as of June 30, 2003. 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 \$94 million during the fiscal year. This is a 31.4 percent increase in net assets from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

The Transportation Fund balance at June 30, 2004 totaled \$228 million, a decrease of \$207 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

The Commonwealth of Kentucky's bonded debt increased by \$60 million to \$3,225,431,000, a 1.90 percent increase during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2004. The key factor in this increase was the issuance of new debt during Fiscal Year 2004.

Fiscal Year 2005 (Unaudited)

The Commonwealth began Fiscal Year 2005 without a legislatively enacted budget for the Executive branch of government and operated under quarterly Public Services Continuation Plans implemented by Executive Orders of the Governor. In the General Assembly's 2005

Regular Session, which concluded on March 22, 2005, the legislature enacted House Bill 267, the Budget Bill, which included a budget for the Executive branch of government for the 2005-2006 biennium and effectively ratified all amounts previously spent under the Public Services Continuation Plans.

On January 19, 2005, the Consensus Forecasting Group (the "Group") made an official revision to the Fiscal Year 2005 and Fiscal Year 2006 revenue estimates for the General Fund. The estimate for Fiscal Year 2005 was revised to \$7,433 million, an increase of \$279 million over the estimate provided a year earlier, on January 9, 2004. The Group projected the General Fund revenues to be \$7,665 million in Fiscal Year 2006, which assumes 3 percent growth. These General Fund revenue estimates exclude Phase I Tobacco Settlement Agreement ("MSA") payments, expected to be \$108.8 million and \$108.6 million in Fiscal Year 2005 and Fiscal Year 2006, respectively. The MSA estimates remain unchanged from prior estimates. The official revenue estimate for the biennium has been adjusted for legislation enacted by the 2005 General Assembly. House Bill 267, the Budget Bill, included actions predicted to result in an additional \$16.9 million of tax receipts in Fiscal Year 2005.

Fiscal Year 2005 General Fund revenues from July 2004 through April 2005 totaled \$6,331.9 million versus \$5,823.5 million for the same period one year ago. Through the first ten months of the fiscal year, growth in the General Fund has been 8.7 percent. The forecasted growth rate for Fiscal Year 2005, adjusted for legislation, is 6.8 percent. Based on year-to-date growth, the General Fund will meet the budgeted revenue estimate even if revenues decline by as much as 3.1 percent in May and June.

April 2005 receipts were \$828 million, an increase of 11.4 percent above the level collected in April 2004. Among the major categories, the sales and use tax receipts grew by 3.1 percent. The individual income tax receipts rose by 12.8 percent, due to strong withholding growth, higher payments included with tax returns, and higher declaration payments. The corporation income tax almost doubled the revenues from last April with growth of 98.7 percent. Lower refund payments were the principal reason. Coal severance taxes rose by a sharp 31.6 percent. Property taxes were up by 49.1 percent as a result of timing shifts compared to last year. And the lottery was unchanged from last April.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At March 31, 2005, the Commonwealth's operating portfolio was approximately \$3.25 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (11%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage

obligations (42%); repurchase agreements collateralized by the aforementioned (15%); municipal securities (6%); and corporate and asset backed securities, including money market securities (26%). The portfolio had a current yield of 3.35% and an effective duration of 0.89 years.

The Commonwealth's investments are currently categorized into three investment pools: Short-term, Intermediate-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund and related accounts and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the Commonwealth. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

The Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, interest rate swaps, mortgage backed securities, collateralized mortgage obligations and asset backed securities.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income.

As of December 31, 2004, the Commonwealth owned an asset-based interest rate swaption straddle. This straddle gives the Commonwealth the right, but not the obligation, to enter into either a receiver or payer five year interest rate swap on December 13, 2005. The market value of the position as of May 13, 2005 was \$666,678.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and asset backed securities (ABS) must not exceed 25% of any investment pool. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of 25% of any investment portfolio. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

SUMMARY OF THE PRINCIPAL DOCUMENTS

Summarized below are certain provisions of the Indenture and the Financing Agreement. This summary does not purport to be complete, and is qualified by reference to the Indenture and the Financing Agreement.

Definitions.

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the Financing Agreement. Reference is made to the Indenture and the Financing Agreement for a complete recital of the terms defined therein.

"Act" shall mean Section 56.860 et seq. of the Kentucky Revised Statutes, as amended.

"Additional Notes" shall mean notes issued under the provisions of Section 2.06(a) of the Indenture.

"Additional Payments" shall mean the Additional Payments payable under the Financing Agreement.

"Authorized Denominations" shall mean \$5,000 and integral multiples thereof.

"Authorized Officer" shall mean, as to the Cabinet or the Commission, the Executive Director of the Office of Financial Management and any other officer, member or employee of

the Office of Financial Management authorized by a certificate of the Executive Officer to perform the act or sign the document in question, and if there is no such authorization, means the Executive Officer and as to the State Agency, its Adjutant General and any other officer, member or employee of the State Agency authorized by a certificate of the Adjutant General to perform the act or sign the document in question.

"Budget Act" shall mean House Bill 267 of the General Assembly of the Commonwealth of Kentucky, 2005 Regular Session.

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

"Cabinet" shall mean the Finance and Administration Cabinet of the Commonwealth.

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

"Cost of Issuance Fund" shall mean the Fund so designated which is established and created by Sections 5.03 and 5.04 of the Indenture.

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

"Counsel" or "Counsel's Opinion" shall mean an opinion signed by such attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds and municipal finance as may be selected by the Commission.

"Debt Service Reserve Fund" shall mean the Fund so designated which is established and created by Sections 5.03 and 5.07 of the Indenture.

"Debt Service Reserve Guarantor" means the issuer of a Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty" means a letter of credit, surety bond or similar arrangement representing the irrevocable obligation of the Debt Service Reserve Guarantor to pay to the Commission upon request made by the Commission up to an amount stated therein for application as provided in the Indenture.

"Debt Service Reserve Guaranty Agreement" means the reimbursement agreement, loan agreement or similar agreement between the Commission and a Debt Service Reserve Guarantor with respect to repayment of amounts advanced under the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Coverage" means the amount available at any particular time to be paid to the Commission under the terms of the Debt Service Reserve Guaranty.

"Debt Service Reserve Guaranty Limit" means the maximum aggregate amount available to be paid to the Commission under the terms of a Debt Service Reserve Guaranty.

"Debt Service Reserve Requirement" shall mean an amount equal to the maximum amount of principal and interest coming due on all Outstanding Notes in any Fiscal Year.

"Debt Servicing Date" shall mean any Interest Payment Date, as defined in the Indenture.

