

*In the opinion of Kutak Rock LLP, under existing laws, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, except that such interest must be included in the “adjusted current earnings” of certain corporations for purposes of calculating alternative minimum taxable income. Bond Counsel also is of the opinion that, under existing laws of the Commonwealth of Kentucky, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See “TAX TREATMENT” herein.*

**\$243,080,000**

**KENTUCKY ASSET/LIABILITY COMMISSION  
GENERAL FUND FLOATING RATE PROJECT NOTES**

**\$100,835,000 2007 SERIES A NOTES**

**\$142,245,000 2007 SERIES B REFUNDING NOTES**

**Dated:** Date of Delivery

**Due:** As shown on the inside cover

The Kentucky Asset/Liability Commission (the “Commission”) is issuing its General Fund Floating Rate Project Notes, 2007 Series A Notes in the principal amount of \$100,835,000 (the “Series A Notes”) and its General Fund Floating Rate Project Notes, 2007 Series B Refunding Notes in the principal amount of \$142,245,000 (the “Series B Notes”) (the Series A Notes and the Series B Notes, collectively, the “Notes”). 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 The Bank of New York Trust Company, N.A., Louisville, Kentucky, as trustee and paying agent (the “Trustee” and “Paying Agent”).

The Notes of each maturity will bear interest from the date of their delivery at a variable LIBOR-Based Interest Rate equal to 67% of the Three-Month LIBOR Rate plus a fixed spread, as described on the inside cover page. Also see “THE NOTES – LIBOR-Based Interest Rate” herein. Interest on the Notes will be payable on each February 1, May 1, August 1, and November 1, commencing on August 1, 2007. The Notes mature on November 1 in the years as shown on the inside cover page.

The Notes are subject to mandatory sinking fund redemption and optional redemption prior to maturity, all as described herein. See “THE NOTES – Optional Redemption and Mandatory Sinking Fund Redemption” herein.

The Notes are being issued pursuant to a Resolution of the Commission adopted April 16, 2007, for the purpose of (i) funding the Public Project (as defined herein); (ii) refunding all or a portion of the Project No. 79 Bonds (as defined herein) and the Project No. 85 Bonds (as defined herein) of the Kentucky State Property and Buildings Commission (the “State Property and Buildings Commission”) (such refunding, the “Refunding Project” and collectively with the Public Project, the “Project”); and (iii) paying 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, 2007 (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 payments received from the Commonwealth of Kentucky Finance and Administration Cabinet (the “Cabinet”) are to be deposited. Such payments arise under a Financing Agreement (as defined herein) among the Commission, the Cabinet and the State Property and Buildings Commission. The Commonwealth of Kentucky (the “Commonwealth”) has appropriated to the Cabinet amounts projected to be sufficient to meet principal and interest requirements on the Notes through June 30, 2008. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2008 or in future biennia or that the Governor, in the performance of his or her obligation to balance the Commonwealth’s annual budget, will not reduce or eliminate such appropriations. See “SECURITY FOR THE NOTES” and “SUMMARY OF THE PRINCIPAL DOCUMENTS” herein.

The scheduled payment of principal of and interest on the Notes, when due, will be guaranteed under a municipal bond new issue insurance policy to be issued concurrently with the delivery of the Notes by Financial Guaranty Insurance Company (“Financial Guaranty”).



**THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH, WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES.**

*The Notes are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Frost Brown Todd LLC, Louisville, Kentucky. It is expected that delivery of the Notes will be made on or about May 31, 2007, through the facilities of DTC, against payment therefor.*

**Citi**

**JP Morgan**

**J.J.B. Hilliard, W.L. Lyons, Inc.  
Ross, Sinclair & Associates, LLC**

**Morgan Keegan & Co., Inc.  
A.G. Edwards  
Seasongood & Mayer LLC**

**UBS Investment Bank  
NatCity Investments, Inc.  
First Kentucky Securities Corp.**

**\$243,080,000**  
**KENTUCKY ASSET/LIABILITY COMMISSION**  
**GENERAL FUND FLOATING RATE PROJECT NOTES<sup>1</sup>**

**\$100,835,000 2007 SERIES A NOTES**

<b>Principal Amount</b>	<b>Maturity:</b>	<b>Per Annum Interest Rate equal to:</b>	<b>Per Annum Spread</b>	<b>Price</b>
\$25,210,000	November 1, 2017	67% of the Three-Month LIBOR Rate <u>plus</u> the Per Annum Spread	0.40%	@ 100%
\$75,625,000	November 1, 2027	67% of the Three-Month LIBOR Rate <u>plus</u> the Per Annum Spread	0.53%	@ 100%

**\$142,245,000 2007 SERIES B REFUNDING NOTES**

<b>Principal Amount</b>	<b>Maturity:</b>	<b>Per Annum Interest Rate equal to:</b>	<b>Per Annum Spread</b>	<b>Price</b>
\$71,310,000	November 1, 2021	67% of the Three-Month LIBOR Rate <u>plus</u> the Per Annum Spread	0.52%	@ 100%
\$70,935,000	November 1, 2025	67% of the Three-Month LIBOR Rate <u>plus</u> the Per Annum Spread	0.55%	@ 100%

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<sup>1</sup> The Series A Notes and the Series B Notes are all term Notes that will bear interest from their date of delivery at a per annum rate equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) the applicable per annum spread, as shown in the tables. In all cases, the LIBOR-Based Interest Rate will never exceed the Maximum Rate of 15% per annum.

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 Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any 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 UNDERWRITERS 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.

The Notes have not been registered under the Securities Act of 1933, as amended, in reliance upon certain exemptions contained in such federal laws. In making an investment decision, investors must rely upon their own examination of the Notes and the security therefor, including an analysis of the risk involved. The Notes have not been recommended by any federal or state securities commission or regulatory authority. The registration, qualification or exemption of the Notes in accordance with applicable provisions of securities laws of the various jurisdictions in which the Notes have been registered, qualified or exempted cannot be regarded as a recommendation thereof. Neither such jurisdictions nor any of their agencies have passed upon the merits of the Notes or the adequacy, accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

**KENTUCKY ASSET/LIABILITY COMMISSION**

**COMMISSION MEMBERS**

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

Gregory D. Stumbo, Attorney General

Jonathan Miller, State Treasurer

Bradford L. Cowgill, State Budget Director

Ed C. Ross, State Controller

**SECRETARY TO THE COMMISSION**

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

**TRUSTEE and PAYING AGENT**

The Bank of New York Trust Company, National Association

**BOND COUNSEL**

Kutak Rock LLP  
Omaha, Nebraska

**UNDERWRITERS' COUNSEL**

Frost Brown Todd LLC  
Louisville, Kentucky

# TABLE OF CONTENTS

	<b>Page</b>
SUMMARY .....	S-1
INTRODUCTION .....	1
THE NOTES.....	2
General.....	2
LIBOR-Based Interest Rate .....	2
Optional Redemption.....	4
Mandatory Sinking Fund Redemption.....	5
Hedge Agreement .....	7
Book-Entry-Only System.....	8
Authorization .....	8
SECURITY FOR THE NOTES.....	9
BOND INSURANCE .....	10
Payments Under the Policy.....	10
Financial Guaranty Insurance Company.....	11
Financial Guaranty's Credit Ratings .....	13
THE PROJECT.....	13
ESTIMATED SOURCES AND USES OF FUNDS .....	15
THE KENTUCKY ASSET/LIABILITY COMMISSION .....	15
General Information.....	15
Financings of the Commission.....	16
General.....	16
General Fund Tax and Revenue Anticipation Notes .....	16
Project Notes, General Fund Series .....	17
Project Notes, Agency Fund Series .....	17
Project Notes, Road Fund Series .....	17
Project Notes, Federal Highway Trust Fund Series.....	18
Future Financings.....	18
THE FINANCE AND ADMINISTRATION CABINET.....	18
Louisville Arena Authority, Inc.....	19
THE STATE PROPERTY AND BUILDINGS COMMISSION .....	19
General Information.....	19
THE STATE AGENCIES.....	20
Environmental and Public Protection Cabinet.....	20
THE COMMONWEALTH .....	20

# TABLE OF CONTENTS

(continued)

	<b>Page</b>
Financial Information Regarding the Commonwealth .....	21
Certain Financial Information Incorporated by Reference; Availability from NRMSIRs and the Commonwealth .....	21
Budgetary Process in the Commonwealth .....	22
Fiscal Year 2005 .....	23
Fiscal Year 2006 .....	24
Fiscal Year 2007 (Unaudited).....	26
Investment Policy.....	26
State Retirement Systems .....	28
SUMMARY OF THE PRINCIPAL DOCUMENTS .....	30
Definitions.....	30
The Indenture .....	35
The Financing Agreement.....	50
TAX TREATMENT .....	53
General.....	53
Future Legislation or Regulation .....	54
LITIGATION.....	54
APPROVAL OF LEGALITY.....	54
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	54
RATINGS .....	54
CONTINUING DISCLOSURE.....	55
UNDERWRITING .....	55
MISCELLANEOUS .....	56
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 - Form of Municipal Bond New Issue 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 General Fund Floating Rate Project Notes, 2007 Series A Notes in the principal amount of \$100,835,000 (the "Series A Notes") and its General Fund Floating Rate Project Notes, 2007 Series B Refunding Notes in the principal amount of \$142,245,000 (the "Series B Notes") (the Series A Notes and the Series B Notes, collectively, 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 16, 2007, and the Trust Indenture dated as of May 1, 2007 (the "Indenture"), between the Commission and The Bank of New York Trust Company, N.A., Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent"). The State Property and Buildings Commission of the Commonwealth (the "State Property and Buildings Commission") has also approved the issuance of the Notes.

