

In the opinion of Bond Counsel for the Notes, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption “TAX TREATMENT,” interest on the Notes is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Notes is exempt from Kentucky income tax and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$171,260,000

**KENTUCKY ASSET/LIABILITY COMMISSION
Project Refunding Notes, 2003 General Fund Series A**

Dated: Date of Delivery

Due: As shown herein

The Project Refunding Notes, 2003 General Fund Series A (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. The Notes will bear interest payable on each January 15 and July 15, commencing on January 15, 2004. Principal of and interest on the Notes will be paid directly to DTC by The Huntington National Bank, Columbus, Ohio, as Trustee and Paying Agent (the “Trustee” and “Paying Agent”).

The Notes are not subject to redemption prior to maturity.

The Kentucky Asset/Liability Commission (the “Commission”) is issuing the Notes pursuant to a Resolution of the Commission adopted on November 26, 2002 and a Supplemental Resolution thereto, adopted on May 19, 2003. The proceeds of the Notes will be used, together with certain other funds, to (i) redeem certain maturities of the Revenue and Revenue Refunding Bonds, Project No. 55 of the State Property and Buildings Commission (“SPBC”), (ii) redeem the outstanding Project Notes, 1999 General Fund First Series of the Commission, and (iii) pay the costs of issuing the Notes. See “PLAN OF REFUNDING” herein. The Notes are being issued pursuant to a Trust Indenture, dated as of July 15, 2003 (the “Indenture”) between the Commission and The Huntington National Bank, Columbus, Ohio, as trustee (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/Lease Agreement, dated as of December 1, 2002 and a supplement thereto, dated as of July 15, 2003, both among the Commission, the Cabinet and SPBC. 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, 2004. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2004 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 CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT” herein.

Payment of the principal of and interest on the Notes when due will be insured by a financial guaranty insurance policy to be issued by AMBAC ASSURANCE CORPORATION concurrently with the delivery of the Notes. See “BOND INSURANCE” herein.

Ambac

THE NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT 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 Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Mayer, Brown, Rowe & Maw, Chicago, Illinois. It is expected that delivery of the Notes will be made on or about July 17, 2003, through the facilities of DTC, against payment therefore.

UBS Financial Services Inc.

Morgan Stanley

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

NatCity Investments, Inc.

Morgan Keegan & Company, Inc.

A.G. Edwards & Sons, Inc. Ross, Sinclair & Associates Banc One Capital Markets, Inc. First Kentucky Securities Corp.

Citigroup

Edward D. Jones & Co., L.P.

Merrill Lynch & Co.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND
PRICES OR YIELDS**

\$171,260,000

**KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT REFUNDING NOTES, 2003 GENERAL FUND SERIES A**

The Notes mature on the dates, in the principal amounts, bear annual interest at the rates and have the prices or yields as follows:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1/15/2004	\$ 950,000	1.00%	0.836%	7/15/2009	\$ 3,630,000	2.30%	100 %
1/15/2004	6,130,000	2.00	0.836	7/15/2009	19,635,000	5.00	2.300
7/15/2004	2,675,000	1.00	0.876	7/15/2010	4,240,000	2.50	2.570
7/15/2004	37,750,000	3.00	0.876	7/15/2010	10,340,000	5.00	2.570
7/15/2005	2,055,000	2.00	1.170	7/15/2011	4,275,000	3.00	2.810
7/15/2005	37,215,000	5.00	1.170	7/15/2011	2,500,000	5.00	2.810
7/15/2006	3,070,000	2.00	1.390	7/15/2012	745,000	3.00	2.940
7/15/2006	28,430,000	5.00	1.390	7/15/2012	3,360,000	5.00	2.940
				7/15/2013	4,260,000	3.00	3.070

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.

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KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

Gordon C. Duke, Secretary of the Finance and Administration Cabinet, Chairman
A.B. Chandler III, Attorney General
Jonathan Miller, State Treasurer
Dana B. Mayton, Secretary of the Revenue Cabinet
Mary Lassiter, Acting State Budget Director

SECRETARY TO THE COMMISSION

George R. Burgess, Jr., Executive Director of the Office of Financial Management

TRUSTEE AND PAYING AGENT

The Huntington National Bank
Columbus, Ohio

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITERS' COUNSEL

Mayer, Brown, Rowe & Maw
Chicago, Illinois

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SUMMARY

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

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

The Offering The Commission is offering its Project Refunding Notes, 2003 General Fund Series A in an aggregate principal amount of \$171,260,000 (the “Notes”). See “THE NOTES” herein.

Authority The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the “Act”), a Resolution adopted by the Commission on November 26, 2002, a Supplemental Resolution thereto adopted by the Commission on May 19, 2003, and the Trust Indenture dated as of July 15, 2003 (the “Indenture”), between the Commission and The Huntington National Bank, Columbus, Ohio, as trustee and paying agent (the “Trustee” and “Paying Agent”). The State Property and Buildings Commission of the Commonwealth (the “SPBC”) has also approved the issuance of the Notes.

Use of Proceeds The proceeds of the Notes, together with other funds, will be used by the Commission to (i) redeem certain maturities of the Revenue and Revenue Refunding Bonds, Project No. 55 of the SPBC, (ii) redeem the Commission’s outstanding Project Notes, 1999 General Fund First Series, and (iii) pay the costs of issuing the Notes. See “PLAN OF REFUNDING” herein.

Features The Notes are being offered in the authorized denominations of \$5,000 or any integral multiples thereof, at the rates shown 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. The Notes will bear interest payable

on each January 15 and July 15, commencing on January 15, 2004. Principal of and interest on the Notes will be paid directly to DTC by the Trustee.

The Notes are issuable only as fully registered Notes, without coupons. The Notes are not subject to redemption prior to maturity. It is expected that delivery of the Notes will be made on or about July 17, 2003, through the facilities of DTC, against payment therefor.

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 a Financing/Lease Agreement, dated as of December 1, 2002, and a First Supplemental Financing/Lease Agreement, dated as of July 15, 2003, both among the Commission, the Cabinet and SPBC.