"Debt Servicing Obligation" shall mean the aggregate amounts required to be paid in respect of the Notes on any Debt Servicing Date, including (i) the scheduled maturity of principal of any Notes maturing on such Debt Servicing Date and the principal amount of Notes, if any, called for redemption on such Debt Servicing Date, and the premium, if any, with respect to such Notes, (ii) the interest required or estimated (by the Commission) to be paid on the Notes, and (iii) the reasonable and agreed fees of the Trustee, the Paying Agent and the Registrar, but only to the extent not otherwise paid directly by the Cabinet. The Cabinet shall be entitled to a credit against the Debt Servicing Obligation otherwise required to be paid on any Debt Servicing Date to the extent there are funds in the Interest Account of the Note Payment Fund prior to the payment of the Debt Servicing Obligation hereunder which, under the terms of the Indenture and applicable law, can be used to meet the Debt Servicing Obligation. It is understood that, pursuant to the Indenture, all income derived from investment of the Project Fund may, at the discretion of the Cabinet, be transferred to the Note Payment Fund and, if so transferred, shall be a credit against Financing Payments due and payable by the Cabinet. Amounts transferred from the Cost of Issuance Fund, established by the Indenture, to the Note Payment Fund, shall be a further credit against Financing Payments due and payable by the Cabinet.

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

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

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

"Financing Agreement" shall mean the Financing/Lease Agreement, dated as of May 1, 2005 among the Commission, the Cabinet and the State Agency by which the Project is leased to the State Agency, and any amendments or supplements thereto.

"Financing Payments" shall mean Financing Payments payable under the Financing Agreement.

"Fiscal Year" shall mean the period beginning on a July 1 and ending on the following June 30.

"Fitch" shall mean Fitch Ratings.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Payment Fund, Project Fund and Debt Service Reserve Fund established by the Indenture.

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

"Indenture" or "Trust Indenture" shall mean the Indenture, dated as of May 1, 2005, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

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

"Interest Payment Date" shall mean each June 1 and December 1, commencing December 1, 2005.

"Maximum Annual Debt Service" shall mean the sum of all amounts required to be paid, during any single Fiscal Year commencing after the date of such calculation, or set aside during such Fiscal Year, for payment of debt service on Parity Obligations.

"Moody's" shall mean Moody's Investors Service, Inc.

"Note Payment Fund" shall mean the Fund so designated which is established and created by Sections 5.03 and 5.05 of the Indenture.

"Notes" shall mean the Commission's Project Notes, 2005 Agency Fund Taxable First Series, issued from time to time under the provisions of the Indenture.

"Outstanding" when used with reference to Notes, shall mean, as of any date, all Notes theretofore or then being authenticated and delivered under the Indenture except:

(a) Notes cancelled upon surrender, exchange or transfer or cancelled because of payment or redemption at or prior to such date;

(b) Notes for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Note Payment Fund (whether upon or prior to the maturity or Redemption Date of those Notes); provided that if any of those Notes are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Noteholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of those Notes are to be purchased for cancellation a firm offer for sale stating the price shall have been received and accepted;

(c) Notes which are deemed to have been paid pursuant to the provisions of Article IX of the Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Indenture; and

(d) Notes in lieu of which others have been authenticated under Sections 3.07, 3.08 and 3.11 of the Indenture.

"Parity Obligations" shall mean obligations for borrowed money that are secured by a pledge of Revenues on a parity basis with the pledge of Revenues under the Financing Agreement, including, but not limited to, Additional Notes and Refunding Notes.

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

"Pledged Receipts" shall include:

(i) all of the Financing Payments and Additional Payments, as defined in the Financing Agreement, to be paid by the State Agency to the Commission pursuant to the Financing Agreement; and

(ii) all interest earned and gains realized on Eligible Investments unless the Indenture specifically requires such interest earned or gains realized to remain in a particular Fund or Account and does not therefore constitute a Pledged Receipt.

"Principal Account" shall mean the account by that name in the Note Payment Fund established under Section 5.05 of the Indenture.

"Project" shall mean the Hangar/Warehouse/Office Buildings – Bluegrass Station, authorized for the State Agency by the Budget Act and described in the Financing Agreement.

"Project Fund" shall mean the Project Fund created by Sections 5.03 and 5.06 of the Indenture.

"Rating Service" shall mean Moody's, if Moody's is then rating the Notes, S&P, if S&P is then rating the Notes, and Fitch, if Fitch is then rating the Notes, and their respective successors and assigns.

"Record Date" shall mean the first day of the month next preceding the applicable Interest Payment Date.

"Redemption Date" shall mean the date established for the redemption of Notes as described under the heading "THE NOTES – Redemption."

"Refunding Notes" shall mean notes issued under the provisions of Section 2.06(b) of the Indenture, the proceeds of which are used solely and only to refund a portion of the Notes then Outstanding under the Indenture and to pay the costs of issuing such Refunding Notes.

"Registrar" shall mean the registrar maintaining the registration books for any Notes.

"Resolution" shall mean the resolution of the Commission adopted April 18, 2005 authorizing the issuance of the Notes and the execution and delivery of the Indenture.

"Revenues" shall mean the totality of all fees, service rates, rentals and charges of any and all types and varieties imposed, enforced and collected by the State Agency, together with

other funds received by the State Agency, if any, from any agency of government, both federal and state, as representing income or operating subsidies, as distinguished from capital grants, to the extent not otherwise required to be treated and applied.

"S&P" shall mean Standard & Poor's Credit Markets Services, a division of The McGraw-Hill Companies, Inc.

"State" shall mean the Commonwealth of Kentucky.

"State Agency" shall mean Department of Military Affairs.

"Supplemental Trust Indenture" shall mean any trust indenture supplemental to or amendatory of the Indenture adopted by the Commission in accordance with the Indenture.

"Treasurer" shall mean the Treasurer of the State.

"Trust Estate" shall mean the trust estate created by the Indenture and by the pledges specifically set forth in Section 5.02 of the Indenture.

"Trustee" shall mean the Trustee appointed pursuant to Section 9.01 of the Indenture, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Indenture.