**Use of Proceeds**                The proceeds of the Notes will be used to (i) fund the Public Project (as defined herein); (ii) refund all or a portion of the Project No. 79 Bonds (as defined herein) and the Project No. 85 Bonds (as defined herein) of the State Property and Buildings Commission (such refunding, the "Refunding Project" and collectively with the Public Project the "Project"); and (iii) 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 from the Date of Delivery for the LIBOR-Based Interest Rate Period at variable interest rates and mature on the dates specified on the inside cover page of this Official Statement.

The Notes are subject to mandatory sinking fund redemption and optional redemption prior to maturity, all as described herein. See "THE NOTES – Optional Redemption and Mandatory Sinking Fund Redemption" 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 LIBOR based interest rates on the inside 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 May 31, 2007, through the facilities of DTC, against payment therefor.

#### **Hedge Agreement**

The Commission expects to enter into one or more interest rate exchange agreements (collectively, the "Hedge Agreement") with the Exchange Counterparty (as defined herein) in relation to all or a portion of the principal amount of the Notes, pursuant to which the Commission will pay fixed amounts to the Exchange Counterparty and the Exchange Counterparty will pay floating amounts to the Commission equal to the interest rates on the Notes. See "THE NOTES – Hedge Agreement" and "SECURITY FOR THE NOTES" herein.

#### **Security**

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 payments received from the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") are to be deposited. Such payments arise under the Financing Agreement (as defined herein). See "SECURITY FOR THE NOTES" herein.

Under the provisions of the Constitution of the Commonwealth, the Cabinet is prohibited from entering into financing obligations extending beyond the biennial budget. Notwithstanding the foregoing, the Financing Agreement will be automatically renewed unless written notice of the election by the Cabinet not to renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Kentucky General Assembly has appropriated to the Cabinet, amounts projected to be sufficient to meet principal and interest requirements on the Notes through June 30, 2008. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. THERE CAN BE NO ASSURANCE THAT ANY SUCH APPROPRIATION WILL BE FORTHCOMING IN FUTURE SESSIONS OR THAT THE GOVERNOR, IN THE PERFORMANCE OF HIS OR HER OBLIGATION TO BALANCE THE COMMONWEALTH'S BUDGET, WILL NOT REDUCE OR ELIMINATE SUCH APPROPRIATIONS.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF THE PRINCIPAL DOCUMENTS " herein.

The Commission may issue Additional Notes on a parity basis with the Notes under certain circumstances. See "SECURITY FOR THE NOTES" herein.

**THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES.**

**Bond Insurance Policy** The scheduled payment of principal of and interest on the Notes, when due, will be guaranteed under a municipal bond new issue insurance policy (the "Policy") to be issued concurrently with the delivery of the Notes by Financial Guaranty Insurance Company ("Financial Guaranty"). See "BOND INSURANCE" herein.

**Tax Status** 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 excludable from gross income for Federal income tax purposes and is not a specific item of tax preference under Section 57 of 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. 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, Room 76, Capitol Annex, Frankfort, Kentucky 40601 (502) 564-2924 or the Representative of the Underwriters, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093.

## OFFICIAL STATEMENT

\$243,080,000

### KENTUCKY ASSET/LIABILITY COMMISSION GENERAL FUND FLOATING RATE PROJECT NOTES

\$100,835,000 2007 SERIES A NOTES    \$142,245,000 2007 SERIES B REFUNDING NOTES

## 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 its General Fund Floating Rate Project Notes, 2007 Series A Notes in the principal amount of \$100,835,000 (the "Series A Notes") and its General Fund Floating Rate Project Notes, 2007 Series B Refunding Notes in the principal amount of \$142,245,000 (the "Series B Notes") (the Series A Notes and the Series B Notes, collectively, 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 16, 2007 (the "Resolution"), and the Trust Indenture dated as of May 1, 2007 (the "Indenture"), between the Commission and The Bank of New York Trust Company, N.A., Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent").

The proceeds of the Notes will be used to (i) fund the Public Project (as defined herein); (ii) refund all or a portion of the Project No. 79 Bonds (as defined herein) and the Project No. 85 Bonds (as defined herein) of the Kentucky State Property and Buildings Commission (the "State Property and Buildings Commission") (such refunding, the "Refunding Project" and collectively with the Public Project the "Project"); and (iii) pay the costs of issuing the Notes. See "THE PROJECT" herein.

The Notes are payable as described under the caption "THE NOTES" herein. The Notes are secured by the sources discussed under the caption "SECURITY FOR THE NOTES" herein.

The scheduled payment of the principal of and interest on the Notes, when due, will be guaranteed under a municipal bond new issue insurance policy (the "Policy") to be issued concurrently with the delivery of the Notes by Financial Guaranty Insurance Company ("Financial Guaranty"). See "BOND INSURANCE" herein.

The summaries and references to the Notes, the Act, the Indenture and the Financing Agreement (as defined herein) 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"), Room 76, Capitol Annex, 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, as the representative of the Underwriters (the "Underwriters").

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, and will bear interest from the date of delivery for the LIBOR-Based Interest Rate Period at variable interest rates and mature on the date specified on the inside 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."

### **LIBOR-Based Interest Rate**

During each LIBOR-Based Interest Rate Period (defined below) with respect to the Notes, the Notes will bear interest at the rate of interest per annum determined by the Trustee on a LIBOR Rate Determination Date (defined below) to be the sum of 67% of the Three Month LIBOR Rate (defined below) (or, (i) in the case where the first LIBOR-Based Interest Accrual Period is less than three months but greater than one month, the linear interpolation between similarly determined One and Three Month LIBOR Rates and (ii) in the case where the first LIBOR-Based Interest Accrual Period is greater than 3 months but less than 4 months, the linear interpolation between similarly determined Three and Six Month LIBOR Rates) plus a fixed spread, as described on the inside cover page (such rate of interest as determined by the Trustee, the "LIBOR-Based Interest Rate"); provided that Notes may not bear interest in any LIBOR-Interest Rate Period at more than the Maximum Interest Rate (defined below).

The LIBOR-Based Interest Rate will be determined by the Trustee on a date (each such date, a "LIBOR Rate Determination Date") that is two London Banking Days (defined below) preceding the first day of each LIBOR-Based Interest Accrual Period (defined below). The first LIBOR-Based Interest Rate for each LIBOR-Based Interest Rate Period applies to the period commencing on the first day of such LIBOR-Based Interest Rate Period and ending on the day immediately prior to the first Interest Payment Date (defined below) and thereafter, each LIBOR-Based Interest Rate applies to the period commencing on and including an Interest Accrual Date (defined below) to but not including the following Interest Payment Date (each a "LIBOR-Based Interest Accrual Period").

As soon as possible after 11:00 a.m. (New York time) on each LIBOR Rate Determination Date, but in no event later than 11:00 a.m. (New York time) on the Business Day immediately following each LIBOR Rate Determination Date, the Trustee is required to notify the Commission and the registered owners of the LIBOR-Based Interest Rate for the next LIBOR-Based Interest Accrual Period.

Interest will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date. Interest on the Notes shall be payable for the final LIBOR-Based Interest Accrual Period to the date on which the Notes shall have been paid in full.

Interest shall be computed on the basis of a 365 or 366-day year, as appropriate, and the actual number of days elapsed.

The following definitions are relevant to the LIBOR-Based Interest Rate:

"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.

"Interest Accrual Date" shall mean for any LIBOR-Based Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date (whether or not a Business Day).

"Interest Payment Date" shall mean each February 1, May 1, August 1 and November 1, beginning August 1, 2007.

"LIBOR-Based Interest Rate Period" shall mean each period with respect to a Series of Notes during which a LIBOR-Based Interest rate is in effect.

"London Banking Day" shall mean any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in the City of London, United Kingdom.

"Maximum Interest Rate" shall mean the lesser of fifteen percent (15%) per annum and the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Notes.

"Maximum Lawful Rate" shall mean the maximum rate of interest on the relevant obligation permitted by applicable law.

"Three Month LIBOR Rate" shall mean the rate for deposits in U.S. dollars with a three-month maturity that appears on Telerate Page 3750 (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the LIBOR Rate Determination Date, except that, if such rate does not appear on such page on the LIBOR Rate Determination Date, the Three Month LIBOR Rate shall mean a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 a.m., London time, on the LIBOR Rate Determination Date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to

as the "Reference Banks") selected by a market agent appointed by the Trustee to identify such Reference Banks (herein referred to as the "Market Agent"). The Market Agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the Three Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the Three Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Market Agent, at approximately 11:00 a.m., New York City time, on the LIBOR Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Market Agent is then quoting rates for such loans, then the Three Month LIBOR Rate for the ensuing interest period will mean the Three Month LIBOR Rate then in effect in the immediately preceding LIBOR-Based Interest Accrual Period.