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, 2004. 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 (I) ANY SUCH APPROPRIATION WILL BE FORTHCOMING IN FUTURE SESSIONS OR (II) 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 CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT" herein.

Payment of the principal of and interest on the Notes when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation concurrently with the delivery of the Notes.

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 OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT 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.

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 “Disclosure Agreement”) with the Trustee.

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

Information Information regarding the Notes is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

OFFICIAL STATEMENT
Relating to
\$171,260,000
KENTUCKY ASSET/LIABILITY COMMISSION
PROJECT REFUNDING NOTES, 2003 GENERAL FUND SERIES A

INTRODUCTION

This Official Statement (this “Official Statement”), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the “Commission”) to furnish pertinent information to the purchasers of \$171,260,000 aggregate principal amount of its Project Refunding Notes, 2003 General Fund Series A (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 November 26, 2002 (the “Original Resolution”), a Supplemental Resolution thereto adopted by the Commission on May 19, 2003 (together with the Original Resolution, the “Resolution”), and the Trust Indenture dated as of July 15, 2003 (the “Indenture”), between the Commission and The Huntington National Bank, Columbus, Ohio, as trustee and paying agent (the “Trustee” and “Paying Agent”).

The proceeds of the Notes, together with other funds, will be used to (i) redeem certain maturities of the Revenue and Revenue Refunding Bonds, Project No. 55 (the “Prior Bond Issue”) of the State Property and Building Commission (“SPBC”) (as described herein), (ii) redeem the Commission’s outstanding Project Notes, 1999 General Fund First Series (the “Prior Note Issue”) (as described herein), and (iii) pay the costs of issuing the Notes. See “PLAN OF REFUNDING” 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 summaries and references to the Act, the Indenture, the Financing/Lease Agreement dated as of December 1, 2002, and the First Supplemental Financing/Lease Agreement, dated as of July 15, 2003 (collectively, the “Financing Agreement”), both among the Commission, the Commonwealth of Kentucky Finance and Administration Cabinet (the “Cabinet”) and the SPBC and the Notes included in this Official Statement do not purport to be comprehensive or definitive, and such summaries and references are qualified in their entirety by reference to each such document, copies of which are available for inspection at the Office of Financial Management (“OFM”), 702 Capitol Avenue, Room 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of UBS Financial Services Inc., One North Wacker Drive, Chicago, Illinois 60606, as the representative of the underwriters of the Notes (the “Underwriter”).

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

THE NOTES

General

The Notes are issuable only as fully registered Notes. The Notes will be issuable in the denominations of \$5,000 or any integral multiples thereof, will be dated the date of delivery, and will bear interest payable on each January 15 and July 15, commencing January 15, 2004, at the rates set forth on the inside cover page hereof. 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.”

No Redemption

The Notes are not subject to redemption prior to maturity.

Book-Entry-Only System

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

Authorization

The Commission, at meetings on November 26, 2002 and May 19, 2003, adopted the Resolution, which, among other things (i) authorized the Indenture, (ii) authorized and approved the issuance of the Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the “Authorized Officer”), (iii) authorized the Financing Agreement and (iv) directed the preparation and distribution of this Official Statement.

The SPBC of the Commonwealth of Kentucky (the “Commonwealth”) also has approved the issuance of the Notes.

SECURITY FOR THE NOTES

The Notes and any 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”). Pursuant to the Indenture, payments received from the Cabinet arising under the Financing Agreement are to be deposited in to 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 therefore to permit the Commission to meet the debt service requirements of the Notes, through June 30, 2004. 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. If insurance proceeds are insufficient to make repairs or replace portions of the Projects which have been damaged, the Commission may issue Additional Notes on a parity basis with the Notes. The Commission has also reserved the right to issue Refunding Notes on a parity with the Notes to refund any Notes outstanding under the Indenture. See "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT" herein.

THE NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND DO NOT CONSTITUTE A DEBT 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

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance") for use in this Official Statement. Reference is made to Exhibit D for a specimen of the financial guaranty insurance policy.

Payment Pursuant to Bond Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Notes to be effective as of the date of issuance of the Notes. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Notes which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and

interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent/Bond Registrar. The insurance will extend for the term of the Notes and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates, in the case of principal, and on stated dates for payment, in the case of interest.

In the event the Trustee has notice that any payment of principal of or interest on a Note which has become Due for Payment and which is made to a holder of a Note by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as defined in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. 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.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of and Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Notes to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Notes to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Noteholder entitlement to interest payments and an appropriate assignment of the Noteholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Note, appurtenant coupon, if any, or right to payment of principal or interest on such Note and will be fully subrogated to the surrendering Noteholder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$6,362,000,000 (unaudited) and statutory capital of approximately \$3,945,000,000 (unaudited) as of March 31, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard &

Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Notes.

Ambac Assurance makes no representation regarding the Notes or the advisability of investing in the Notes and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE" and in "EXHIBIT D – Specimen Financial Insurance Policy."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Security and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;

- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
- 8) The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003; and
- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

PLAN OF REFUNDING

The SPBC had outstanding bonds of the Prior Bond Issue in the aggregate principal amount of \$237,325,000 as of June 1, 2003. A portion of the proceeds of the Notes will be used to redeem, on September 1, 2003, bonds of the Prior Bond Issue having the maturity dates and interest rates and in the principal amounts as follows:

<u>Maturity Dates</u> <u>(September 1)</u>	<u>Interest Rates</u>	<u>Principal Amount</u>
2004	4.700%	\$32,820,000
2005	4.800	31,665,000
2006	4.900	31,570,000
2009	5.000	23,420,000
2010	5.000	14,845,000
2013	5.000	16,490,000

The Commission had outstanding notes of the Prior Note Issue in the aggregate principal amount of \$22,695,000 as of June 1, 2003. A portion of the proceeds of the Notes will be used to redeem, on August 1, 2003, notes of the Prior Note Issue having the maturity dates and interest rates and in the principal amounts as follows:

Maturity Dates	Interest Rates	Principal Amount
<u>(March 1)</u>		
2004	4.000%	\$7,265,000
2005	4.100	7,560,000
2006	4.125	7,870,000

A portion of the proceeds of the Notes will be deposited in (i) the bond service fund established for payment of the Prior Bond Issue (the "Prior Bond Fund") and (ii) the note payment fund established for payment of the Prior Note Issue (the "Prior Note Payment Fund"). Upon the deposits in the Prior Bond Fund and the Prior Note Payment Fund, the amounts payable by the Cabinet under the lease related to the Prior Bond Issue will be correspondingly reduced and the financing agreement related to the Prior Note Issue will be canceled.