The Indenture

Delivery of the Notes. The Indenture authorizes the issuance of the Notes in the aggregate amount set forth on the cover page hereto. All Notes issued under the Indenture will rank on a parity and equality with one another and are entitled to the benefit of the continuing pledge and lien created by the Indenture to secure the full and final payment of the principal of and interest on the Notes. (Section 2.04)

Additional Notes; Refunding Notes. The Indenture provides that if the proceeds of the Notes, plus other available funds, are not sufficient to complete the Project, the Commission, pursuant to the Indenture, is required to authorize, issue, sell and deliver a sufficient amount, but only a sufficient amount, of Additional Notes which will be fully on a parity with and have the same security as the Notes, in order to complete the Project for its intended uses and purposes. Additional Notes may also be issued pursuant to the Indenture, if at any time insurance proceeds are insufficient to make repairs or replace portions of the Project which have been damaged, but only a sufficient amount, of Additional Notes in order to make such necessary repairs and replacements, subject to any limitations on the issuance of such notes as may then exist under the Kentucky Revised Statutes.

No Additional Notes on a parity as to security with the Notes for such specific purposes provided for in the Indenture, may be issued unless at such time the Commission is and has been in continuous compliance with all of the provisions with reference to the payment of the principal and interest with respect to the Notes and is and has been in continuous compliance with the Indenture. If any Additional Notes for such purposes are issued on a basis of parity as to security with the Notes, the Financing Agreement shall be amended to provide for payments

sufficient to pay the principal and interest with respect to all Notes Outstanding under the Indenture and all Additional Notes.

No other Additional Notes may be issued at any time secured by the Pledged Receipts except and unless such pledge is made subject and subordinate to the priority of the pledges made in the Indenture to secure the Notes.

The Commission reserves the right to issue Refunding Notes which may be on a parity as to security with the Notes in order to refund any Notes then Outstanding under the Indenture.

No Refunding Notes on a parity as to security with the Notes may be issued unless at such time the Commission is and has been in continuous compliance with all of the provisions with reference to the payment of the principal and interest with respect to the Notes and is and has been in continuous compliance with all of the covenants under the Indenture. (Section 2.06)

The Pledge Effected By The Indenture. Pursuant to the Act and the Indenture, there is pledged for the payment of the principal of and interest on the Notes, payable in accordance with their terms and the provisions of the Indenture, subject only to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indenture, (i) the proceeds of sale of the Notes, (ii) Eligible Investments acquired from Note proceeds or by application of moneys in Funds and Accounts (subject to the limitations of (iv) below), (iii) the Pledged Receipts, and (iv) all Funds and Accounts created and established pursuant to the Indenture, including moneys and securities therein. (Section 5.02)

Establishment of Funds. The Indenture establishes (i) the Cost of Issuance Fund; (ii) the Note Payment Fund; (iii) the Project Fund; (iv) the Debt Service Reserve Fund; and (v) such other Funds and Accounts which may be created from time to time in order to accomplish the purposes of the Act and the Indenture and which are not inconsistent with the requirements of the Indenture. Each of the above Funds, in addition to other Accounts from time to time established, are required to be held and maintained by the Trustee pursuant to the provisions of the Indenture, except for the Project Fund, which is required to be held by the Treasurer. (Section 5.03)

Cost of Issuance Fund. The Indenture establishes and creates a separate Cost of Issuance Fund. There will be deposited in the Cost of Issuance Fund, the amount required by the Indenture. The Trustee is required from time to time pay out, or permit the withdrawal of, moneys from the Cost of Issuance Fund, free and clear of any lien or pledge or assignment in trust created by the Indenture, for the purpose of paying, any Costs of Issuance, upon receipt by the Trustee of a written requisition of the Commission signed by an Authorized Officer of the Commission stating with respect to each payment to be made, the Costs of Issuance to be so paid.

If any moneys remain in the Cost of Issuance Fund on the date which is five months from the date of issuance of the Notes, the Trustee is required to transfer such amounts to the Note Payment Fund. (Section 5.04)

Note Payment Fund. The Indenture establishes and creates a separate Note Payment Fund. In addition to any other Accounts deemed necessary by the Trustee, the Indenture establishes within the Note Payment Fund the following:

(1) An Interest Account, into which will be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Notes and (ii) received as the interest portion of Financing Payments (including any prepayments of the interest portion of Financing Payments).

(2) A Principal Account, into which will be deposited all amounts (i) transferred from the Project Fund to pay principal of and premium, if any, on the Notes due at maturity, on a Redemption Date or upon acceleration; (ii) received as the principal portion of Financing Payments (including any prepayments of the principal portion of Financing Payments); and (iii) representing proceeds of and premium, if any, on Notes to pay principal of the Notes at maturity on a Redemption Date, or upon acceleration.

Amounts in the Interest Account are required to be used to pay interest on the Notes. Amounts in the Principal Account will be used to pay principal of and premium, if any, on the Notes.

The Indenture requires the Trustee to transmit to any Paying Agent, as appropriate, from moneys in the Note Payment Fund applicable thereto, amounts sufficient to make timely payments of principal of, interest on and premium, if any, on the Notes to be made by such Paying Agent and then due and payable. (Section 5.05)

Project Fund. The Indenture establishes and creates a trust fund to be designated the Project Fund, which is required to be an account in the Commonwealth's management administrative and reporting system. The Project Fund is required to be separately identified from all other accounts in the Commonwealth's management administrative and reporting system and is required to be used solely for the purposes provided in the Indenture. The proceeds of the issuance and delivery of the Notes equal to the amount authorized for the Project by the Budget Act, are required to be deposited in the Project Fund. Under the Indenture, the Treasurer makes disbursements from the Project Fund on a first-in-first-out basis in accordance with and as required by the provisions of written requisitions filed from time to time by an Authorized Officer of the State Agency and in accordance with the provisions of the Financing Agreement. The State Agency is required to keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom. All of the income derived from investment of the Project Fund will, at the option of the State Agency, be transferred as received to the Note Payment Fund and disbursed therefrom on the next succeeding Interest Payment Date or held in the Project Fund and used for the purposes thereof. If any amount remains in the Project Fund after an Authorized Officer of the State Agency certifies that the Project has been completed, such amount shall be transferred to the Interest Account of the Note Payment Fund. (Section 5.06)

Debt Service Reserve Fund. The Indenture establishes and creates a separate Debt Service Reserve Fund. There will be deposited in the Debt Service Reserve Fund (i) an amount equal to the Debt Service Reserve Requirement and (ii) Additional Payments required to be deposited therein if the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Requirement or a payment has been made under a Debt Service Reserve Guaranty. The Trustee is required to transfer moneys from the Debt Service Reserve Fund to the Note Payment Fund if the amount on deposit in the Note Payment Fund is not sufficient to pay the principal of, or interest on any Note, when due. All of the income derived from investment

of the Debt Service Reserve Fund will be transferred as received to the Note Payment Fund and disbursed therefrom on the next succeeding Interest Payment Date.