### **Optional Redemption**

The Notes are subject to redemption prior to their respective stated maturities, at the option of the Commission (which option shall be exercised upon the written request of the Commission given to the Trustee, unless waived by the Trustee, at least forty (40) days prior to the date fixed for redemption), in whole or in part, in such amounts as may be specified by the Commission (i) on any date prior to November 1, 2017 (the "Par Call Date"), at a redemption price equal to the Spread Premium (defined below) for such Notes and (ii) on any date on or after the Par Call Date, at a redemption price equal to 100% of the principal amount thereof, without premium, plus in each case accrued interest to the date fixed for redemption.

The "Spread Premium" is calculated as follows:

- (a) A hypothetical cash flow schedule shall be calculated by assuming that principal of the Notes called for redemption would be payable on the Par Call Date and that interest on such Notes would be payable quarterly on each February 1, May 1, August 1 and November 1 until, and including, the Par Call Date (each a "Quarterly Payment Date") at a rate per annum equal to the sum of (a) 67% of the USD-ISDA-Swap Rate plus (b) the spread above the percentage of the Three-Month LIBOR Rate at which such Notes bear interest.
- (b) Each principal and interest payment in the hypothetical cash flow schedule determined in accordance with the preceding paragraph shall be discounted as of each Quarterly Payment Date to the Redemption Date at a discount rate equal to the sum of (a) 67% of the USD-ISDA-Swap Rate plus (b) 0.25% per annum.
- (c) The sum of the present values of such principal and interest payments as of the Redemption Date determined pursuant to the preceding paragraph shall be the Spread Premium.

"USD-ISDA-Swap Rate" shall mean the rate for U.S. dollar swaps maturing on November 1, 2017, expressed as a percentage, which appears on the Reuters Money 3000

Service on the page designated ISDAFIX1 (or such other page as may replace that page on such service for the purpose of displaying comparable rates) at 11:00 a.m., New York City time, on the day which is two U.S. Government Securities Business Days prior to such date. If such rate does not appear on such page on such day, then "USD-ISDA-Swap Rate" for such maturity and date shall mean the percentage determined on the basis of mid-market semiannual swap rate quotations provided by five leading swap dealers in the New York City interbank market at approximately such time on such day as the mean of the bid and offered rates for the semiannual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating U.S. dollar interest rate swap transaction with an effective date of the relevant early termination date and a termination date equal to such maturity, in an amount that is representative for a single transaction in such market at such time, with an acknowledged dealer of good credit in such market, where the floating rate, calculated on the basis of a 360-day year for actual days elapsed, is equal to the London Interbank Offered Rate for loans with a three-month duration.

"U.S. Government Securities Business Day" shall mean any day except for a Saturday, a Sunday, or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading U.S. government securities.

### **Mandatory Sinking Fund Redemption**

The Series A Notes maturing on November 1, 2017 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>
November 1, 2007	\$1,950,000
November 1, 2008	1,945,000
November 1, 2009	2,020,000
November 1, 2010	2,100,000
November 1, 2011	2,180,000
November 1, 2012	2,270,000
November 1, 2013	2,355,000
November 1, 2014	2,450,000
November 1, 2015	2,545,000
November 1, 2016	2,645,000
November 1, 2017*	2,750,000

\*Maturity

The Series A Notes maturing on November 1, 2027 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>
November 1, 2007	\$2,560,000
November 1, 2008	2,415,000
November 1, 2009	2,515,000
November 1, 2010	2,620,000
November 1, 2011	2,730,000
November 1, 2012	2,840,000
November 1, 2013	2,960,000
November 1, 2014	3,085,000
November 1, 2015	3,210,000
November 1, 2016	3,345,000
November 1, 2017	3,485,000
November 1, 2018	3,630,000
November 1, 2019	3,780,000
November 1, 2020	3,935,000
November 1, 2021	4,100,000
November 1, 2022	4,270,000
November 1, 2023	4,445,000
November 1, 2024	4,630,000
November 1, 2025	4,820,000
November 1, 2026	5,020,000
November 1, 2027*	5,230,000

\*Maturity

The Series B Notes maturing on November 1, 2021 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>
November 1, 2007	\$1,035,000
November 1, 2008	600,000
November 1, 2009	620,000
November 1, 2010	645,000
November 1, 2011	670,000
November 1, 2012	700,000
November 1, 2013	730,000
November 1, 2014	760,000
November 1, 2015	790,000
November 1, 2016	820,000
November 1, 2017	11,770,000
November 1, 2018	11,780,000
November 1, 2019	12,925,000

November 1, 2020	13,420,000
November 1, 2021*	14,045,000

\*Maturity

The Series B Notes maturing on November 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>
November 1, 2022	\$16,665,000
November 1, 2023	23,335,000
November 1, 2024	15,845,000
November 1, 2025*	15,090,000

\*Maturity

**Hedge Agreement**

In connection with the issuance of the Notes, the Commission expects to enter into an interest rate swap transaction with the Exchange Counterparty (as defined herein) which will be documented under an International Swaps and Derivatives Association, Inc. Master Agreement between the Commission and the Exchange Counterparty (together with the related Schedule and the related Confirmation, the "Hedge Agreement"). In general, the Hedge Agreement provides that, subject to the terms thereof, the Commission will pay fixed amounts to the Trustee (for the benefit of the Exchange Counterparty) and the Exchange Counterparty will pay floating amounts based on the LIBOR-Based Interest Rate to the Trustee (for the benefit of the Commission) in each case based on a notional amount equal to the principal amount of the Notes. The notional amount of the Hedge Agreement will amortize at times and in amounts corresponding to the mandatory sinking fund payments on the Notes. Payments by the Commission and the Exchange Counterparty will be due quarterly, corresponding to the Interest Payment Dates on the Notes. The term of the Hedge Agreement is identical to the term of the Notes.

Certain provisions of the Hedge Agreement are summarized below:

(i) The obligation of the Exchange Counterparty to pay certain amounts to the Commission under the Hedge Agreement will not alter or affect the Commission's obligation to pay the principal of, interest on, and redemption price of, any of the Notes. The Exchange Counterparty has no obligation to make any payments with respect to the principal of, interest on, or redemption price of, the Notes. Neither the owners of the Notes, nor any person other than the Commission and the Trustee on its behalf, shall have any rights under the Hedge Agreement or against the Exchange Counterparty.

(ii) A portion of each Financing Payment under the Financing Agreement (relating to the amount due from the Commission under the Hedge Agreement) will initially be deposited in the Hedge Payment Fund created under the Indenture and will be pledged to the payment of amounts owed by the Commission to the Exchange Counterparty under the Hedge Agreement. See "SECURITY FOR THE NOTES."

(iii) On or before each Interest Payment Date with respect to the Notes, the Trustee is required (A) to transfer from the Hedge Payment Fund to the respective subaccounts of the Interest Account of the Note Payment Fund an amount sufficient to pay interest due on the Notes on the next Interest Payment Date and (B) to remit, from the remaining balance in the Hedge Payment Fund, to the Exchange Counterparty the amount then due under the Hedge Agreement.

(iv) Entering into the Hedge Agreement creates a variety of risks to the Commission. Under certain circumstances, the Hedge Agreement is subject to termination prior to its scheduled termination date and prior to the maturity of the Notes, in which event the Commission may be obligated to make an early termination payment to the Exchange Counterparty under the terms of the Hedge Agreement, or under other circumstances, to receive a termination payment from the Exchange Counterparty. In the event of an early termination of the Hedge Agreement, there can be no assurance that (i) the Commission will have sufficient amounts to pay a termination payment payable by it to the Exchange Counterparty, (ii) the Commission will receive any termination payment payable to it by the Exchange Counterparty or (iii) the Commission will be able to obtain a replacement swap agreement with comparable terms. Payment due upon early termination may be substantial.

(v) Payments owing from the Commission to the Exchange Counterparty under the Hedge Agreement will be secured, on a parity basis with the Notes, by the Financing Payments due under the Financing Agreement and by certain amounts on deposit in the Hedge Payment Fund.

Concurrent with its issuance of the Policy, Financial Guaranty is issuing its Surety Bond in favor of the Exchange Counterparty with respect to scheduled payment obligations of the Commission under the Hedge Agreement.

### **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-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 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 16, 2007, 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, (iv) authorized the execution and delivery of one or more interest rate swap agreements and (v) directed the preparation and distribution of this Official Statement.

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

## **SECURITY FOR THE NOTES**

The Notes and the interest due thereon are payable solely and only from a special fund created under the Indenture defined therein as the Note Payment Fund (the "Note Payment Fund"). Such payments arise under the Financing/Lease Agreement, dated as of May 1, 2007, by and among the Commission, the Cabinet and the State Property and Buildings Commission, and any amendments or supplements thereto (the "Financing Agreement").

Pursuant to the Indenture, payments received from the Cabinet under the Financing Agreement are (i) to be deposited in the Hedge Payment Fund, if related to a payment then due under the Hedge Agreement, or (ii) to be deposited in the appropriate accounts within the Note Payment Fund.

