

**NEW ISSUE**  
**DTC Book-Entry-Only**  
See “THE NOTES” herein

**Ratings: See “RATINGS” herein**

*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 Series 2005 A-1 Notes and Series 2005 A-2 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 Taxable Series 2005 C-1 Notes is includable in gross income for Federal Income Tax purposes. Interest on the Notes is exempt from Kentucky income tax and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.*

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

CONSISTING OF

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

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

AND

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

**Dated: Date of Delivery**

**Price of all Notes: 100%**

**Final Maturity: November 1, 2025**

The Kentucky Asset/Liability Commission (the “Commission”) is issuing its Project Notes, 2005 General Fund Second Series A-1 (the “Series 2005 A-1 Notes”), its Project Notes, 2005 General Fund Second Series A-2 (the “Series 2005 A-2 Notes”) and its Project Notes, 2005 Taxable General Fund Second Series C-1 (the “Taxable Series 2005 C-1 Notes and together with the Series 2005 A-1 Notes and the Series 2005 A-2 Notes, the “Notes”) to provide financing for certain Projects (defined herein) in anticipation of bonds to be issued by the State Property and Buildings Commission of the Commonwealth of Kentucky (the “SPBC”) and/or permanent financing for such Projects.

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

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



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

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing/Lease Agreement (the “Financing Agreement”) among the Commission, the SPBC and the Commonwealth of Kentucky Finance and Administration Cabinet (the “Cabinet”) and certain subleases (the “Subleases”) between the Cabinet as sublessor and various state agencies described herein, as sublessees (the “State Agencies”). The Kentucky General Assembly has appropriated to the Cabinet and various State Agencies amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2006. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2006 or in future biennia or that the Governor, in the performance of his or her obligation to balance the Commonwealth of Kentucky’s annual budget, will not reduce or eliminate such appropriations. **The Notes are special obligations of the Commission and are payable solely from the revenues and funds specifically pledged by the Commission for the payment of the principal of, premium, if any, and interest on the Notes.** See “SECURITY FOR THE NOTES” and Exhibit E herein.

The Notes are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their co-counsel, Frost Brown Todd LLC, Louisville, Kentucky, and Ungaretti & Harris LLP, Chicago, Illinois and for the Liquidity Provider by its counsel, Nixon Peabody LLP, and by its French counsel. It is expected that the initial tranche of Notes in definitive form will be available for delivery in New York, New York, on or about November 2, 2005.

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

**UBS Financial Services Inc.**  
**(Series 2005 A-2 Notes)**

October 28, 2005

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission, the Liquidity Provider or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of, the Notes by any person in any jurisdiction in which it is unlawful for such persons to make such offer, solicitation or sale. The information set forth herein has been obtained from the Kentucky Asset/Liability Commission, the Commonwealth of Kentucky and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Kentucky Asset/Liability Commission since the date hereof.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE NOTES IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE NOTES AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE KENTUCKY ASSET/LIABILITY COMMISSION AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE NOTES THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**KENTUCKY ASSET/LIABILITY COMMISSION**

**COMMISSION MEMBERS**

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

**SECRETARY TO THE COMMISSION**

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

**TRUSTEE**

J.P. Morgan Trust Company, National Association

**LIQUIDITY PROVIDER**

Dexia Public Finance Bank

**BOND COUNSEL**

Peck, Shaffer & Williams LLP  
Covington, Kentucky

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## SUMMARY

The following information is furnished solely to provide limited introductory information regarding 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 Kentucky Asset/Liability Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE KENTUCKY ASSET/LIABILITY COMMISSION" herein.

**The Offering** The Commission is offering its Project Notes, 2005 General Fund Second Series (the "Notes") consisting of not to exceed \$363,000,000 2005 General Fund Second Series A-1 Notes (the "Series 2005 A-1 Notes"), not to exceed \$365,000,000 2005 General Fund Second Series A-2 Notes (the "Series 2005 A-2 Notes") and not to exceed \$22,000,000 2005 Taxable General Fund Second Series C-1 Notes (the "Taxable Series 2005 C-1 Notes"). The Notes are issuable in a total amount not to exceed \$750,000,000, over a period of time. The final maturity of any Notes issued under the Indenture cannot extend beyond November 1, 2025.

**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 August 15, 2005 (the "Resolution"), and the Trust Indenture dated as of November 1, 2005 (the "Indenture"), between the Commission and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the "Trustee").