In lieu of the deposit of funds in the Debt Service Reserve Fund, the Commission may obtain a Debt Service Reserve Guaranty, which will be considered a deposit of funds in the Debt Service Reserve Fund equal to the Debt Service Reserve Coverage provided by the Debt Service Reserve Guaranty Agreement. As conditions precedent to delivery of a Debt Service Reserve Guaranty, the Commission is required to obtain (i) a Debt Service Reserve Guaranty, (ii) an opinion of counsel addressed to the Commission stating that the delivery of such Debt Service Reserve Guaranty to the Commission is authorized by and complies with the terms of the Indenture, and (iii) written evidence from a Rating Service, if the Bonds are rated by such Rating Service, that the Rating Service has reviewed the proposed Debt Service Reserve Guaranty and that (x) the issuance of the Debt Service Reserve Guaranty to the Commission and (y) if a Debt Service Reserve Guaranty is then in effect with respect to the Debt Service Reserve Fund, the substitution of the proposed Debt Service Reserve Guaranty for the Debt Service Reserve Guaranty then in effect, will not, by itself, result in a reduction or withdrawal of its rating on the Notes. If the Notes are insured by a bond insurer, the references to Rating Service in the prior sentence will be read to mean such bond insurer and the substitution of the proposed Debt Service Reserve Guaranty will not result in the cancellation of the bond insurance provided by such bond insurer.

In the event that amounts in the Debt Service Reserve Fund are reduced below the Debt Service Reserve Requirement as a result of transfers to the Note Payment Fund or a payment is made under a Debt Service Reserve Guaranty, the deficiency in the Debt Service Reserve Fund shall be cured or the reimbursement required with respect to the Debt Service Reserve Guaranty shall be paid from Additional Payments received from the State Agency so that such deficiency is eliminated or required reimbursement is paid in full upon making twenty-four (24) such deposits or payments. (Section 5.07).

Investment of Funds. The Indenture requires amounts on deposit in any Fund or Account to be invested in Eligible Investments, and for the Trustee to sell at the best price reasonably obtainable, or present for redemption or exchange, any Eligible Investments purchased by it as an investment pursuant to the Indenture whenever it will be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account from which such investment was made. Except as otherwise provided in the Indenture, earnings and losses on Eligible Investments are required to be credited to the Fund or Account with respect to which such investments were made (or pro-rated thereto) and will become a part thereof for all purposes, except as otherwise provided in the Indenture. (Section 5.08)

Further Assurance. The Indenture requires the Commission, so far as it may be authorized by law, to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues pledged and assigned, or intended so to be, or which the Commission may become bound to pledge or assign. (Section 6.04)

Powers as to Notes and Pledge. Under the Indenture, the Commission is authorized to issue the Notes and execute and deliver the Indenture and pledge the income, revenues and assets pledged by the Indenture in the manner and to the extent provided in the Indenture. The income, revenues and assets pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Indenture, and all official action on the part of the Commission to that end has been or will be duly and validly taken. The Notes and the provisions of the Indenture are and will be the valid and legally enforceable obligations of the Commission in accordance with their terms and the terms of the Indenture. The Budget Act includes authorization for the issuance of "bonds" (being the Notes) for the Project and includes adequate funds for the payment of Financing Payments and Additional Payments under the Financing Agreement. The Commission is required to at all times, to the extent permitted by law, defend, preserve and protect the pledge of the incomes, revenues and assets pledged under the Indenture and all the rights of the Holders under the Indenture against all claims and demands therefore of all persons whomsoever. (Section 6.05)

Covenants as to Financing Payments and Additional Payments. The Indenture establishes that the Financing Agreement will continue to be maintained by the Commission. In the event the State Agency for any reason whatsoever fails to pay any Financing Payments or Additional Payments specified in the Financing Agreement, the Commission will use its best efforts to make or cause to be made payments of Financing Payments or Additional Payments so that the aggregate of the gross receipts and revenues from the Financing Agreement at all times will be sufficient to make such prescribed payments into the Note Payment Fund.

If, at any time, the prescribed Financing Payments under the Financing Agreement are not sufficient to pay the principal of and the interest on the Notes authorized in the Indenture or Additional Payments are not sufficient to pay fees and expenses related to the Notes, in accordance with the provisions of the Indenture, such Financing Payments or Additional Payments are required to be immediately adjusted in order to produce sufficient revenues for such purposes. (Section 6.08)

Covenant to Confer with Appropriate Officials Concerning Biennial Budget. The Commission will, prior to the beginning of each fiscal biennium confer with the proper officials of the State Agency to induce the State Agency to include in its budget such provisions and arrangements as may be required and appropriate to continue to pay the prescribed Financing Payments and Additional Payments during such biennial period. (Section 6.09)

Covenant to Enforce the Financing Agreement. So long as any of the Notes are Outstanding and unpaid as to either principal or interest, the Commission will continuously enforce the Financing Agreement to the maximum extent permitted by law, and will not consent to any modification of the Financing Agreement which would in any particular way impair the security created for the holders of the Notes. (Section 6.10)

Supplemental Trust Indentures Effective Without Consent of Holders. The Indenture prescribes procedures whereby the Commission may, with the written consent of the Trustee, execute and deliver at any time from time to time Supplemental Trust Indentures for any one or more of the following purposes; to further secure the payment of the Notes; to further limit and restrict the issuance of Notes and the incurring of indebtedness by the Commission; to

surrender any right, power or privilege reserved to or conferred upon the Commission by the terms of the Indenture, to confirm any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Indenture; to modify any of the provisions of the Indenture in any other respects (provided that such modifications will not be effective until after all Notes outstanding as of the date of execution and delivery of such Supplemental Trust Indenture cease to be Outstanding; to cure any ambiguity or defect or inconsistent provision; and for any other purpose provided that, in the opinion of Counsel, any such amendment or modification does not materially adversely affect the rights of Holders affected thereby.