The refunding plan is being undertaken to provide net debt service savings to the Commonwealth. The refunding plan will be effected with proceeds from the Notes, together with certain other funds.

ESTIMATED SOURCES AND USES OF FUNDS

Sources and Uses of Funds

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

Sources

Par Amount of Notes	\$171,260,000
Plus: Net Bond Premium	<u>12,222,628</u>
Total Sources	\$183,482,628

Uses

Deposit to Prior Bond Fund	\$153,623,467
Deposit to Prior Note Payment Fund	22,695,000
Deposit to Cost of Issuance Fund(1)	<u>7,164,161</u>
Total Uses	\$183,482,628

(1) Includes Underwriters' Discount, bond insurance premium and swap termination payment.

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. The members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairman; the Attorney General; the State

Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. The Secretary to the Commission is the Executive Director of OFM.

The current members of the Commission are as follows:

Gordon C. Duke	Secretary of the Finance and Administration Cabinet, Chairman
A.B. Chandler III	Attorney General
Jonathan Miller	State Treasurer
Dana B. Mayton	Secretary of the Revenue Cabinet
Mary Lassiter	Acting State Budget Director

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, including notes issued in anticipation of the issuance of bonds, 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 three different types of project notes. Project notes are issued as General Fund Series, Agency Fund Series and Road Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreements. 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 or Road Fund Series. The indentures for each particular type of notes issued by the Commission generally allow, under certain circumstances, the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations are described below.

General Fund Tax and Revenue Anticipation Notes. Since 1997, 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. There are currently three series outstanding totaling \$500,000,000. Each series was issued on November 1, 2002 and matures on June 26, 2003. The Series A Notes in the amount of \$250,000,000 were issued as fixed rate notes and the Series B and Series C Notes in the amount of \$200,000,000 and \$50,000,000, respectively, were issued as variable rate notes.

Project Notes, General Fund Series. The Commission from time to time issued separate series of project notes, the proceeds of which were 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 SPBC. These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. Upon the issuance of the Notes, the following two series of project notes will be outstanding in addition to the Notes.

<u>Project Notes</u>	<u>Amount Authorized</u>	<u>Amount Outstanding as of June 1, 2003</u>
2001 General Fund First Series	37,450,000	27,865,000
<u>2002 General Fund First Series</u>	<u>12,775,000</u>	<u>12,775,000</u>
Total	\$50,225,000	\$40,640,000

Project Notes, Agency Fund Series. The Commission from time to time also issues separate series of project notes (the “Agency Fund Project Notes”), which are payable from payments to be received by the Commission under financing/lease agreements with various state agencies and from proceeds of bonds to be issued by SPBC 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. As of June 1, 2003, the Commission had outstanding its 2002 Agency Fund Project Notes Series A, in the outstanding principal amount of \$6,360,000.

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

Future Financings. The Commission may issue TRANs to provide seasonal working capital and Project Notes to fund interim financing needs for projects authorized by the 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.

The functions of the Cabinet include, among other things, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of the Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) construction, maintenance and operation of public buildings, except those provided for the exclusive use of one agency; (5) provision of administrative services of a financial nature to other agencies of Commonwealth government; (6) investment and management of all Commonwealth funds other than pension funds; and (7) issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

THE COMMONWEALTH

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

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

Financial Information Regarding the Commonwealth

Information regarding debt issuing authorities of the Commonwealth is included in *Exhibit A* 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 2002 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 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
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

- (iii) FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Email: NRMSIR@ftid.com

- (iv) Standard & Poor’s J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_respository@sandp.com

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 and certain prior fiscal years may be found on the Internet at:

<http://www.state.ky.us/agencies/finance/manuals/tax/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 Notes to comply with the provisions of Rule 15c2-12, see "CONTINUING DISCLOSURE AGREEMENT." 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 *Supplemental Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

Fiscal Year 2002

During fiscal year 2002, the Commonwealth of Kentucky implemented several new accounting standards issued by the Governmental Accounting Standards Board, including Statement No. 33, No. 34, No. 35, No. 36, No. 37, and No. 38. The provisions of these standards have been incorporated into the Commonwealth's financial statements and notes. Since the Commonwealth is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations.

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

As of the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.4 billion, a decrease of \$186.5 million in comparison with the prior year. Just over one-half (\$1.2 billion or 51%) of this total amount constitutes an unreserved fund balance, which is available for spending in the coming year. The remainder of the fund balance is reserved to indicate that it is not available for new spending. The reserves have been established: (1) to fund statutory obligations (\$835.5 million), (2) for inventory on hand at year end (\$66.9 million), (3) to fund capital outlay (\$260.1 million), or (4) for other restricted purposes (\$25.8 million).

During fiscal year 2002 the unreserved fund balance in the governmental funds decreased to \$1.2 billion, which is approximately 8.3 percent of total governmental fund expenditures for the year. The unreserved fund balance is comprised of \$1.2 billion in the Special Revenue Fund, \$316.6 million in the Debt Service Fund, negative \$265.5 million in the Capital Projects Fund and negative \$36.0 million in the General Fund.