Under the provisions of the Constitution of the Commonwealth, the Cabinet is prohibited from entering into financing obligations extending beyond the biennial budget. Notwithstanding the foregoing, the Financing Agreement will be automatically renewed unless written notice of the election by the Cabinet to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Kentucky General Assembly has appropriated to the Cabinet, amounts sufficient to meet the Financing Payments under the Financing Agreement and to permit the Commission to meet the debt service requirements of the Notes, through June 30, 2008. Appropriations for the Financing Payments under the Financing Agreement are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) in the performance of his or her obligation to balance the Commonwealth's budget, the Governor will not reduce or eliminate such appropriations. **FAILURE OF THE CABINET TO RECEIVE SUCH APPROPRIATIONS WILL HAVE A MATERIAL ADVERSE EFFECT ON THE COMMISSION'S ABILITY TO PAY THE PRINCIPAL OF AND INTEREST ON THE NOTES.**

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission has also reserved the right to issue Additional Notes and Refunding Notes on a parity with the Notes. See "SUMMARY OF THE PRINCIPAL DOCUMENTS" herein.

Payments owing from the Commission to the Exchange Counterparty under the Hedge Agreement will be secured, on a parity basis, by the Financing Payments due under the

Financing Agreement and by certain amounts on deposit in the Hedge Payment Fund. See "THE NOTES – Hedge Agreement."

**THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE COMMONWEALTH, THE COMMISSION, OR ANY OTHER AGENCY OR POLITICAL SUBDIVISION OF THE COMMONWEALTH WITHIN THE MEANING OF THE CONSTITUTION OR STATUTES OF THE COMMONWEALTH, AND NEITHER THE FAITH OR CREDIT, NOR THE TAXING POWER OF ANY OF THE FOREGOING ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE NOTES.**

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 Financial Guaranty. See "BOND INSURANCE" and EXHIBIT D.

### **BOND INSURANCE**

*The following information has been furnished by Financial Guaranty for use in this Official Statement. No representation is made by the Commission or the Underwriters as to the accuracy or completeness of this information.*

#### **Payments Under the Policy**

Concurrently with the issuance of the Notes, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Kentucky Asset/Liability Commission's (i) General Fund Floating Rate Project Notes, 2007 Series A Notes (the "Series A Notes") and (ii) General Fund Floating Rate Project Notes, 2007 Series B Refunding Notes (the "Series B Notes") (the Series A Notes and the Series B Notes, collectively, the "Notes"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Notes which has become due for payment, but shall be unpaid by reason of nonpayment by the Commission. Financial Guaranty will make such payments to U.S. Bank National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of the Series A Notes or the Series B Notes or the Trustee or Paying Agent of the nonpayment of such amount by the Commission. The Fiscal Agent will disburse such amount due on any Series A Note and any Series B Note to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series A Note or a Series B Note includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Series A Note or a Series B Note which has been recovered from such owner pursuant to the United States

Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Notes on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Notes may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Notes is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of a Series A Note or Series B Note, appurtenant coupon or right to payment of principal or interest on such Note and will be fully subrogated to all of the Noteholder's rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Commission, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure the Series A and Series B Notes, Financial Guaranty may be granted certain rights under the Indenture and the Financing Agreement. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Notes may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

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

### **Financial Guaranty Insurance Company**

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At March 31, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At March 31, 2007, Financial Guaranty had net admitted assets of approximately \$3.947 billion, total liabilities of approximately \$2.828 billion, and total capital and policyholders' surplus of approximately \$1.119 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of March 31, 2007, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Notes shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

**The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.**

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park

Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

### **Financial Guaranty's Credit Ratings**

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Notes, and are 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. Financial Guaranty does not guarantee the market price or investment value of the Notes nor does it guarantee that the ratings on the Notes will not be revised or withdrawn.

**Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Notes, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Notes or the advisability of investing in the Notes.**

### **THE PROJECT**

The Project consists of (i) (a) funding the Petroleum Storage Tank Environmental Assurance Fund in the amount of \$25,000,000 and (b) funding a portion of the cost of the Louisville Arena project in the amount of \$75,000,000 (collectively, the "Public Project"); (ii) refunding all or a portion of (a) the \$145,290,000 Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 79 (the "Project 79 Bonds"), and (b) the \$218,275,000 Commonwealth of Kentucky State Property and Buildings Commission Revenue Bonds, Project No. 85 (the "Project 85 Bonds") (such refunding, the "Refunding Project" and collectively with the Public Project, the "Project") ; and (iii) paying the costs of issuing the Notes.

A portion of the proceeds of the Notes will be deposited, together with other available moneys, to the Escrow Fund held by The Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent") pursuant to an escrow agreement to be dated as of May 1, 2007 (the "Escrow Agreement"), by and between the Commission and the Escrow Agent. The moneys so deposited will be invested in direct non-callable obligations of the United States ("U.S. Government Securities"), the principal and interest on which, together with a specified cash balance, will be sufficient to pay, with respect to the Project 79 Bonds and the Project 85 Bonds identified below (the "Advance Refunded Bonds"), (a) interest due and payable to and including the first date (the "Redemption Date") on which such Advance Refunded Bonds can be

redeemed; (b) principal due and payable prior to the Redemption Date(s) and (c) principal due and payable on the Redemption Date(s), and the applicable redemption premium thereon. The Commission will be required, upon receipt of the proceeds of the Notes to cause the State Property and Buildings Commission to take the appropriate procedures under the Bond Resolutions securing the Advance Refunded Bonds to call irrevocably such bonds for redemption on the respective Redemption Dates. The series of the Advance Refunded Bonds, the principal amount of each series to be advance refunded, the Redemption Dates for such Advance Refunded Bonds and the redemption price are listed below:

**Advance Refunded Project 79 Bonds**

<u>Maturity Date</u>	<u>Refunded Principal Amount</u>	<u>Coupon</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
10/01/2022	\$2,045,000	4.625%	10/01/2013	100%
10/01/2023	8,425,000	4.750%	10/01/2013	100%

**Advance Refunded Project 85 Bonds**

<u>Maturity Date</u>	<u>Refunded Principal Amount</u>	<u>Coupon</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
08/01/2017	\$10,965,000	5.000%	08/01/2015	100%
08/01/2018	11,050,000	5.000%	08/01/2015	100%
08/01/2019	12,280,000	5.000%	08/01/2015	100%
08/01/2020	12,870,000	5.000%	08/01/2015	100%
08/01/2021	13,600,000	5.000%	08/01/2015	100%
08/01/2022	14,295,000	5.000%	08/01/2015	100%
08/01/2023	14,730,000	5.000%	08/01/2015	100%
08/01/2024	15,800,000	5.000%	08/01/2015	100%
08/01/2025	15,185,000	5.000%	08/01/2015	100%

**ESTIMATED SOURCES AND USES OF FUNDS**

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

<u>Sources</u>	<u>Series A Notes</u>	<u>Series B Notes</u>
Par Amount of Notes	<u>\$100,835,000.00</u>	<u>\$142,245,000.00</u>
Total Sources	\$100,835,000.00	\$142,245,000.00
 <u>Uses</u>		
Deposit to Project Fund	\$100,000,000.00	
Deposit to Escrow Fund		141,050,946.57
Costs of Issuance*	<u>835,000.00</u>	<u>1,194,053.43</u>
Total Uses	\$100,835,000.00	\$142,245,000.00

\*Includes premium payable to Financial Guaranty with respect to the 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 State Budget Director; and the State Controller. The State Controller was added to the Commission by Executive Order 2006-679 dated June 19, 2006 and effective June 16, 2006.

The current members of the Commission are as follows:

John R. Farris	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
Ed C. Ross	State Controller

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

The holders of the Notes do not have a claim against the moneys pledged under the trust indenture related to any other project notes issued as General Fund Series, Agency Fund Series, Road Fund Series or Federal Highway Trust Fund Series. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations as of March 31, 2007 are described below.

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

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

<u>General Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2001 General Fund First Series	\$37,450,000	\$6,095,000
2003 General Fund Series A	171,260,000	52,985,000
2005 General Fund First Series	81,850,000	78,860,000
2005 General Fund Second Series	<u>200,000,000</u>	<u>100,000,000*</u>
Total	\$490,560,000	\$237,940,000

\*This excludes the \$100,000,000 on deposit with the trustee to redeem General Fund Second Series Project Notes (\$50,000,000 of Series A-1 Notes and \$50,000,000 of Series A-2 Notes) on their maturity dates in May 2007.

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

<u>Agency Fund Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 Agency Fund Taxable First Series	\$11,275,000	\$11,275,000
2005 Agency Fund Second Series	28,280,000	21,045,000
2005 UK General Receipts Series A	107,540,000	107,540,000
2006 UK General Receipts Series A	66,305,000	66,305,000
2006 UK General Receipts Series B	<u>2,220,000</u>	<u>2,220,000</u>
Total	\$215,620,000	\$208,385,000

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

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

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

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

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

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

The timing of the issuance of permanent funding for the remaining various obligations is uncertain.

In 2006, the Commission entered into interest rate swap transactions to hedge the future issuance of approximately \$300 million of future State Property and Buildings Commission Revenue Bonds expected to fund a portion of the remaining authorized, but un-issued bonds for General Fund projects. The interest rate swaps were executed in anticipation of approximately \$150 million of State Property and Buildings Commission ("SPBC") bonds being sold in each of February 2007 and February 2008. In February 2007, SPBC Project No. 87 bonds were sold to permanently finance various General Fund projects authorized by the 2005 and 2006 General Assemblies. The net payment from the \$150 million 2007 swap was used to offset borrowing costs and reduce the amount of bonds issued.