A Supplemental Trust Indenture for the purposes described above, becomes effective upon the execution thereof by the Commission and the Trustee and delivery thereof to the Trustee. At any time thereafter, notice stating in substance that the Supplemental Trust Indenture has been delivered to the Trustee and is effective pursuant to the Indenture, is required to be given to Holders by the Commission by mailing such notice to Holders by regular United States mail. (Section 7.01)

Supplemental Trust Indentures Effective with Consent of Holders. The Indenture may also be modified or amended at any time or from time to time by a Supplemental Trust Indenture, subject to the written consent of the Holders in accordance with and subject to the provisions of Article VIII of the Indenture. (Section 7.02)

Supplemental Trust Indentures Effective with Counsel's Opinion. A copy of every Supplemental Trust Indenture adopted by the Commission when filed with the Trustee is required to be accompanied by a Counsel's Opinion stating that such Supplemental Trust Indenture has been duly and lawfully adopted in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and is valid and binding upon the Commission and enforceable in accordance with its terms. (Section 7.03)

Limitations on Powers of Amendment. Any modification or amendment of the Trust Indenture and of the rights and obligations of the Commission and of the Holders of the Notes pursuant to may be made by a Supplemental Trust Indenture, with the written consent given by the Holders of at least a majority in principal amount of the Notes Outstanding at the time such consent is given. No modification or amendment may permit a change in the terms of redemption or maturity of the principal of any Outstanding Note or of any installment of interest thereon or a reduction in the principal amount thereof or in the rate of interest thereon without the consent of the Holder of such Note, or reduce the percentages or otherwise affect the classes of Notes the consent of the Holders of which is required to effect any such modification or amendment. (Section 8.01)

Consent of Holders. A copy of a Supplemental Trust Indenture requiring consent of the Holders, or summary thereof, together with a request to the Holders must be mailed to the Holders. Such Supplemental Trust Indenture will not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of the proper percentage of Holders and (ii) a Counsel's Opinion, and (b) notice thereof must have been mailed to all Holders. Any such consent will be binding upon the Holder of the Notes giving such consent and, upon any subsequent Holder of such Notes and of any Notes issued in exchange therefore (whether or not

such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Notes giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee described in this paragraph is filed, such revocation.

At any time thereafter, notice, stating in substance that the Supplemental Trust Indenture (which may be referred to as a Supplemental Trust Indenture adopted by the Commission on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Notes and will be effective as described in this paragraph, is required to be given to the Holders by the Commission by mailing such notice to the Holders. A transcript, consisting of the papers described in this paragraph to be filed with the Trustee, will be proof of the matters therein stated. Such Supplemental Trust Indenture making such amendment or modification will be deemed conclusively binding upon the Commission, the Fiduciaries and the Holders of all Notes. (Section 8.02)

Events of Default. Each of the following events shall constitute an "Event of Default":

(1) payment of any principal on any Note shall not be made when and as the same shall become due or upon call for redemption or otherwise; or

(2) payment of any installment of interest on any Note shall not be made when and as the same shall become due; or

(3) the Commission shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or the Notes and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Trustee or the Holders of not less than five percent (5%) in principal amount of the Outstanding Notes. (Section 9.02)

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

Any such declaration is required to be by notice in writing to the Commission, and, upon said declaration, principal and interest on all Notes will become and be immediately due and payable. The Trustee immediately upon such declaration is required to give notice thereof in the same manner as provided in the Indenture with respect to the redemption of the Notes without regard to the times stated for notice of redemption that the payment of principal and interest will be tendered immediately to the Holders of the Notes and that interest has ceased to accrue as of the date of such declaration of acceleration. Nothing contained in the Indenture shall be con-

strued to permit the acceleration of any payments of Financing Payments or Additional Payments by the State Agency beyond the current term of the Financing Agreement. (Section 9.03)

Other Remedies. Upon the occurrence of an Event of Default specified in paragraphs (1) or (2) above, the Trustee is required to proceed, or upon the happening and continuance of any other Event of Default specified in paragraph (3) above, the Trustee may proceed, and upon the written request of the Holders of not less than twenty-five percent (25%) of the Outstanding Notes is required to proceed, in its own name, subject to the provisions described in this paragraph, to protect and enforce its rights and the rights of the Holders by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Indenture or in aid of the execution of any power granted therein or in the Act or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by its counsel, will deem most effectual to protect and enforce such rights or to perform any of its duties under the Indenture.

In the enforcement of any rights and remedies under the Indenture, the Trustee will be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Commission for principal, interest or otherwise, under any provision of the Indenture or of the Notes, with interest on overdue payments at the rate or rates of interest specified in such Notes, together with any and all costs and expenses of collection and of all proceedings under the Indenture and under the Notes, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce a judgment or decree against the Commission, but solely as provided in the Indenture and in the Notes for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable. (Section 9.04.)

Priority of Payments After Default. In the event that upon the happening and continuance of any Event of Default the funds held by the Fiduciaries are insufficient for the payment of principal and interest then due on the Notes, such funds (other than funds held for the payment or redemption of particular Notes which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee acting pursuant to the Act and the Indenture, after making provision (i) for the payment of any expenses necessary in the opinion of the trustee to protect the interests of the Holders of the Notes and (ii) for the payment of the charges and expenses and liabilities incurred and advances made by the Fiduciaries in the performances of their respective duties under the Trust Indenture, will be applied as follows:

(1) Unless the principal of all of the Notes shall have become or have been declared due and payable:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installments, then to the payment thereof ratably, accordingly to the amounts due on such installments, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Notes which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Notes due on any date, then to the payment thereof ratably, according to the amounts of the principal due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Notes shall have become or have been declared due and payable, to the payment of the principal and interest due and unpaid upon the Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, accordingly to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Notes.

Whenever moneys are to be applied by the Trustee as described herein, such moneys are required to be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional money becoming available for such application in the future. The deposit of such moneys with the Fiduciaries, or otherwise setting aside such moneys in trust for the proper purpose, shall constitute proper application by the Trustee, and the Trustee will incur no liability whatsoever to the Commission, to any Holder or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Trust Indenture as may be applicable at the time of application by the Trustee. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which shall be an Interest Payment Date unless the Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee is required to give such notice as it may deem appropriate for the fixing of any such date. The Trustee is not required to make payment to the Holder of any unpaid Note unless such Note shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid. (Section 9.05)

Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Holders of the majority in principal amount of Notes then Outstanding will have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction. (Section 9.07)

Limitation on Rights of Holders. No Holder of any Note will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Indenture, or for the protection or enforcement of any right under the Indenture or any right under the law unless such Holder has given to the Trustee written notice of the Event of Default or breach of duty on

account of which such suit, action or proceeding is to be taken, and unless the Holders of not less than twenty-five percent (25%) of the Notes then Outstanding have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, have occurred, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Indenture or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the cost, expenses (including reasonable legal expenses) and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time, it being understood that the Trustee is required to make all payments on the Notes as provided in the Indenture (to the extent funds are available for such purpose) and declare the Notes due and payable as provided in the Indenture, regardless of having received any indemnity or security; and such notification, request and offer of indemnity are in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Indenture or for any other remedy under the Indenture or under law. It is understood and intended that no one or more Holders of the Notes will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under law with respect to the Notes or the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all Holders. Nothing in the Article contained will affect or impair the right of any Holder to enforce the payment of the principal of and interest on its Notes, or the obligation of the Commission to pay the principal of and interest on each Note issued under the Indenture to the Holder thereof at the time and place stated in said Note.