The General Fund is the chief operating fund of the Commonwealth. The fund balance of the Commonwealth's General Fund decreased by \$311.4 million during the fiscal year. This is a

78.66 percent decrease from the prior year. At the end of the fiscal year, unreserved fund balance of the General Fund was a negative \$36.0 million, while the total fund balance reached \$87.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.54 percent of total General Fund expenditures, while total fund balance represents 1.32 percent of that same amount.

Due to the downturn in the economy, the General Fund experienced an increased number of interfund transfers out, leading to a decline in the General Fund's fund balance. In fiscal year 2002, the General Fund increased the amount of transfers out from \$303.0 million in fiscal year 2001 to \$468.0 million in fiscal year 2002. This is an increase of about \$165.0 million or a 54.45 percent rise from the previous year.

The Commonwealth's long-term debt increased by \$502.0 million, a 9.2 percent increase during the fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2002. The key factor in this increase was the issuance of \$976.0 million in Revenue Bonds (a 15.6% increase).

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop Estimated Revenues as defined in the Act (the "Estimated Revenues") for the General Fund and the Road Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each even year regular session of the General Assembly. The State Budget Director can convene the Group as the need arises to review and revise the forecast.

At the beginning of fiscal year 2002, the Group declared an estimated revenue shortfall of \$295.7 million in the General Fund and \$85.4 million in the Road Fund. Further budget cutbacks contained in a second Budget Reduction Order resulted in additional reductions of \$200.1 million in the General Fund and \$37.9 million in the Road Fund. A third and fourth Budget Reduction Order totaling \$179.2 million for the General Fund were each executed in the final days of the fiscal year to conform total spending to actual receipts for fiscal year 2002.

Fiscal Year 2003 (unaudited)

The Commonwealth began Fiscal Year 2003 without a legislatively enacted budget for the Executive branch of government. The state operated under an Executive Spending Plan implemented by an Executive Order of the Governor. In the General Assembly's 2003 Regular Session, which concluded on March 25, 2003, the legislature enacted House Bill 269, which included a budget for the Executive branch of government for the 2003-2004 biennium. The General Assembly also passed separate legislation that effectively ratified all amounts previously spent under the Executive Spending Plan. With the passage of these measures, all parties to the legal action filed by the State Treasurer seeking a determination of the validity of the Executive Order that established the Executive Spending Plan agreed to dismissal of the case as moot.

The Group revised the official estimate of General Fund receipts for Fiscal Year 2003 on January 17, 2003 from \$6,768.2 million to \$6,862.5 million, an increase of \$94.3 million. The General Fund will also collect an estimated \$127 million in Master Settlement Agreement Payments (relating to the settlement of litigation with certain companies that sold tobacco products) during Fiscal Year 2003, bringing the total projected General Fund receipts to \$6,989.5 million.

The Commonwealth reported General Fund revenue for the Fiscal Year 2003, beginning July 1, 2002 through April 30, 2003 of \$5,713.5 million versus \$5,471.7 million for the same period last year, an increase of 4.4%. Sales and Use and Individual Income tax receipts have increased 3.3% and 2.0% fiscal year-to-date, respectively. Corporate income tax collections have increased approximately \$60.6 million or 48.3% for the year. April 2003 receipts were \$713.8 million versus \$716.7 million in April 2002, a 0.4% decline. Payments resulting from larger than expected individual income tax refunds were the primary factor in the decline. General Fund revenues in May and June 2003 must grow by an estimated 5.6% to meet the January 2003 revision to the official estimate of General Fund receipts. Absent higher than expected growth in such receipts over the remaining months, the General Fund will likely experience a shortfall of over \$80 million in Fiscal Year 2003.

Pursuant to KRS 48.130 and 48.600, a General Fund or Road Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in estimated fund revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. The Governor must take action to balance the budget to eliminate any deficit prior to fiscal year end.

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, 2003, the Commonwealth's operating portfolio was approximately \$2.65 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (20%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (47%); repurchase agreements collateralized by the aforementioned (8%); municipal securities (6%); and corporate and asset backed securities, including money market securities (19%). The portfolio had a current yield of 2.02% and a modified duration of 1.77 years.

The Commonwealth's investments are categorized into four investment pools: Short-term, Intermediate-term, Long-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 cash balances 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 state. The Long-term Pool invests the Budget Reserve Trust Fund and other funds deemed appropriate for the pool where liquidity is not a serious concern. 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 and more recently the purchase of mortgage backed securities and collateralized mortgage obligations.

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 state is able to enter into either a principal relationship or an agent relationship. In a principal relationship the state 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 states 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 state. At the present time the state 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 September 28, 1995, the State Investment Commission adopted Resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed \$200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. Currently, the Commonwealth has two asset-based swap transactions outstanding, with a total notional amount of \$150,000,000. Both terminate on June 26, 2003.

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 supranatural 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 (5) 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 must not exceed 25% of any investment pool. Asset backed securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less and a weighted-average-life of not more than four (4) years at time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT

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, which are not otherwise defined herein. Reference is hereby made to the Indenture and the Financing Agreement for a complete recital of the terms defined therein.

“Act” means Section 56.860 *et seq.* of the Kentucky Revised Statutes, as amended.

“Additional Payments” means the Additional Payments payable under the Financing Agreement.

“Authorized Denominations” means \$5,000 or any integral multiple thereof.

“Authorized Officer” means the Executive Director of the Office of Financial Management and any other officer, member or employee of the Office of Financial Management authorized by a certificate of the Executive Officer to perform the act or sign the document in question, and if there is no such authorization, means the Executive Officer.

“Book-Entry-Only Notes” means Notes which, at the election of the Commission, shall be issued in accordance with the DTC Operational Arrangements.

“Business Day” means any day other than 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.

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

“Costs of Issuance” means 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, the swap termination fee and such other fees and expenses normally attendant to an issue of the Notes.

“Cost of Issuance Fund” means the Fund so designated which is established and created by the Indenture.

“Counsel” or “Counsel’s Opinion” means 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.

“Electronic Means” means (i) telecopy, telegraph, telex, facsimile transmission or other similar electronic means of communication, including a telephonic communication confirmed by writing or written transmission or (ii) making information available to third parties by readily accessible electronic means.