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

**Security** The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing/Lease Agreement dated as of November 1, 2005 (the "Financing Agreement") among the Commission, the SPBC and the Commonwealth's Finance and Administration Cabinet (the "Cabinet") and certain subleases (the "Subleases") between the Cabinet as sublessor and various state agencies described herein, as sublessees (the "State Agencies"). The Kentucky General Assembly has appropriated to the Cabinet and the certain State Agencies, amounts projected to be sufficient to meet interest requirements on the Notes through June 30, 2006. 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 annual budget, will not reduce or eliminate such appropriations. See "SECURITY FOR THE NOTES."

Under the provisions of the Constitution of the Commonwealth, the Cabinet and State Agencies are 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 and the SPBC by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. The Commission may issue Additional Notes on a parity basis with the Notes under the circumstances outlined in the Indenture. See Exhibit E herein.

THE NOTES ARE SPECIAL OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED BY THE COMMISSION FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE NOTES.

**Liquidity  
Facility**

Upon issuance of the Notes, the Commission, the Trustee and Dexia Credit Local, acting through its New York branch will enter into a Standby Note Purchase Agreement for each series of Notes (each, a "Liquidity Facility" and, collectively, the "Liquidity Facilities"). (The term "Liquidity Provider" in this Official Statement refers to Dexia Credit Local, acting through its New York branch, during the period that each initial Liquidity Facility is in effect and, thereafter, refers to each provider of an Alternate Liquidity Facility at the time in effect.) Purchases of tendered Notes that are not remarketed by the Remarketing Agent will be funded, subject to certain conditions described herein, under the related initial Liquidity Facility. See "LIQUIDITY FACILITIES." Each Liquidity Facility expires on October 31, 2008, or if such date is not a Business Day, the next succeeding Business Day, unless extended or terminated sooner in accordance with its respective terms. Under certain circumstances, the obligation of the Liquidity Provider to purchase Notes under the related initial Liquidity Facility will terminate immediately without notice or demand to any person. See "LIQUIDITY FACILITIES."

The Liquidity Facility covering one series of Notes may be extended, renewed, terminated or replaced without affecting the Liquidity Facility securing another series of Notes. The covenants and agreements, including events of default, contained in a Liquidity Facility covering one series of Notes may be waived or amended at any time by the Liquidity Provider without affecting the Liquidity Facility covering another series of Notes. There are no cross-default provisions in the Liquidity Facilities providing that a default under one Liquidity Facility automatically constitutes a default under another Liquidity Facility.



Under certain circumstances described below under "LIQUIDITY FACILITIES," a Liquidity Facility may be replaced by an Alternate Liquidity Facility supporting payment of the purchase price of tendered or deemed tendered Notes (an "Alternate Liquidity Facility"). The delivery of an Alternate Liquidity Facility shall result in the mandatory tender of the related series of Notes. Each Liquidity Facility and any related Alternate Liquidity Facility are referred to collectively in this Official Statement as the "Liquidity Facility." Also, under certain circumstances described herein and in the Indenture, the Commission may terminate the then-current Liquidity Facility without delivering a Substitute Liquidity Facility. The termination of a Liquidity Facility under such circumstances will result in the mandatory tender of the related series of Notes. See "THE NOTES – Purchase of Notes" and "LIQUIDITY FACILITIES."

## **Features**

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

The Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. Principal of, and interest on, the Notes is payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE NOTES – Book-Entry-Only System" herein.

Specific information (e.g., series designation, dated date, maturity date and interest rate) with respect to particular Notes issued under the Indenture and purchased by a Beneficial Owner (defined herein) will be set forth in a trade confirmation issued to the Beneficial Owner by the DTC Participant (defined herein) with which such Beneficial Owner has an account.

## **Purchase and Redemption**

Notes bearing interest at the Daily Rate and the Weekly Rate may be subject to mandatory purchase prior to maturity under some circumstances. Notes bearing interest at the Daily Rate and the Weekly Rate may be subject to optional tender and purchase under some circumstances, but Notes bearing interest at the Commercial Paper Rate or the Fixed Rate will not be subject to optional tender and purchase. See "THE NOTES – Purchase of Notes" herein. Notes bearing interest at the Commercial Paper Rate will not be subject to optional redemption during a Commercial Paper Period, but Notes bearing interest at the Daily Rate or Weekly Rate may, under some circumstances, be subject to optional redemption. Notes bearing interest at the Fixed Rate will only be subject to redemption under the circumstances as may be described in a Certificate of Award with respect to such Notes or a certificate issued by the Commission upon conversion of Notes to a Fixed Rate. See "THE NOTES – Redemption of Notes" herein.