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

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

The 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.

### **Louisville Arena Authority, Inc.**

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

## **THE STATE PROPERTY AND BUILDINGS COMMISSION**

### **General Information**

The State Property and Buildings Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission) and the Secretary of the Cabinet for Economic Development. The Executive Director of the Office of the State Controller was added to the State Property and Buildings Commission by Executive Order 2006-679 dated June 19, 2006 and effective June 16, 2006. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the State Property and Buildings Commission, and the Executive Director of the OFM serves as Secretary to the State Property and Buildings Commission. The State Property and Buildings Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the

construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the State Property and Buildings Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the State Property and Buildings Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The State Property and Buildings Commission is authorized to execute lease agreements with those state agencies requesting the State Property and Buildings Commission to issue revenue bonds, which leases provide for the payment of lease rentals to the State Property and Buildings Commission in order to make principal and interest payments on the revenue bonds issued in the name of the State Property and Buildings Commission.

## **THE STATE AGENCIES**

### **Environmental and Public Protection Cabinet**

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

## **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 non-manufacturing 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 2006 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2006 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

- (i) Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
Internet: [munis@bloomberg.com](mailto: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](mailto: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 2006 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2006 and certain other fiscal years may be found on the Internet at:

<http://finance.ky.gov/ourcabinet/caboff/ooc/ofm/debt/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 AGREEMENT" 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 the two even numbered years prior to 2006, 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 2005**

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$17.4 billion at the end of 2005, as compared to \$16.6 billion at the end of the previous year.

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

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

The Commonwealth received program revenues of \$7.8 billion and general revenues (including transfers) of \$9.3 billion for total revenues of \$17.0 billion during Fiscal Year 2005. Expenses for the Commonwealth during Fiscal Year 2005 were \$16.1 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$927 million, net of contributions, transfers and special items.

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

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

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

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

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

The Commonwealth of Kentucky's bonded debt increased by \$11 million to \$3,236,766,000, a .35 percent increase during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2005. The key factor in this increase was the issuance of new debt during Fiscal Year 2005.

## **Fiscal Year 2006**

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

At \$17.9 billion, the largest portion of the Commonwealth's net assets is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.77 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$1.80 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the

government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

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

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

The General Fund is the chief operating fund of the Commonwealth. At the end of Fiscal Year 2006, total fund balance reached \$897 million, with an unreserved balance of \$713 million. This compares to a General Fund unreserved Fund Balance of \$593 million as of June 30, 2005. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance, of the Commonwealth's general fund, increased by \$226 million during Fiscal Year 2006. This is a 33.8 percent increase in fund balance from the prior year. The contributing factors to this increase were continuing spending reduction efforts, an improving economy and tax reform.

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

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

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

On January 26, 2007, the Consensus Forecasting Group made an official revision to the General Fund revenue estimates for Fiscal Years 2007 and 2008. The revised official estimate for Fiscal Year 2007 is \$8,609.7 million, an increase of \$268 million over the original official forecast provided on December 20, 2005. The estimate for Fiscal Year 2008 is now \$8,902.3 million, an increase of \$227 million over the original official forecast of \$8,675.7 million. The revised official revenue estimate reflects a 2.8 percent increase in General Fund receipts in Fiscal Year 2007 when compared to Fiscal Year 2006. Fiscal Year 2008 General Fund receipts are expected to grow 3.4 percent compared to Fiscal Year 2007.

These official General Fund revenue estimates exclude Phase I Tobacco Master Settlement Agreement ("MSA") payments, now expected to be \$90.9 million in Fiscal Year 2007 and \$103.1 million in Fiscal Year 2008, based on the Consensus Forecasting Group's revised estimates. This represents increases of \$2.1 million and \$9.1 million in Fiscal Years 2007 and 2008, respectively, over the original official forecast for the MSA payments.

Fiscal Year 2007 General Fund actual revenues total \$6,209.4 million through March 2007, an increase of 3.3 percent over the first nine months of Fiscal Year 2006. Revenue growth of 1.4 percent is required in the remaining fiscal months, over the actual receipts of the prior fiscal year for those months, to satisfy the current fiscal year's revised estimate.

General Fund revenues for March 2007 were \$676.2 million, an increase of 9.5 percent compared to March 2006. During March 2007, sales and use tax revenues grew by 3.9 percent over March 2006. Individual income tax receipts rose by 19.0 percent due to lower refund payments issued in March compared to the previous year. The Corporation income tax was down by 5.3 percent due to changes in the way limited-liability pass-through entities are taxed. Property tax revenues rose by 34.9 percent due to a change in timing of collections. Coal severance tax receipts fell by 15.0 percent, while Lottery revenues were up 42.9 percent from the previous March.

## **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, 2007, the Commonwealth's operating portfolio was approximately \$4.1 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (8%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (34%); repurchase agreements collateralized by the aforementioned (16%); municipal securities (7%); and corporate and asset backed securities, including money market

securities (35%). The portfolio had a current yield of 5.28% and an effective duration of 0.53 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 \$200,000,000 notional amount to a net market value approach, the absolute value of which cannot exceed \$50,000,000 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 March 31, 2007, the Commonwealth had two asset-based interest rate swaps outstanding. The first swap has a notional amount of \$23,000,000 and matures June 15, 2008. The second swap has a notional amount of \$10,000,000 and matures June 15, 2011. The net of these positions partially hedges the Commonwealth from widening spreads in a yield curve steepening environment.

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.

## **State Retirement Systems**

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

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

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

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

The State is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the state pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the State commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Employees insurance through the state health insurance program, which has since become self insured.

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

The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 healthcare benefits was \$129.2 million versus the Actual Contribution of \$66.0 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2006 was \$89.3 million, which was the contributed amount. Previously, the state legislature directed transfers of \$62.3 million and \$29.1 million in Fiscal

Year 2005 and Fiscal Year 2006 respectively, from the KTRS Guarantee Fund to the Medical Insurance Stabilization Fund. This amount is to be repaid from the State General Fund over a 10-year period. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2006 had funding percentages of 10.3 percent for the Kentucky Retirement Systems and 3.0 percent for KTRS.

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

## **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.

"Account" shall mean an account established within one of the Funds.

"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 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, 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, shall mean the Executive Officer.

"Budget Act" shall mean H.B. 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part, as amended by H.B. 557 of the

General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part.

"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.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and shall include the Regulations of the United States Department of the Treasury promulgated thereunder.

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

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

"Counterparty Exchange Payment" shall mean a payment due from the Exchange Counterparty to the Commission pursuant to the Hedge Agreement (including, but not limited to, payments in respect of any early termination, as provided in the Hedge Agreement).

"Debt Servicing Date" shall mean any Interest Payment Date, as defined in the Indenture, and the payment dates (both regularly scheduled and upon early termination) under the Hedge Agreement.

"Debt Servicing Obligation" shall mean the aggregate amounts required to be paid in respect of that portion of the Notes issued to finance the Project on any Debt Servicing Date, including (i) the scheduled maturity of principal of any such Notes maturing on such Debt Servicing Date and the principal amount of such 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 to be paid on such Notes which were outstanding immediately prior to such Debt Servicing Date; (iii) all related amounts due from the Commission under the Hedge Agreement related to the Transaction; and (iv) the related portion of 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, including, but not limited to, amounts received under the

Hedge Agreement, as provided in the Financing Agreement. In addition amounts transferred from the Cost of Issuance Fund, established by the Indenture, to the Note Payment Fund, are treated as a 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.

"Escrow Agent" shall mean the Escrow Agent under the Escrow Agreement or any other bank or trust company which meets the requirements of the Indenture, appointed to serve as Escrow Agent in conjunction with the refunding of all or a portion of the Prior Issues or any other obligations of the Commission.

"Escrow Agreement" shall mean the Escrow Agreement dated as of May 1, 2007, by and between the Commission and the Escrow Agent.

"Escrow Fund" shall mean, collectively, the escrow fund or funds, account or accounts, or subaccount or subaccounts, designated as such and created by the Escrow Agreement for the Prior Issues.

"Exchange Counterparty" shall mean Citibank, N.A., New York, in its capacity as counterparty under the Hedge Agreement.

"Exchange Payment" shall mean a payment due from the Commission to the Exchange Counterparty, pursuant to the Hedge Agreement (including, but not limited to, payments in respect of any early termination, as provided in the Hedge Agreement).

"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, 2007, by and among the Commission, the Cabinet and the State Property and Buildings Commission, and any amendments or supplements thereto, by which the Project is leased to the Cabinet.

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

"Fitch" shall mean Fitch Ratings.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Hedge Payment Fund, Note Payment Fund, Project Fund and Rebate Fund established by the Indenture.

"Hedge Agreement" shall mean the International Swaps and Derivatives Association, Inc. Master Agreement between the Commission and the Exchange Counterparty, with respect to the Notes, together with the related Schedule and the related Confirmation. The Hedge Agreement constitutes a Financial Agreement (as defined in the Act).

"Hedge Payment Fund" shall mean the Fund so designated which is established and created 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, 2007, 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.

"KRS" shall mean the Kentucky Revised Statutes.