“Eligible Investments” means any investment authorized by Section 42.500 of the Kentucky Revised Statutes, as the same may be amended from time to time.

“Fiduciary” or “Fiduciaries” means the Trustee, any Paying Agent or Agents, or any combination of them, as may be appropriate.

“Financing Agreement” means the Financing/Lease Agreement, dated as of December 1, 2002 among the Commission, the Cabinet and the SPBC by which the Project is leased to the Cabinet, as amended by the First Supplemental Financing/Lease Agreement, dated as of July 15, 2003, among the Commission, the Cabinet and the SPBC by which the Project is leased to the Cabinet, and any amendments or supplements thereto. “Financing Payments” means Financing Payments payable under a Financing Agreement.

“Fiscal Year” means any period of twelve (12) months commencing July 1 of any year and ending June 30 of the ensuing year.

“Funds and Accounts” means the Cost of Issuance Fund, Note Payment Fund, Bond Payment Fund and Rebate Fund established by the Indenture and any account created thereunder.

“Holder”, “Noteholder”, or “Owner”, or any similar term (when used with reference to Notes), means the person in whose name a Note is registered.

“Indenture” or “Trust Indenture” means, the Trust Indenture, dated as of July 15, 2003, and entered into between the Commission and the Trustee and authorizing the issuance of the Notes, as amended or supplemented from time to time.

“Interest Account” means the account by that name in the Note Payment Fund established under the Indenture.

“Interest Payment Date” means each January 15 and July 15, commencing January 15, 2004.

“Issue Date” means the date of any Notes issued under the Indenture.

“KRS” means the Kentucky Revised Statutes of the Commonwealth of Kentucky as the same are in full force and effect at the date of the adoption of the Indenture, and any future amendments thereof to the extent that the same will not unconstitutionally impair the obligations of contracts created under the provisions of the Indenture.

“Memorandum of Instructions” means a Memorandum of Instructions Regarding Rebate which may be delivered to the Commission and the Trustee at the time of the issuance and delivery of a Series of Notes, as the same may be amended or supplemented in accordance with its terms.

“Note Payment Fund” means the Fund so designated which is established and created by the Indenture.

“Notes” means, as applicable, the Commission’s Project Refunding Notes, 2003 General Fund Series, issued from time to time under the provisions of the Indenture.

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

- (a) Notes canceled upon surrender, exchange or transfer or canceled because of payment or redemption at or prior to such date;
- (b) Notes for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited for the purpose on or prior to that date in the Note Payment Fund (whether upon or prior to the maturity or redemption date of those Notes); provided that if any of those Notes are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Noteholders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee, and provided further that if any of those Notes are to be purchased for cancellation a firm offer for sale stating the price shall have been received and accepted;
- (c) Notes which are deemed to have been paid pursuant to the provisions of Article IX of the Indenture or any Notes which are deemed to have been paid pursuant to the provisions of the Indenture; and
- (d) Notes in lieu of which others have been authenticated under the provisions of the Indenture.

“Paying Agent” means any bank or trust company so designated, and its successor or successors hereafter appointed, as paying agent for the Notes in the manner provided in the Indenture.

“Pledged Receipts” shall include:

- (i) all of the Financing Payments and Additional Payments, as defined in the Financing Agreement, to be paid by the Cabinet to the Commission pursuant to the Financing Agreement except for any Financing Payments or Additional Payments payable under the Financing Agreement subsequent to the release of the pledge pursuant to the Indenture;
- (ii) all interest earned and gains realized on Eligible Investments (a) except for earnings and gains on any investments 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 therefor constitute a Pledged Receipt; and
- (iii) the proceeds of any Bonds to the extent such proceeds are deposited in a Note Payment Fund.

“Principal Account” means the account by that name in the Note Payment Fund established under the Indenture.

“Prior Bond Resolution” means the Resolution adopted September 16, 1993 by the SPBC authorizing the issuance of the Prior Bonds.

“Prior Bonds” means the outstanding Revenue and Revenue Refunding Bonds, Project No. 55 of the SPBC maturing in the years 2004, 2005, 2006, 2009, 2010 and 2013.

“Prior Notes” means the all the outstanding Project Notes, 1999 General Fund First Series of the Commission.

“Prior Indenture” means the Trust Indenture dated as of March 1, 1999 between the Commission and Chase Manhattan Trust Company, National Association (now known as JPMorgan Trust Company, NA) under which the Prior Notes were issued.

“Rating Service” means 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 successors and assigns.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means the first day of the month (whether or not a Business Day) next preceding any Interest Payment Date.

“Registrar” means the registrar maintaining the registration books for any Notes.

“Renewal Term” means a period of two (2) years coinciding with the fiscal biennium of the Commonwealth, which commences on July 1 in each even-numbered year and ends on June 30 of the next ensuing even-numbered year unless hereafter modified by statute.

“Resolution” means the resolution of the Commission adopted November 26, 2002, as amended by the resolution of the Commission adopted May 19, 2003 authorizing the issuance of the Notes and the execution and delivery of the Trust Indenture.

“State” means the Commonwealth of Kentucky.

“Supplemental Trust Indenture” or “Supplemental Indenture” means any trust indenture supplemental to or amendatory of the Indenture adopted by the Commission in accordance with the Indenture.

“Treasurer” means the Treasurer of the State.

“Trust Estate” means the trust estate created by the Indenture and by the pledges specifically set forth in the Indenture.

“United States Obligations” means 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 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.

Security and Pledge of Revenues. The Notes are special obligations of the Commission, payable only from revenues and funds specifically pledged by the Commission for the payment of the principal of, if any, and interest on the Notes. There have been pledged for payment of the principal of and interest on the Notes: (i) the proceeds of sale of the Notes, (ii) Eligible Investments acquired from Note proceeds or by application of moneys in Funds and Accounts (subject to the limitations of (iv) below), (iii) the Pledged Receipts, and (iv) all Funds and Accounts created and established with respect to the Notes pursuant to the Indenture except the Rebate Fund, including moneys and securities therein.