Anything in the Indenture to the contrary notwithstanding, each Holder of any Note by his acceptance thereof will be deemed to have agreed that any court in its discretion may require, in any suit for the enforcement of any right or remedy under the Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the reasonable cost of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in any such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions described in this paragraph will not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding at least twenty-five percent (25%) of the Notes Outstanding, or to any suit instituted by any Holders for the enforcement of the payment of the principal of, premium, if any, or interest on any Note on or after the respective due date thereof expressed in such Note. (Section 9.08)

Trustee. Prior to the occurrence of an Event of Default, the Trustee is required to perform only those duties specifically set forth in the Indenture. If an Event of Default, of which the Trustee has received notice, has occurred and is continuing, the Trustee is required to exercise its rights and powers and use the same degree of care and skill as a prudent man would exercise under the circumstances in the conduct of his own affairs. (Section 10.01)

Evidence on Which Fiduciaries May Act. Each Fiduciary will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of

counsel to the Commission, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith. Whenever any Fiduciary will deem necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, including payment of moneys out of any Fund or Account, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a certificate signed by an Authorized Officer of the Commission, and such certificate will be full warrant for any action taken or suffered in good faith under the provisions of the Trust Indenture in which said Fiduciary has accepted said trust upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may deem reasonable. Except as otherwise expressly provided in the Indenture, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision of the Indenture by the Commission to any Fiduciary is required to be sufficiently executed if executed in the name of the Commission by an Authorized Officer of the Commission. (Section 10.04)

Permitted Acts and Functions. The Trustee and any Paying Agent may become the owner of any Note, with the same rights it would have if it were not such Fiduciary. Any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders or to effect or aid in any reorganization growing out of the enforcement of the Notes or the Indenture, whether or not any such committee is required to represent the Holders of a majority in principal amount of the Notes then outstanding. (Section 10.06)

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Trust Indenture by giving not less than sixty (60) days' written notice to the Commission and by mailing notice (specifying the date such resignation is to take effect) through regular United States mail, postage prepaid, to each Holder of Notes, and such resignation will take effect upon the day specified in such notice unless (i) no successor has been appointed as provided in the Indenture, or (ii) previously a successor shall have been appointed, as provided in the Indenture, in which event such resignation will take effect immediately on the appointment of such successor. If a successor trustee is not appointed within 60 days, the Trustee will be entitled to petition a court of competent jurisdiction to appoint a successor Trustee. (Section 10.07)

Removal of Trustee. The Trustee may and, if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Commission, and signed by the Holders of a majority in principal amount of the Notes then Outstanding or their attorneys-in-fact duly authorized, excluding any Notes held by or for the account of the Commission, are require to be removed by the Commission (so long as no Event of Default has occurred and is continuing) by an instrument or concurrent instruments in writing, filed with the Trustee and the Commission and signed by the Commission or the Holders of Notes, as appropriate. No such removal will be effective until a successor Trustee has been appointed and assumed the duties of Trustee as provided in the Indenture. (Section 10.08)

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if

a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Commission covenants and agrees that it will thereupon appoint a successor Trustee. The Commission is required to provide notice of any such appointment made by it within twenty (20) days after such appointment to Holders of Notes.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee shall have given to the Commission written, as provided in above, or after a vacancy in the office of the Trustee shall have occurred by reason of its removal or inability to act, the Trustee or the Holder of any Note may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed in succession to the Trustee is required to be a trust company or bank having the powers of a trust company within or outside the Commonwealth, having a capital and surplus aggregating at least Seventy-Five Million Dollars (\$75,000,000) if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Indenture. (Section 10.09)

Defeasance. Notes or interest installments of particular Notes for the payment or redemption of which moneys will have been set aside and shall be held in trust by Fiduciaries will, at the maturity or date of redemption thereof, be deemed to have been paid within the meaning and with the effect expressed above. Particular Notes will, prior to the maturity or redemption thereof, be deemed to have been paid within the meaning and with the effect expressed above, if (a) in case any of said Notes are to be redeemed on any date prior to their maturity, the Commission will have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption in the manner prescribed in the Indenture, (b) there will have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the principal and interest due and to become due on said Notes on and prior to the Redemption or maturity date thereof, as the case may be and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission will have given the Trustee in form satisfactory to it irrevocable instructions to notify the Holders of such Notes of such redemption in the manner herein provided for giving notice of redemption. Neither Defeasance Obligations or moneys deposited with the Trustee as described in this paragraph, nor principal or interest payments on any such obligations, may be withdrawn or used for any purpose other than, and must be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Notes which remain unclaimed for six (6) years after the date when all of the Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such moneys if deposited with the

Fiduciary after said date when all of the Notes became due and payable, will (subject to the provisions of Article V of the Indenture), at the written request of the Commission, be repaid by the Fiduciary to the Commission, as its absolute property and free from trust, and the Fiduciary will thereupon be released and discharged.

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

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

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

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

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

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

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

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

if the redemption date for the Notes to be discharged by the deposit of Defeasance Obligations is no later than ninety (90) days from the date of such deposit, "Defeasance Obligations" shall also include direct and general non-callable obligations of any Federally sponsored enterprise, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Land Banks, Federal Home Loan Banks, Bank for Cooperatives, Tennessee Valley Authority and any other similar institution. (Section 11.01)

The Financing Agreement

The Commission, the Cabinet and the State Agency have entered into the Financing Agreement which provides for (i) financing of the Project by issuance of the Notes by the

Commission; and (ii) the leasing of the Project from the Commission to the State Agency to provide revenues for amortization of the Notes. As required by the Act, the Cabinet is also a party to the Financing Agreement.

Term, Renewals and Financing Payments. The Commission has agreed to provide financing for the Project to the State Agency, for an initial term ending June 30, 2006. The State Agency has the right to continue the Financing Agreement and have the Project for succeeding biennial periods. The State Agency is required to pay, as Financing Payments during the initial period ending on June 30, 2006, and for each Renewal Term, the Debt Servicing Obligation relating to the Notes so long as any Notes are Outstanding. The State Agency has the exclusive option to renew the Financing Agreement for successive ensuing Renewal Terms, commencing July 1 in each even-numbered year, and ending June 30 in the next ensuing even-numbered year, and the last Renewal Term shall end June 30, 2026. Each of the options to renew are deemed automatically exercised (and the Financing Agreement automatically renewed for the succeeding Renewal Term) unless a written notice of the State Agency's election not to renew is delivered to the Commission before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term.