"Memorandum of Instructions" shall mean the Memorandum of Instructions Regarding Rebate delivered to the Commission and the Trustee at the time of the issuance and delivery of the Notes, as the same may be amended or supplemented in accordance with its terms.

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

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

"Notes" shall mean the Commission's General Fund Floating Rate Project Notes, 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 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 the Indenture.

"Paying Agent" shall mean initially, the Trustee, and any bank or trust company so designated, and its successor or successors thereafter 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 Cabinet to the Commission pursuant to the Financing Agreement; and

(ii) all interest earned and gains realized on Eligible Investments (a) except for earnings and gains on any investment in the Rebate Fund and (b) 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 the Indenture.

"Prior Issues" shall mean, collectively, the Project 79 Bonds and the Project 85 Bonds.

"Project" shall mean, collectively, the Public Project and the Refunding Project.

"Project Fund" shall mean the Project Fund created by the Indenture.

"Rating Agency" 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.

"Rebate Fund" shall mean the fund by that name established pursuant to the Indenture.

"Record Date" shall mean the 15th day of the calendar month preceding the calendar month in which an Interest Payment Date falls.

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

"Refunding Notes" shall mean notes issued under the provisions 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 16, 2007 authorizing the issuance of the Notes and the execution and delivery of the Indenture.

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

"Series" when used with respect to the Notes, means all the Notes designated as being of the same series, authenticated and delivered in a simultaneous transaction, and any Notes thereafter authenticated and delivered upon a transfer or exchange or in lieu of or in substitution for such Notes as herein provided.

"State" shall mean the Commonwealth of Kentucky.

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

"Telerate" shall mean, when used in connection with any designated page, the display page so designated on Moneyline Telerate, Inc. (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

"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 the Indenture.

"Trustee" shall mean the Trustee appointed pursuant to 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.

"Verification Report" shall mean the report on the mathematical accuracy of certain computations contained in schedules provided by the Underwriter, relating to, among other things, (a) the adequacy of the maturing principal amounts of the United States Treasury Obligations held in the Escrow Fund, interest earned thereon and certain other moneys, to pay the principal or redemption price of and interest on the Prior Issues to be refunded as and to the extent provided in the Escrow Agreement, as such principal or redemption price and interest become due and payable, and (b) the computations of yield used by Bond Counsel as a basis for its opinion that the Notes are not arbitrage bonds within the meaning of Section 148 of the Code.

## **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 2.03)

**Additional Notes; Refunding Notes.** The Indenture provides that if the proceeds of the Notes, plus other available funds, are not sufficient to complete the Public 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.

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 Pledged Receipts, (ii) all Funds and Accounts created and established pursuant to the Indenture, including moneys and securities therein, other than the certain amounts held in the Rebate Fund, (iii) the proceeds of sale of the Notes, and (iv) Eligible Investments acquired from Note proceeds or by application of moneys in Funds and Accounts (other than by application of moneys in the Rebate Fund). Additionally, there is pledged to the payment of all obligations of the Commission under the Hedge Agreement, on a parity basis with the Notes, 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 Pledged Receipts, (ii) all Funds and Accounts created and established pursuant to the Indenture, including moneys and securities therein, other than the certain amounts held in the Rebate Fund, the Project Fund and the Escrow Fund, and (iii) Eligible Investments acquired by application of moneys in Funds and Accounts (other than by application of moneys in the Rebate Fund, the Project Fund and the Escrow Fund). Amounts deposited in the Rebate Fund and the Escrow Fund are not pledged to payment of the principal of and interest on the Notes or the obligations of the Commission under the Hedge Agreement. (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 Hedge Payment Fund; (v) the Rebate Fund; and (vi) 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, and within such Fund, a Series A Account and a Series B Account. There will be deposited in the Series A Account and the Series B Account of 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 appropriate account within 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 of the related Series of Notes, 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, and within such Account a Series A Interest Subaccount and a Series B Interest Subaccount, into which will be deposited all amounts (i) received as accrued interest upon the sale and delivery of the related Series of Notes and (ii) received, or transferred from the Hedge Payment Fund, as the interest portion of Financing Payments (including any prepayments of the interest portion of Financing Payments).

(2) A Principal Account, and within such Account a Series A Principal Subaccount and a Series B Principal Subaccount into which will be deposited all amounts (i) transferred from the Project Fund to pay principal of and premium, if any, on the related Series of 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 of a Series to pay principal of the Notes of such Series at maturity, on a Redemption Date, or upon acceleration.

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

The Indenture requires the Trustee to transmit to any Paying Agent, as appropriate, from moneys in the appropriate Accounts within the Note Payment Fund applicable thereto, amounts sufficient to make timely payments of principal of, interest on and premium, if any, on the related Series of 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 and in accordance with the provisions of the Financing Agreement. The Cabinet 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 Cabinet, be transferred as received to the Series A Interest Subaccount and Series A Principal Subaccount of the Note Payment Fund, as applicable, 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 certifies that the Project has been completed, such amount shall be transferred to the Series A Interest Subaccount of the Note Payment Fund. (Section 5.06)

**Hedge Payment Fund.** The Indenture establishes and creates a separate Hedge Payment Fund. The Trustee is required to deposit into the Hedge Payment Fund that portion of each Financing Payment, designated by the Commission as being due from the Commission to the Exchange Counterparty on the next payment date under the Hedge Agreement and each Counterparty Exchange Payment received from the Exchange Counterparty. On or before each Interest Payment Date the Trustee is required to transfer to the Note Payment Fund, from funds held in the Hedge Payment Fund, an amount equal to the interest that will be due and payable on the Notes on such Interest Payment Date. Following the transfer of moneys from the Hedge Payment Fund to the Note Payment Fund, the Trustee is required to apply amounts held in the Hedge Payment Fund to any amount then owed by the Commission to the Exchange Counterparty pursuant to the Hedge Agreement. (Section 5.07)

**Rebate Fund.** The Indenture establishes and creates a trust fund to be designated the Rebate Fund, which is established and maintained under the Indenture or under any laws governing the creation and use of funds by the Commission. There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Memorandum of Instructions. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Memorandum of Instructions), for payment to the federal government of the United States of America, and neither the Commission, nor the owner of any Notes will have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by Article V of the Indenture, and by the Memorandum of Instructions. The Trustee will be deemed conclusively to have complied with such provisions if it follows the directions of the Commission including supplying all necessary information in the manner provided in the Memorandum of Instructions, and will have no liability or responsibility to enforce compliance by the Commission with the terms of the Memorandum of Instructions.

Upon the Commission's written direction, an amount is required to be deposited to the Rebate Fund by the Trustee from deposits by the Commission, if and to the extent required, so that the balance of the Rebate Fund after such deposit equals the Rebate Amount for the Bond Year (as such term is defined in the Memorandum of Instructions) calculated as of the most recent Calculation Date (as defined in the Memorandum of Instructions). Computations of the Rebate Amount are required to be furnished by or on behalf of the Commission in accordance with the Memorandum of Instructions.

The Trustee will have no obligation to rebate any amounts required to be rebated pursuant to the Indenture, other than from moneys held in the funds and accounts created hereunder or from other moneys provided to it by the Commission.

The Trustee is required to, upon written direction, invest all amounts held in the Rebate Fund, subject to the restrictions set forth in the Indenture for investments in other funds established in the Indenture and in the Memorandum of Instructions. The Trustee will retain all earnings (calculated by taking into account net gains or losses on sales or exchanges and taking into account amortized discount or premium as a gain or loss, respectively) on investments held in the Rebate Fund in the Rebate Fund. Moneys will not be transferred from the Rebate Fund except as provided in the following paragraph.

Upon receipt of the Commission's written directions, the Trustee is required to remit part or all of the balances in the Rebate Fund to the United States, as so directed. In addition, if the Commission so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such account or funds as directed by the Commission's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Notes and payment and satisfaction of any Rebate Amount, or provision made therefor satisfactory to the Trustee shall be withdrawn and remitted to, or at the direction of, the Commission.

Notwithstanding any other provision of the Indenture, the obligation to remit the Rebate Amounts to the United States and to comply with all other requirements of the Indenture and the Memorandum of Instructions will survive the defeasance or payment in full of the Notes. (Section 5.08)

**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 5.09)

**Hedge Agreement; Counterparty Exchange Payments; Exchange Payments.** The Indenture authorizes the Commission to enter into the Hedge Agreement with the Exchange Counterparty under which (a) there may be required to be made, from time to time, Exchange

Payments and (b) the Trustee may receive, from time to time, Counterparty Exchange Payments for deposit as provided in the Indenture. The Trustee is required to deposit all Counterparty Exchange Payments in the Hedge Payment Fund, a portion of which is to be transferred to the Interest Account of the Note Payment Fund to be applied in accordance with the provisions of the Indenture.

**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 (except the Rebate Fund and a portion of the amounts deposited in the Hedge Payment Fund, as described elsewhere in this Official Statement) 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 therefor 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 Cabinet 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 and the Hedge Payment Fund; provided, however, that in the event of any failure of the Cabinet to make its payments as aforesaid, no action will be taken which, in Counsel's opinion, would have the effect of materially altering the federal income tax status of the interest earned on the Notes.