Establishment of Funds. The Indenture establishes (i) the Cost of Issuance Fund; (ii) the Note Payment Fund; and (iii) the Rebate Fund with respect to the Notes. Each of these Funds is discussed below.

Cost of Issuance Fund. The Indenture establishes a separate Cost of Issuance Fund. In the Cost of Issuance Fund there shall be deposited the amount of moneys necessary to pay the Costs of Issuance of the Notes.

The Trustee is required from time to time to pay out, or to permit the withdrawal of, moneys from the Cost of Issuance Fund to pay any Costs of Issuance, free and clear of any lien or pledge or assignment in trust created by the Indenture, for the purpose of paying in the manner

authorized by the Indenture, any Costs of Issuance of the Notes, upon receipt by said Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made, for 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.

Note Payment Fund. The Indenture establishes a Note Payment Fund. Under the Indenture, the Trustee is required to maintain the Note Payment Fund.

The Trustee is required to establish the following accounts in the Note Payment Fund:

(1) An Interest Account, into which shall be deposited all amounts (i) received as capitalized interest upon the sale and delivery of any Notes and (ii) as Financing Payments and Additional Payments (including any prepayments of Financing Payments and Additional Payments), other than Financing Payments and Additional Payments for the fees of the Trustee, Registrar or any Paying Agent, which shall be retained by the Trustee for transfer to the applicable party under the Financing Agreement.

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

As discussed above under “Project Fund,” the Commission is required to cause the Finance and Administration Cabinet to transfer moneys on each Interest Payment Date from the Project Fund to the Trustee for deposit to the Note Payment Fund for the purpose of paying principal, purchase price and interest on the Notes.

Moneys in the Note Payment Fund are required to be used as follows:

(i) Amounts in the Interest Account shall be used to pay interest on the Notes.

(ii) Amounts in the Principal Account shall be used to pay principal of and premium, if any, on the Notes.

The Trustee is required to transmit to any Paying Agent, as appropriate, from moneys in the Note Payment Fund applicable thereto, amounts sufficient to make timely payments of principal and interest on the Notes to be made by such Paying Agent and then due and payable. The Commission authorizes and directs the Trustee to cause withdrawal of moneys from the Note Payment Fund which are available for the purpose of paying, and are sufficient to pay, the principal, premium, if any, and interest on the Notes as they become due and payable (whether on an Interest Payment Date, at stated maturity, or upon acceleration or redemption), for the purposes of paying or transferring moneys to the Paying Agents which are necessary to pay such principal, premium and interest.

Rebate Fund. The Indenture establishes a Rebate Fund, separate from any other fund established and maintained under the Indenture or any laws governing the creation and use of funds. 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 certain transfer provisions, all moneys at any time deposited in the Rebate Fund are required to 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, any Governmental Agency nor the owner of any Notes will have any rights in or claim to such moneys.

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 will 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 foregoing and the Memorandum of Instructions will survive the defeasance or payment in full of the Notes.

Investment of Funds. Amounts on deposit in any Fund or Account are required to be invested in Eligible Investments.

The Trustee is required to sell at the best price obtainable, or present for redemption or exchange, any Eligible Investment 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. The Trustee is required to advise the Commission in writing, on or before the last business day of each calendar month, of the details of all Eligible Investments held for the credit of each Fund or Account in its custody under the provisions of the Indenture as of the end of the preceding month.

The Trustee is required to keep the Commission fully advised as to the details of all such investments and is required to comply with any directions of the Commission with respect to investments in Eligible Investments. 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 such earnings or losses become a part thereof for all purposes.

Defeasance. If the Commission pays or cause to be paid, or there is 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, then and in that event as to those particular Notes the Indenture will cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission under the Indenture will be

satisfied and discharged for those particular Notes, and in such event, the Trustee is required, upon the request of the Commission, execute and deliver to the Commission all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries are required to pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption 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 will 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 in the preceding paragraph. Particular Notes will, prior to the maturity or redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph 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 will be sufficient, or Defeasance Obligations, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient to pay when due the principal and interest due and to become due on said Notes on and prior to the redemption or maturity date thereof, as the case may be, and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission will have given the Trustee in form satisfactory to it irrevocable instructions to notify the Holders of such Notes of such redemption in the manner provided in the Indenture for giving notice of redemption and (d) the Trustee will have received a Rating Confirmation Notice for the Notes to be defeased. Neither Defeasance Obligations or moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal and interest on said Notes.

Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Notes which remain unclaimed for six (6) years after the date when all of the Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such moneys if deposited with the Fiduciary after said date when all of the Notes became due and payable, will (subject to the provisions of Article V of the Indenture), at the written request of the Commission, be repaid by the Fiduciary to the Commission, as its absolute property and free from trust, and the Fiduciary will thereupon be released and discharged.

“Defeasance Obligations” means and includes any of the following:

(i) 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”.

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

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

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

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

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

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

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

Events of Default and Remedies. Each of the following events is an “Event of Default” under the Indenture:

(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 Trust 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.

Subject to provisions in this paragraph and upon the occurrence of an Event of Default as specified in paragraph (1) and (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 25% of the Notes Outstanding will 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 will 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 will 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.

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

In the enforcement of any rights and remedies under the Indenture, the Trustee will be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Commission for principal, interest or otherwise, under any provision of the Indenture or of the Notes, with interest on overdue payments at the rate or rates of interest specified in such Notes, together with any and all costs and expenses of collection and of all proceedings under the Indenture and 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.