Additional Payments. The State Agency covenants and agrees to pay "Additional Payments" for the term of the Financing Agreement and for any Renewal Term during which Notes are outstanding, as follows:

(1) To the Trustee, when due, all fees of the Trustee for services rendered, all fees and charges of any Paying Agent, Registrar, counsel, accountants, and others incurred in the performance on request of the Trustee of services for which the Trustee and such other persons are entitled to payment or reimbursement which are not paid as Financing Payments;

(2) To the Commission, upon demand, all reasonable expenses incurred by it in relation to the Project which are not otherwise specifically identified and required to be paid by the Commission under the terms of the Financing Agreement; and

(3) In the event that amounts in the Debt Service Reserve Fund are reduced below the Debt Service Reserve Requirement as a result of transfers to the Note Payment Fund or a payment is made under a Debt Service Reserve Guaranty, as defined in the Indenture, the deficiency in the Debt Service Reserve Fund shall be cured or the reimbursement required with respect to the Debt Service Reserve Guaranty shall be paid from the first available Revenues, so that such deficiency is eliminated or required reimbursement is paid in full upon making twenty-four (24) such deposits or payments.

Effect of The State Agency's Election not to Renew. In the event the State Agency shall give written notice to the Commission of the State Agency's election not to renew the Financing Agreement for any ensuing optional biennial Renewal Term, prior to the automatic renewal, the State Agency is not obligated to pay Financing Payments or Additional Payments beyond the last day of the then current term, and the State Agency is required to forfeit all of its future options to renew and must peacefully surrender, to the Commission, possession of the Project on or prior to the last day of the then current term; provided, however, an election on the

part of the State Agency not to renew for a future term does not in any manner alter or diminish any obligation of the State Agency for the then current term; and does not preclude subsequent reinstatement of the Financing Agreement for any future renewal term, if agreed to by the Commission, upon the same terms and conditions as would have been applicable if the Financing Agreement had been renewed according to its provisions, except that if such reinstatement is sought when one or more installments of Financing Payments or any Additional Payments for such Renewal Term are overdue and unpaid, it is a condition of such reinstatement that such overdue Financing Payments or Additional Payments be tendered. (Section 7.01)

Pledge of Revenues. There is pledged under the Financing Agreement, for the payment of the Debt Servicing Obligation and any Additional Payments, payable in accordance with the terms and the provisions of the Financing Agreement, subject only to the provisions of the Financing Agreement or the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Financing Agreement or the Indenture, the Revenues. (Section 9.03)

Parity Obligations. The State Agency has reserved the right to incur Parity Obligations. Except as described below for refunding obligations, before Parity Obligations may be incurred, there must be filed with the Trustee a certificate of an Authorized Officer of the State Agency stating that the Net Revenues of the State Agency for a period of twelve (12) consecutive months of the eighteen (18) months immediately prior to the issuance of such Parity Obligation (subject to adjustments as described in the next sentence) are at least equal to the Maximum Annual Debt Service for all Parity Obligations outstanding in the current and each future Fiscal Year including the Parity Obligations proposed to be incurred, but in the case of Parity Obligations to be incurred for refunding purposes, excluding the payments on the Parity Obligations to be refunded. The amount of Net Revenues may be adjusted by the Authorized Officer of the State Agency to take into account and reflect, for the historical period being tested, the amount of additional Net Revenues to be realized by the State Agency in future Fiscal Years from (i) the additions and improvements to be financed by the Parity Obligations proposed to be incurred and (ii) increases in rates and charges, less the estimated additional operating and maintenance expense during such Fiscal Years.

"Net Revenues" shall mean, as of any particular date, Revenues minus the State Agency's operating and maintenance expenses, including, but not limited to, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, upkeep, furnishings, equipment, repair of facilities, insurance premiums, legal, accounting, management, consulting and banking services and expenses, the fees and expenses of any regulatory agency having jurisdiction of the State Agency and all other items normally considered operation and maintenance costs under generally accepted accounting principles, but shall exclude allowances for depreciation and fund transfers out. (Section 10.01)

Refunding Notes and other obligations for the refunding of Parity Obligations may be issued on a parity as to security with Parity Obligations in order to refund any Parity Obligations then outstanding so long as (i) Maximum Annual Debt Service is not increased as a result of issuing such refunding Parity Obligations and the State Agency is in compliance with all of the provisions as to payment of outstanding Parity Obligations (including all Notes) and (i) no

default exists under the Financing Agreement or any other agreement relating to Parity Obligations. (Section 10.02)

Events of Default. Each of the following events constitute an "event of default":

(1) default in the due and punctual payment of any Financing Payments or Additional Payments; or

(2) default in the performance of any of the covenants, terms, and conditions of the Financing Agreement, and failure to remedy such default within thirty (30) days after written receipt thereof if the default relates to matters other than the payment of Financing Payments or Additional Payments (but the State Agency will not be deemed to be in default if the State Agency commences to remedy said defaults other than related to payment of Financing Payments or Additional Payments within said thirty (30) day period, and proceed to and do remedy said default with due diligence).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the State Agency terminate the Financing Agreement. No termination of the Financing Agreement will deprive the Commission of any of its remedies or actions against the State Agency. (Section 11.01)

Provisions of the Financing Agreement Benefit of the Holders of the Notes. All of the provisions contained in the Financing Agreement, are made for the benefit of each of the holders of the Notes. Each and all of the holders of the Notes, and the Trustee on behalf of the holders of the Notes, have the rights of third party beneficiaries to enforce all of the provisions of the Financing Agreement; subject, however, to the provisions of the Indenture with respect to enforcement of rights. (Section 12.01)

Security and Assignment. The Financing Agreement secures (i) the payment of Financing Payments and Additional Payments, and (ii) the payment of the Notes in the aggregate principal amount which may from time to time be outstanding under the Indenture, with interest thereon at the rates per annum borne by such Notes.

The Financing Agreement is given subject to all of the terms, conditions and provisions of the Indenture. In the event that any conflict should exist or appear to exist between the provisions of the Financing Agreement and the Indenture, the provisions of the Indenture will prevail. (Section 14.01)

Amendment. The Financing Agreement may be amended or supplemented from time to time by a writing duly executed by the parties thereto; subject, however, to the condition that any such amendment or supplement will be consistent with the terms and conditions of the Indenture and not diminish the Financing Payments or Additional Payments payable under the provisions of the Financing Agreement for so long as any Notes are Outstanding. (Section 15.01)

TAX TREATMENT

General

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is includable in gross income for Federal income tax purposes under the Internal Revenue Code of 1986 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Notes is set forth in Exhibit B.