**Tax Status**

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2005 A-1 Notes and Series 2005 A-2 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. Interest on the Taxable Series 2005 C-1 Notes is includable in gross income for Federal income tax purposes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" herein, and Exhibit D.

**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 76, Frankfort, Kentucky 40601 (502) 564-2924, or, during the initial offering period, the Underwriters, J. P. Morgan Securities Inc., 131 South Dearborn Street, Mail Code IL1-0826, Chicago, Illinois 60670-0826, (312) 385-8444, with respect to the Series 2005 A-1 Notes and the Taxable Series 2005 C-1 Notes and UBS Financial Services Inc., One North Wacker Drive, Chicago, Illinois 60606, (312) 525-4651, with respect to the Series 2005 A-2 Notes.

## **OFFICIAL STATEMENT**

**NOT TO EXCEED \$750,000,000**

**KENTUCKY ASSET/LIABILITY COMMISSION  
PROJECT NOTES, 2005 GENERAL FUND SECOND SERIES  
CONSISTING OF**

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

**AND**

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

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

## **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 not to exceed \$750,000,000 aggregate principal amount of its Project Notes, 2005 General Fund Second Series (the "Notes") consisting of not to exceed \$363,000,000 2005 General Fund Second Series A-1 Notes (the "Series 2005 A-1 Notes"), not to exceed \$365,000,000 2005 General Fund Second Series A-2 Notes (the "Series A-2 Notes") and not to exceed \$22,000,000 2005 Taxable General Fund Second Series C-1 Notes (the "Taxable Series 2005 C-1 Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on August 15, 2005 (the "Resolution"), and the Trust Indenture dated as of November 1, 2005 (the "Indenture"), between the Commission and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the "Trustee").

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

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing/Lease Agreement dated as of November 1, 2005 (the "Financing Agreement") among the Commission, the SPBC and the Finance and Administration Cabinet (the "Cabinet"). The initial term of the Financing Agreement ends on June 30, 2006, and the Financing Agreement renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Notes. The Financing Agreement requires the Cabinet, for each biennial period during which Notes are outstanding, to seek legislative appropriations to the Cabinet in amounts which are projected to be sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Notes.

In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under subleases dated as of November 1, 2005 (the "Subleases") to the following state agency (collectively, the "State Agencies"): the Kentucky State Fair Board, the Council on Postsecondary Education (including Eastern Kentucky University, the Kentucky Community and Technical College System, Kentucky State University, Morehead State University, Murray State University, Northern Kentucky University, University of Kentucky, University of Louisville, and Western Kentucky University), the Kentucky Education Cabinet (including the Department of Education and Kentucky Educational Television), the Cabinet for Economic Development, the Environmental and Public Protection

Cabinet, the Governor's Office of Agricultural Policy, the Governor's Office for Local Development (including the Kentucky Infrastructure Authority), the Cabinet for Health and Family Services, the Justice and Public Safety Cabinet, and the Personnel Cabinet. See "THE STATE AGENCIES" for information on the State Agencies.

The General Assembly has appropriated to the Cabinet and the State Agencies amounts projected to be sufficient to meet interest requirements on the Notes (and/or the interest component of the reimbursement obligations of the Commission to the Liquidity Provider) through June 30, 2006. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary sessions of the General Assembly. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

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

The summaries and references to the Act, the Indenture, the Financing Agreement (as defined herein), the Liquidity Facilities 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 76, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of J. P. Morgan Securities Inc., 131 South Dearborn Street, Mail Code IL1-0826, Chicago, Illinois 60670-0826, (312) 385-8444, with respect to the Series 2005 A-1 Notes and the Taxable Series 2005 C-1 Notes and UBS Financial Services Inc., One North Wacker Drive, Chicago, Illinois 60606, (312) 525-4651, with respect to the Series 2005 A-2 Notes.

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

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

## **THE NOTES**

### **General**

The Notes will be offered incrementally over a period of time beginning with the date of this Official Statement in a total amount not to exceed \$750,000,000. The size of each offering will be determined by the expected expenditures toward the Project.