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

for the payment of the charges and expenses and liabilities incurred and advances made by the Fiduciaries in the performances of their respective duties under the Trust Indenture, will be applied as follows:

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

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

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

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

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

Supplemental Indentures. The Indenture provides procedures whereby the Commission may amend the Indenture by adoption of a Supplemental Indenture, subject to the written consent of the Trustee. Amendments that may be made without the consent of the Holders must be for purposes of further securing the Notes, imposing further limitations on, surrendering rights of the Commission, curing ambiguities, confirming any pledge under and the subjection to any lien, claim or pledge, modifying 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 will cease to be Outstanding), modifying any provisions of the Indenture in order to obtain a liquidity facility or credit facility (so long as such modifications affect only the Notes to which the liquidity facility or credit facility relate) or for any other purpose that does not materially adversely affect the rights of the Holders affected thereby.

Amendments of the respective rights and obligations of the Commission and the Holders may be made with the written consent of the Holders of not less than two thirds in principal amount of the Outstanding Notes affected by such amendment. No such amendment can permit a change in the terms of redemption or maturity of the principal of any Outstanding Note or of the rate of interest thereon or reduce the percentages or otherwise affect the classes of Notes the consent of the Holders of which is required to effect such amendment.

The Trustee. The Trustee will agree to perform the duties and obligations specifically set forth in the Indenture, and no duties or obligations will be implied to the Trustee. In case a default or an Event of Default has occurred and is continuing under the Indenture (of which the Trustee has been notified or is deemed to have notice), the Trustee is required to exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Indenture provides that the Trustee will be entitled to act upon opinions of counsel and will not be responsible for any loss or damage resulting from reliance thereon in good faith. In addition, the Indenture provides that the Trustee will be entitled to rely on certain other instruments, and it will not be liable for any action reasonably taken or omitted to be taken by it in good faith or be responsible other than for its own gross negligence or willful neglect.

The Financing Agreement

The Commission, the Cabinet and the SPBC have entered into a Financing Agreement which provides for (i) issuance of the Notes to refund the Prior Bonds; and (ii) the continued maintaining of the financing agreement, between the Commission and the Cabinet, by the project financed with the proceeds of the Prior Bonds was leased to the Cabinet.

Term, Renewals and Financing Payments. The Commission has agreed to provide financing for the Project, for an initial term ending June 30, 2004. Under the General Fund Financing Agreement, 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, 2004, and for each Renewal Term, the Debt Service Obligation relating to the Notes so long as any Notes 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, 2014. 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.

The Cabinet has agreed to pay Additional Payments under the circumstances provided in the Financing Agreement.

Budget Proposals. The Cabinet has agreed that when appropriations bills are prepared for introduction in the General Assembly, it will request sufficient amounts in the aggregate (over and above all other requirements of the Cabinet) to enable the Cabinet to pay Financing Payments and Additional Payments, and thereby provide the Commission with moneys sufficient for the payment of the principal and interest of the Notes as they mature. In its statutory role as the financial agency of the Commonwealth, the Cabinet has agreed to apply appropriated funds to make the Financing Payments and Additional Payments to the extent such appropriations are made in each legislative and budgetary biennium of the Commonwealth.

Events of Default and Remedies. Each of the following events is an "Event of Default" under the Financing Agreement:

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

(b) 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 and Additional Payments (but the Cabinet shall 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 may by written notice to the Cabinet terminate the Financing Agreement or, without terminating the Financing Agreement, take possession (actually or constructively) of the Project. In such event, the Commission may lease the Project or portions thereof, and in the event of a leasing may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the default, and the expense of leasing, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of Financing Payments, Rent and all other sums due thereunder. All remedies available to the Commission are declared to be cumulative and concurrent.

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

TAX TREATMENT

General

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludable from gross income for Federal income tax purposes and interest on the Notes 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.

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

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Notes being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the tax status of the interest on the Notes.

Certain requirements and procedures contained or referred to the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

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

For example, corporations are required to include all tax-exempt interest in determining “adjusted current earnings” under Section 56(c) of the Code, which may increase the amount of any alternative minimum tax owed. Similarly, tax-exempt interest may also increase the amount of any environmental tax owed under Section 59 of the Code, which is based on the alternative minimum taxable income of any corporation subject to that tax. Ownership or disposition of the Notes may result in other collateral Federal, state or local tax consequence for certain taxpayers, including, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, and increasing the federal tax liability of certain individual recipients of social security or Railroad Retirement benefits, under Section 86 of the Code. Ownership of any Notes may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of Notes in a state other than Kentucky or being subject to tax in a state other than Kentucky, may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Notes.

The Commission has not designated the Notes as “qualified tax-exempt obligations” under Section 265 of the Code.

Premium

“Acquisition Premium” is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Notes that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the “Premium Notes”), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes (“tax-exempt bonds”) must be amortized and will reduce the holder’s adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining holder’s taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Notes, or on any of the Notes, that must be amortized during any period will be based on the “constant yield” method, using the original holder’s basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Notes, including any Premium Notes, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount

The Notes that have an interest rate that is lower than the yield, as shown on the inside cover page hereto (the “Discount Notes”), are being offered and sold to the public at an original issue discount (“OID”) from the amounts payable at maturity thereon. OID is the excess of the

stated redemption price of a bond at maturity (the face amount) over the “issue price” of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Notes, the amount of accretion will be based on a single rate of interest, compounded semiannually (the “yield to maturity”). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Note at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Note is added to such purchaser’s tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Note and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Notes should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Notes other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

LITIGATION

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

APPROVAL OF LEGALITY

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

RATINGS

The following rating agencies (each a “Rating Agency”) have assigned the Notes the following respective ratings: Fitch Ratings, “AA-” and “AAA”; Moody’s Investors Service, Inc., “Aa3” and “Aaa”; and Standard & Poor’s Credit Markets Services, a Division of the McGraw-Hill Companies, “A+” and “AAA”. For each Rating Agency, the first rating described above refers to the underlying rating of the Notes, without bond insurance or other credit enhancement, and the second rating is contingent on the issuance of the Financial Guaranty Insurance Policy. 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

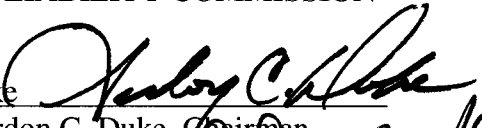
The Underwriters have agreed to purchase the Notes for a purchase price of \$182,928,587.59, which is an amount equal to the par amount of the Notes, plus net bond premium of \$12,222,628.25, less underwriters' discount of \$554,040.66. The Underwriters are committed to purchase all of the Notes if any are purchased.