Although Bond Counsel for the Notes has rendered an opinion that interest on the Notes is excludable from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Noteholder's state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Noteholder or the Noteholder's other items of income or deduction. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Noteholder or potential Noteholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Notes on the tax liabilities of the individual or entity.

For example, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

LITIGATION

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

APPROVAL OF LEGALITY

Certain legal matters incident to the authorization, issuance, sale and delivery of the Notes are subject to the unqualified approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the Commission. Certain other legal matters will be passed on by Frost Brown Todd LLC, Louisville, Kentucky, counsel to the Underwriter.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Notes the ratings of "Aaa", "AAA" and "AAA", respectively, each with the understanding that upon delivery of the Notes, the Bond Insurance Policy will be issued by MBIA. The underlying ratings for the Notes are "A1," "A+" and "A+" from Moody's, S&P and Fitch, respectively.

Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Fitch Ratings, One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, (212) 553-0300; and Standard & Poor's Credit Markets Services, a Division of the McGraw-Hill Companies, 55 Water Street, New York, New York 10041 (212) 438-2124. A rating is a not 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 not be revised or withdrawn entirely by such Rating Agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of a rating may have an adverse affect on the market price of the Notes.

CONTINUING DISCLOSURE

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

UNDERWRITING

The Underwriter has agreed to purchase the Notes for a purchase price of \$11,210,487.56, which is an amount equal to the par amount of the Notes, less Underwriter's discount of \$64,512.44. The Underwriter is committed to purchase all of the Notes if any are purchased.

The Underwriter has advised the Commission that it intends to make a public offering of the Notes at the initial public offering prices or yields set forth on the cover page hereof; provided, however, that the Underwriter has reserved the right to make concessions to dealers

and to change such initial public offering prices as the Underwriter deems necessary in connection with the marketing of the Notes.

MISCELLANEOUS

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

KENTUCKY ASSET/LIABILITY COMMISSION

By /s/ R.B. Rudolph, Jr.
R.B. Rudolph, Jr., Chairman

By /s/ F. Thomas Howard
F. Thomas Howard, Secretary

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

General obligation bonds pledge the full faith, credit and taxing power of the Commonwealth for the repayment of the debt. The Kentucky Constitution requires voter approval by general referendum prior to the issuance of general obligation bonds in amounts exceeding \$500,000. Kentucky has not issued general obligation bonds since 1966. The Commonwealth has no general obligation bonds outstanding.

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

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

Default Record

The Commonwealth has never defaulted in the payment of principal or interest on its general obligation indebtedness or its project revenue obligations.

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$1.95 billion of debt outstanding.	Aaa/AA-
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/A
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA (Insured)

*Ratings, where applicable, include Moody's, S&P and Fitch. S&P rates the Kentucky Infrastructure Authority's bonds which are paid from revenues (not appropriated funds), AA. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above.

EXHIBIT B
FORM OF BOND COUNSEL OPINION FOR NOTES

[Date of Delivery]

Kentucky Asset/Liability Commission
Frankfort, Kentucky

Re: Kentucky Asset/Liability Commission
Project Notes, 2005 Agency Fund Taxable First Series

We have acted as bond counsel in connection with the issuance by the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer"), of its Project Notes, 2005 Agency Fund Taxable First Series in the amount of \$11,275,000 (the "Project Notes").

The Project Notes are authorized to be issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Sections 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Issuer on April 18, 2005 (the "Resolution"), and a Trust Indenture (the "Indenture") dated as of May 1, 2005 between the Issuer and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the "Trustee").

We have examined such portions of the Constitution, Statutes and laws of the United States, the Constitution, Statutes and laws of the Commonwealth, and such applicable court decisions, regulations, rulings and opinions as we have deemed necessary or relevant for the purposes of the opinions set forth below.

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Project Notes, including a specimen Project Note, the Financing/Lease Agreement (the "Financing Agreement") dated as of May 1, 2005 among the Issuer, the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky Department of Military Affairs (the "State Agency"). We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Commonwealth, the Cabinet and the Issuer as to certain factual matters.

Based upon the foregoing, it is our opinion, under the law existing on the date of this opinion, that:

1. The Issuer is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Project Notes.

2. The Indenture, the Financing Agreement, and the Resolution have been duly authorized, executed and delivered by the Issuer and the Financing Agreement has been duly

authorized, executed and delivered by the Cabinet and the State Agency and are each valid and binding obligations of the Issuer, the Cabinet and the State Agency, as applicable, enforceable in accordance with their respective terms.

3. The Project Notes have been duly and validly authorized, executed and delivered and constitute valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

4. The Project Notes are payable as to principal, premium, if any, and interest from and are secured by a pledge of and a first lien on the Pledged Receipts, as defined in the Indenture. The Project Notes do not pledge the general credit or taxing power, if any, of the Commonwealth, the Issuer, the Cabinet, the State Agency or any other agency or political subdivision of the Commonwealth.

5. The Project Notes are not secured by a pledge of or lien on the properties constituting the Project, as defined in the Indenture, but are payable as to principal and interest solely and only from and are secured by the Pledged Receipts. The ability of the State Agency to make payments under the Financing Agreement is dependent upon legislative appropriations to the State Agency, which has leased the Project for an initial term ending June 30, 2006, with the right to renew for additional successive terms of two years each until the Project Notes and interest thereon have been paid and discharged.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Project Notes is includable in gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Project Notes.

7. Interest on the Project Notes is exempt from income taxation and the Project Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the Resolution, the Financing Agreement, the Project Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

In rendering our opinion as to the due authorization, execution and delivery of the Financing Agreement by the Cabinet and the State Agency, we have relied on opinions of counsel to the Cabinet and the State Agency.

Very truly yours,

EXHIBIT C

BOOK-ENTRY-ONLY SYSTEM

The Notes initially will be issued solely in book-entry-only form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Resolution.

The following information about the book-entry-only system applicable to the Notes has been supplied by DTC. Neither the Commission nor the Trustee makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Notes. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each maturity of the Notes, in the aggregate principal amount of the Notes and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as

periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions, and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

NEITHER THE COMMISSION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING A HOLDER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Notes, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other governmental charge that may be imposed in relation to any transfer or exchange of their interests in the Notes.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Notes made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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

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EXHIBIT D
FORM OF BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefore. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

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