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 payments due under the Hedge Agreement, 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 Cabinet to induce the Cabinet 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 and so long as any Hedge Agreement remains in effect, 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)

**Tax Covenant.** The Commission is required to do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest paid by the Commission on the Notes will, for the purposes of federal income taxation, be excludable from gross income under any valid provision of law.

The Commission will not permit at any time or times any of the proceeds of the Notes to be used to acquire or to replace funds which were used directly or indirectly to acquire any securities or obligations which are "higher yielding investments" (as defined in the Code), the acquisition of which would cause any Note to be an "arbitrage bond" as defined in Sections 103(b)(2) and 148 of the Code as then in effect, unless, under any valid provision of law hereafter enacted (i) such action would not cause arbitrage bond status to occur, or (ii) the interest paid by the Commission on the Notes will be excludable from the gross income of a recipient thereof for federal income tax purposes without regard to compliance with the provisions of Section 103(a) of the Code.

In order to assure compliance with Section 6.11 of the Indenture, thereby better securing and protecting the Notes, the Commission from the date of adoption of the Indenture will not:

(a) make or cause to be made any investment of Note proceeds that produces a yield in excess of such applicable maximum yield as may be permitted by the Code, and

(b) invest or cause the Trustee (or the Treasurer, as the case may be) to, and the Trustee (or the Treasurer, as the case may be) shall not, independent of any direction of the Commission, invest monies in any fund created by the Indenture in investment obligations that produce a yield in excess of such applicable maximum yield as may be permitted by the Code.

The Commission prior to the issuance of any of the Notes and as a condition precedent to such issuance, the Commission is required to certify by issuance of a certificate by an Authorized Officer having responsibility for the receipt, disbursement, use and investment of the proceeds of the Notes that, on the basis of the facts, estimates and circumstances in existence on the date of issue of the Notes it is not expected that the proceeds of the Notes will be used in a manner that would cause such obligations to be arbitrage bonds.

The Commission is required to pay from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final

Treasury Regulations as may be applicable to the Notes from time to time. This requirement will survive payment in full or defeasance of the Notes. The Commission is required to pay or cause to be paid to the United States at the times and in the amounts determined under Section 5.07 of the Indenture the Rebate Amounts, as described in the Memorandum of Instructions. The Trustee is required to comply with all instructions of the Commission given in accordance with the Memorandum of Instructions.

Notwithstanding any provision described under this heading, if the Commission will provide to the Trustee a Counsel's opinion to the effect that any action required under Sections 6.11 and 5.07, of the Indenture is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Notes pursuant to Section 103(a) of the Code, the Commission and the Trustee may rely conclusively on such opinion in complying with those provisions. (Section 6.11)

**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 add additional covenants and agreements of the Commission for the purpose of further securing 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 as described in the second preceding paragraph may be made by a Supplemental Trust Indenture, with the written consent given by any Exchange Counterparty and 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 any Exchange Counterparty and the Holders must be mailed to any Exchange Counterparty and 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 any Exchange Counterparty and the proper percentage of Holders and (ii) a Counsel's Opinion, and (b) notice thereof must have been mailed to any Exchange Counterparty and 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 therefor (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 any Exchange Counterparty and the Holders by the Commission by mailing such notice to any Exchange Counterparty and 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 construed to permit the acceleration of any payments of Financing Payments or Additional Payments by the Cabinet 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, with the written consent of any Exchange Counterparty, 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. Any right of an Exchange Counterparty (whether as to request, consent or otherwise) with respect to remedies shall be exercisable by the Exchange Counterparty only if (i) such Exchange Counterparty is not in default in its obligations under the related Hedge Agreement and (ii) the parties under such Hedge Agreement (other than the Exchange Counterparty) have failed to perform all of their obligations under the Hedge Agreement.

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 or funds in the Hedge Payment Fund held for payment to an Exchange Counterparty under a Hedge Agreement) 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, any Exchange Counterparty and 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. In the event of a conflict between directions from an Exchange Counterparty and such Holders, directions shall be followed in priority order as follows: (i) the Holders and (ii) an Exchange Counterparty, so long as such Exchange Counterparty is not in default of its obligations under its Hedge Agreement. (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, 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. (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, shall 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 any 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.** If the Commission shall pay or cause to be paid, or there shall otherwise be paid, to Holders of the Notes, such amounts as will, taking into account the investment earnings therefrom, fully provide for all of the principal and interest to become due on any particular Notes, at the times and the manner stipulated therein and in the Indenture and if all amounts payable under any Hedge Agreement shall have been satisfied and any Hedge Agreement shall have been terminated in accordance with its terms, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission hereunder shall be satisfied and discharged for those particular Notes.

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, (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 and (d) a Counsel's Opinion that the defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Notes. 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" shall mean 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 Agency 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 and the Cabinet 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 Cabinet 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 Cabinet, for an initial term ending June 30, 2008. The Cabinet has the right to continue the Financing Agreement and have the Project for succeeding biennial periods. The Cabinet is required to pay, as Financing Payments during the initial period ending

on June 30, 2008, and for each Renewal Term, the Debt Servicing Obligation relating to the Notes so long as any Notes and any obligations under a Hedge Agreement are outstanding. The Cabinet 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, 2028. 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 Cabinet'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 Cabinet covenants and agrees to pay "Additional Payments" for the term of the Financing Agreement and for any Renewal Term during which Notes or any obligation under a Hedge Agreement 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; and

(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.

**Effect of the Cabinet's Election not to Renew.** In the event the Cabinet shall give written notice to the Commission of the Cabinet's election not to renew the Financing Agreement for any ensuing optional biennial Renewal Term, prior to the automatic renewal, the Cabinet is not obligated to pay Financing Payments or Additional Payments beyond the last day of the then current term, and the Cabinet 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 Cabinet not to renew for a future term does not in any manner alter or diminish any obligation of the Cabinet 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)

**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 Cabinet will not be deemed to be in default if the Cabinet 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 Cabinet terminate the Financing Agreement. No termination of the Financing Agreement will deprive the Commission of any of its remedies or actions against the Cabinet. (Section 10.01)

**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 and each Exchange Counterparty to any Hedge Agreement. Each and all of the holders of the Notes, each such Exchange Counterparty 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 11.01)

**Tax Covenant.** To the full extent that it has the legal right to do so, the Cabinet and the Commission have agreed to all of the provisions of the Indenture authorizing the Notes; and the Cabinet and the Commission will not take any action nor omit to take any action which taking or omission would result in the exclusion of the receipt of interest on any of the Notes from the treatment afforded by Section 103(a) of the Code, to the extent the interest on such Notes is intended to be excludible from gross income for federal income tax purposes, under the terms of the Indenture or Bond Resolution. (Section 12.01)

Nothing has been done or will be done by either the Commission or the Cabinet which will cause the Notes to be private activity bonds within the meaning of Section 141 of the Code, including performance of any of the covenants contained herein, to the extent the interest on such Notes is intended to be excludible from gross income for federal income tax purposes, under the terms of the Indenture. (Section 12.02)

**Security and Assignment.** The Financing Agreement secures (i) the payment of Financing Payments and Additional Payments, (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 and (iii) the payment of obligations due under each Hedge Agreement.

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 Note

Resolution and 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 Kutak Rock LLP, Bond Counsel, to be delivered at the time of original issuance of the Notes, under existing laws, regulations, rulings and judicial decisions, interest on the Notes (a) is excluded from gross income for federal income tax purposes and (b) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Notes, however, will be included in the “adjusted current earnings” (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation’s earnings and profits under Subchapter C of the Internal Revenue Code of 1986, as amended (the “Code”)) of certain corporations and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The Commission and the Cabinet have each covenanted to comply with all requirements that must be satisfied in order for the interest on the Notes to be excludible from gross income for federal tax purposes. The opinions set forth above are subject to continuing compliance by the Commission and the Cabinet and others with such covenants. Failure to comply with such covenants could cause interest on the Notes to be included in gross income retroactive to the date of issue of the Notes.

The accrual or receipt of interest on the Notes may otherwise affect the federal income tax liability of certain recipients such as banks, thrift institutions, property and casualty insurance companies, corporations (including S corporations and foreign corporations operating branches in the United States), Social Security or Railroad Retirement benefit recipients, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, among others.

The extent of these other tax consequences will depend upon the recipients’ particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences and investors should consult their own tax advisors regarding the tax consequences of purchasing or holding the Notes.

In Bond Counsel’s further opinion, under the existing laws of the Commonwealth, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxes by the Commonwealth and all political subdivisions thereof. Owners of the Notes should consult his or her own tax advisor with respect to the state and local tax consequences of owning the Notes.

## **Future Legislation or Regulation**

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

## **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 Kutak Rock LLP, Omaha, Nebraska, Bond Counsel to the Commission. Certain other legal matters will be passed on by Frost Brown Todd LLC, Louisville, Kentucky, counsel to the Underwriter.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriters on behalf of the Commission relating to (a) computation of forecasted receipts of principal and interest on the U.S. Government Securities and the forecasted payments of principal and interest to redeem the Advance Refunded Bonds, and (b) computation of the yields on the Notes and the U.S. Government Securities was examined by The Arbitrage Group, Inc. Such computations were based solely upon assumptions and information supplied by the Underwriters on behalf of the Commission. The Arbitrage Group, Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **RATINGS**

The Commission has applied for ratings with respect to the Notes. 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") are expected to give the Notes the ratings of "Aaa", "AAA" and "AAA", respectively, each with the understanding that upon delivery of the Notes, the Policy will be issued by Financial Guaranty. The underlying ratings for the Notes are "Aa3," "A+" and "AA-" 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 Underwriters have agreed to purchase the Series A Notes for a purchase price of \$100,304,023.51, which is an amount equal to the par amount of the Series A Notes, less underwriters' discount of \$530,976.49. The Underwriters are committed to purchase all of the Series A Notes if any are purchased.