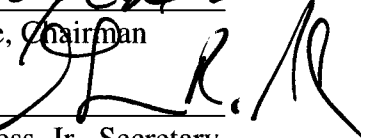
The Underwriter has advised the Commission that it intends to make a public offering of the Notes at the initial public offering prices or yields set forth on the inside cover page hereof; provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter deems necessary in connection with the marketing of the Notes.

MISCELLANEOUS

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

KENTUCKY ASSET/LIABILITY COMMISSION

By /s/ Gordon C. Duke 
Gordon C. Duke, Chairman

By /s/ George R. Burgess, Jr. 
George R. Burgess, Jr., Secretary

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EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management, 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 currently 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. The Office 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 as displayed in Table II.

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. Although, in the event of a shortfall, the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to \$60 and \$125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$950 million of debt outstanding; effective July 15, 2002, limit became \$1.95 billion.	Aaa/AA-
School Facilities Construction Commission	KRS 157.800-157.895 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/A
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA (Insured)

*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. On October 9, 2002, Standard & Poor's lowered the Commonwealth's issuer credit rating from AA to AA- and the rating on the Commonwealth's appropriation-backed debt from AA- to A+. Standard & Poor's also lowered the Kentucky Infrastructure Authority's moral obligation pledge from A to A-.

EXHIBIT B
FORM OF BOND COUNSEL OPINION FOR NOTES

[Date of Delivery]

Kentucky Asset/Liability Commission
Frankfort, Kentucky

Re: Kentucky Asset/Liability Commission
Project Refunding Notes, 2003 General Fund Series A

Gentlemen:

We have acted as bond counsel in connection with the issuance by the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer"), of its Project Refunding Notes, 2003 General Fund Series A in the amount of \$171,260,000 (the "Project Notes").

The Project Notes are authorized to be issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Section 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Issuer on November 26, 2002 as amended and supplemented by a Resolution adopted by the Issuer on May 19, 2003 (collectively the "Resolution"), and a Trust Indenture (the "Indenture") dated as of July 15, 2003 between the Issuer and The Huntington National Bank, Columbus, Ohio, as trustee (the "Trustee").

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

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Project Notes, including a specimen Project Note, the Financing Agreement dated as of December 1, 2002, as amended and supplemented by a First Supplemental Financing/Lease Agreement dated as of July 15, 2003 (collectively the "Financing Agreement") between the Issuer, the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Commonwealth of Kentucky State Property and Buildings Commission (the "SPBC"). We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Commonwealth, the Cabinet and the Issuer as to certain factual matters.

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

1. The Issuer is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Project Notes.
2. The Indenture, the Financing Agreement, and the Resolution have been duly authorized, executed and delivered by the Issuer and the Financing Agreement has been duly

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

3. The Project Notes have been duly and validly authorized and, when duly executed in the form and manner provided in the Indenture, duly authenticated by the Trustee and delivered and paid for, will constitute valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

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

5. The Project Notes are not secured by a pledge of or lien on the properties constituting the Project, as defined in the Indenture, or by a pledge of or lien on the income derived from the Project, if any, 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 Financing Agreement is dependent upon legislative appropriations to the Cabinet, which has leased the Project for an initial term ending June 30, 2004, with the right to renew for additional successive terms of two years each until the Project Notes and interest thereon have been paid and discharged.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Project Notes is excludable from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Project Notes will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, we have assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. We express no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Project Notes.

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

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

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

Very truly yours,

EXHIBIT C

BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

General. The Notes will be registered under a book-entry system, with bond certificates immobilized at The Depository Trust Company (“DTC”) and not available for distribution to investors. The book-entry system will evidence beneficial ownership of the Notes with transfers of beneficial ownership effected on the records of DTC and its participating organizations (“Direct Participants”) pursuant to rules and procedures established by DTC. Payments of principal of and interest on the Notes will be made in immediately available funds to DTC or its nominee as the registered owner of the Notes. Transfer of principal and interest payments to Direct Participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to beneficial owners by Direct Participants of DTC will be the responsibility of such Direct Participants and other nominees of beneficial owners.

THE FOLLOWING INFORMATION HAS BEEN FURNISHED BY DTC FOR USE IN THIS OFFICIAL STATEMENT.

The following information has been furnished by DTC for use in this Official Statement. The Commission is not responsible for its accuracy or completeness.

DTC will act as securities depository for the Notes. The Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully registered Note certificate will be issued in the aggregate principal amount and maturity of the Notes, and will be deposited with DTC or the Trustee, as the agent of 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each 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, but 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 Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. effect no 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 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.

Redemption notices shall be sent to Cede & Co. 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 series and maturity 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 the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption 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 Payment 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 securities 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, the Commission or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption price 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to have its Notes purchased, pursuant to the tender provisions described in this Official Statement, through its Participant, to the Tender Agent and/or the Remarketing Agent, as appropriate, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant’s interest in the Notes, on DTC’s records, to the Tender Agent. The requirement for physical delivery of Notes in connection with an optional tender or mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Notes to the Tender Agent’s DTC account.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Commission and the Trustee. Under such circumstances, if a successor securities depository is not obtained, certificates for the Notes 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, certificates for the Notes will be printed and delivered.

For every transfer and exchange of the Notes, the Trustee and DTC and the DTC Participants will charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The Commission and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Notes, (ii) the delivery to any DTC Participant or any other person, other than a registered owner, of any notice with respect to the Notes, including any tender notice or notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than a registered owner, of any amount with respect to principal of or interest on the Notes.

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

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EXHIBIT D
SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.


As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



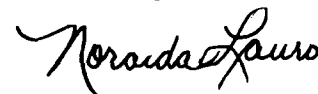
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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