The Underwriters have agreed to purchase the Series B Notes for a purchase price of \$141,495,966.94, which is an amount equal to the par amount of the Series B Notes, less underwriters' discount of \$749,033.06. The Underwriters are committed to purchase all of the Series B Notes if any are purchased.

The Representative of the Underwriters have advised the Commission that the Underwriters intend to make a public offering of the Notes at the initial public offering prices or yields set forth on the inside cover page hereof; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters deem 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/ John R. Farris  
John R. Farris, 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 <sup>(1)</sup>
State Property and Buildings Commission	<b>KRS 56.450</b> 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	<b>KRS 56.863</b> Provide 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	<b>KRS 175.410-175.990</b> 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/AA+/AA-
The State Universities (consisting of nine)	<b>KRS 56.495</b> 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	<b>KRS 198A</b> Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.	Limited to \$2.5 billion of debt outstanding	Aaa/AAA/NR
Kentucky Infrastructure Authority	<b>KRS 224A</b> 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 (Sr. Series) Corporation (Subord. Series)	<b>KRS 164A</b> 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 \$5.0 billion of debt outstanding.	NR/AAA/AA A/NR/A/A
School Facilities Construction Commission	<b>KRS 157.611-157.665</b> 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
Kentucky Economic Development Finance Authority	<b>KRS 154</b> 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	<b>KRS 441.605-441.695</b> 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/AAA/NR (Insured)

<sup>(1)</sup> Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch.

Certain State Property and Buildings Commission Agency Fund Revenue bonds may have ratings different from those identified above.

The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers.

The Turnpike Authority of Kentucky was upgraded by Standard & Poor's to "AA+" from "AA" on 9/27/06.

**EXHIBIT B**  
**FORM OF BOND COUNSEL OPINION**

May \_\_\_\_, 2007

Commonwealth of Kentucky  
Kentucky Asset/Liability Commission  
Frankfort, Kentucky

\$243,080,000  
Commonwealth of Kentucky  
Kentucky Asset/Liability Commission  
General Fund Floating Rate Project Notes  
2007 Series A Notes  
2007 Series B Refunding Notes

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Kentucky Asset/Liability Commission (the "Commission") of \$100,835,000 aggregate principal amount of General Fund Floating Rate Project Notes, 2007 Series A Notes (the "Series A Notes") and \$142,245,000 aggregate principal amount of General Fund Floating Rate Project Notes, 2007 Series B Refunding Notes (the "Series B Notes," and together with the Series A Notes, the "Notes"). The Notes are issuable as fully registered Notes without coupons dated as of their date of delivery in the denomination of \$5,000 or any integral multiple thereof, bearing interest payable quarterly on February 1, May 1, August 1 and November 1 of each year commencing on August 1, 2007, at the rates per annum set forth in the schedule below and maturing on the dates and in the principal amounts as follows:

**Series A Notes**

<b>Maturity Date November 1,</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Per Annum Spread</b>
2017	\$25,210,000	67% of 3-Month LIBOR plus the Per Annum Spread	0.40%
2027	\$75,625,000	67% of 3-Month LIBOR plus the Per Annum Spread	0.53%

**Series B Notes**

<b>Maturity Date November 1,</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Per Annum Spread</b>
2021	\$71,310,000	67% of 3-Month LIBOR plus the Per Annum Spread	0.52%
2025	\$70,935,000	67% of 3-Month LIBOR plus the Per Annum Spread	0.55%

The Notes are subject to redemption upon the terms and at the prices set forth therein and as set forth in the Indenture described below.

The Notes are being issued by the Commission, 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, as supplemented and amended (the "Act"), a resolution adopted by the Commission on April 16, 2007 (the "Resolution"), and a Trust Indenture, dated as of May 1, 2007 (the "Indenture"), between the Commission and The Bank of New York Trust Company, N.A. having offices in Louisville, Kentucky, as trustee (the "Trustee"). The proceeds of the Notes will be used to provide funds (a) to refund certain outstanding bonds issued by the State Property and Buildings Commission of the Commonwealth of Kentucky (the "State Property and Buildings Commission") for the benefit of the Cabinet as more specifically described in the Indenture, (b) to finance certain projects which have been leased (such projects herein collectively referred to as the "Project") to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") pursuant to a Financing/Lease Agreement dated as of May 1, 2007, by and among the Commission, as lessor, and the Cabinet, as lessee, and the State Property and Buildings Commission of the Commonwealth of Kentucky (the "Lease") and (c) to pay the costs of issuance of the Notes, all for the benefit of the Cabinet.

The Commission has covenanted in the Indenture to at all times do and perform all acts and things permitted by law and necessary or desirable to assure that the interest on the Notes shall, for purposes of federal income taxation, be excludable from the gross income of the recipient.

We have examined the laws of the Commonwealth of Kentucky, the Act, a certified copy of the Indenture, an executed counterpart of the Lease, an executed counterpart of the Escrow Agreement dated as of May 1, 2007, by and between the Commission and The Bank of New York Trust Company, N.A., as Escrow Agent (the "Escrow Agreement"), an executed counterpart of the Memorandum of Instructions Regarding Use of Proceeds and Arbitrage Compliance dated the date hereof of the Commission, certified copies of proceedings of the Commission authorizing the issuance of the Notes, a copy of an executed note of each of said issue, House Bill 380 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part, as amended by House Bill 557 of the General Assembly of the Commonwealth of Kentucky, 2006 Regular Session, as enacted and vetoed in part, and such other documents, records, certificates and opinions as we have deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Indenture and the Resolution have been duly authorized, executed and delivered by the Commission, and constitute valid and binding obligations of the Commission enforceable in accordance with their respective terms.
2. The Lease has been duly authorized, executed and delivered by the Commission and the Cabinet, and constitutes the valid and binding obligation of the Commission and the Cabinet, as applicable, enforceable in accordance with its terms.
3. The Escrow Agreement has been duly authorized, executed and delivered by the Commission, and represents a valid and binding agreement of the Commission, enforceable against the Commission in accordance with its terms.

4. Assuming compliance by the Commission with certain covenants, including the covenant referred to in the fourth paragraph of this letter, under existing laws, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not a special preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Notes, however, must be included in the “adjusted current earnings” of certain corporations (i.e., alternative minimum taxable income as adjusted for certain items, including those items that would be included in the calculation of a corporation’s earnings and profits under Subchapter C of the Code) and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of each such corporation’s adjusted current earnings (which includes tax-exempt interest) over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

The accrual or receipt of interest on the Notes may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient’s particular tax status or other items of income or deduction. We express no opinion regarding any such consequences. Purchasers of the Notes, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Notes.

5. The 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 Notes do not pledge the general credit or taxing power, if any, of the Commonwealth, the Commission, the Cabinet or any other agency or political subdivision of the Commonwealth.

6. The Notes are not secured by a pledge of or lien on the properties constituting the Project but are payable as to principal and interest solely and only from and are secured by the Pledged Receipts. The ability of the Cabinet to make payments under the Lease is dependent upon legislative appropriations to the Cabinet, which has leased the Project for an initial term ending on June 30, 2008.

7. Under the existing laws of the Commonwealth of Kentucky, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and all political subdivisions and taxing authorities thereof.

The obligations of the Commission and the Cabinet, and the enforceability thereof, with respect to the Notes and the other documents described above are subject, in part, to the provisions of the bankruptcy laws of the United States of America and to other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors’ rights generally, now or hereafter in effect. Certain of such obligations, and enforcement thereof, are also subject to general equity principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of such documents.

We express no opinion as to the title to, or the sufficiency in the Indenture or otherwise of the description of, the Project, or the priority of any liens, charges or encumbrances on the Project.

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](http://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.

**EXHIBIT D**  
**FORM OF MUNICIPAL BOND NEW ISSUE INSURANCE POLICY**



Financial Guaranty Insurance Company  
125 Park Avenue  
New York, NY 10017  
T 212-312-3000  
T 800-352-0001

**Municipal Bond**  
**New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Municipal Bond  
 New Issue Insurance Policy**

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principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

**President**

**Effective Date:**

**Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

**Authorized Officer**



Financial Guaranty Insurance Company  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Endorsement**  
 To Financial Guaranty Insurance Company  
 Insurance Policy

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**Policy Number:** \_\_\_\_\_ **Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**  
 U.S. Bank Trust National Association, as Fiscal Agent



**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Endorsement**  
**To Financial Guaranty Insurance Company**  
**Insurance Policy**

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**Policy Number:** \_\_\_\_\_ **Control Number:** 0010001

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Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the \_\_\_\_\_ [Conduit Obligor] (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:** \_\_\_\_\_

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**  
**U.S. Bank Trust National Association, as Fiscal Agent**

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