The Notes may bear interest in any of the following interest rate modes: the Commercial Paper Rate (defined below), the Daily Rate (defined below), the Weekly Rate (defined below), or the Fixed Rate (defined below) (each such interest rate mode, an "Interest Rate Mode"); provided that the applicable Series of Notes outstanding at any one time must bear interest in (i) a single Interest Rate Mode or (ii) if

an Interest Rate Mode is the Fixed Rate, then one additional Interest Rate Mode. Subject to the foregoing limitation, the applicable Interest Rate Mode with respect to outstanding Notes may be converted to another Interest Rate Mode. If an Interest Rate Mode with respect to the Notes is converted to another Interest Rate Mode, the Notes will be subject to mandatory tender for purchase as described under "THE NOTES – Purchase of Notes." Interest on the Notes shall be paid on each applicable Interest Payment Date (defined below). In no event shall the interest rate on (i) the Series 2005 A-1 Notes or Series 2005A-2 Notes exceed the Maximum Interest Rate of 12.00% or (ii) the Taxable Series 2005 C-1 Notes exceed the Maximum Interest Rate of 15.00%.

## **Interest Rate Modes**

**Commercial Paper Rate Mode.** Notes that bear interest in the Commercial Paper Rate Mode ("Commercial Paper Rate Mode") are those Notes that bear interest that is determined at the commencement of a period of not less than one day to not more than 365 days, ending on or before the Final Maturity Date, that will be established by the Remarketing Agent (a "Commercial Paper Period"). The interest rate for Notes in the Commercial Paper Rate Mode and the Commercial Paper Period will be determined by the Remarketing Agent no later than 1:00 p.m. (Eastern Time), on the first day of the Commercial Paper Period (an "Interest Rate Determination Date" with respect to Commercial Paper Rate Notes). Notwithstanding the foregoing, any Series of Notes bearing interest at a Commercial Paper Rate (defined below) purchased on behalf of the Commission and remaining unsold by the Remarketing Agent as of the close of business on the first day of a Commercial Paper Period for such Series of Notes are required to have a Commercial Paper Period of one day or, if that Commercial Paper Period would not end on a day before a Business Day, a Commercial Paper Period of the shortest possible duration greater than one day and ending on a day before a Business Day. The Remarketing Agent is required to make the Commercial Paper Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (Eastern Time) on any Interest Rate Determination Date with respect to Notes in the Commercial Paper Rate Mode.

The "Commercial Paper Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Commercial Paper Rate at a price equal to the principal amount of such Notes.

Interest on Notes that bear interest in the Commercial Paper Rate Mode will be payable on the first Business Day after the end of the Commercial Paper Period (an "Interest Payment Date" with respect to Commercial Paper Rate Notes) unless the Commercial Paper Period exceeds 182 days, in which case there will be an additional Interest Payment Date on the day that is 182 days after the commencement of that Commercial Paper Period (or the first Business Day thereafter if such day is not a Business Day). All computations of interest on any Notes that bear interest in the Commercial Paper Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

**Daily Rate Mode.** Notes that bear interest at the Daily Rate (the "Daily Rate Mode") are those Notes that bear interest that is adjusted on each Business Day. The interest rate for Notes in the Daily Rate Mode for a specific Daily Rate Period (defined below) will be established by the Remarketing Agent no later than 10:30 a.m. (Eastern Time) on each Interest Rate Determination Date (defined below) for so long as such Series of Notes are to bear interest in the Daily Rate Mode.

The "Daily Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Daily Rate at a price equal to the principal amount of such Notes. The Remarketing Agent is required to make the Daily Rate available by telephone to any Holder requesting

such rate after 5:00 p.m. (Eastern Time) on any Interest Rate Determination Date with respect to Notes in the Daily Rate Mode.

The "Daily Rate Period" means the period beginning on the calendar day on which a Daily Rate is established and ending the calendar day on which the next Daily Rate is established so that the Daily Rate for any non-Business Day is the Daily Rate for the last day on which the Daily Rate was set. The "Interest Rate Determination Date" means, with respect to Notes in the Daily Rate Mode, each day such Series of Notes bears interest at the Daily Rate.

Interest on Notes in the Daily Rate Mode will be payable on the first Business Day of each month (an "Interest Payment Date" with respect to Daily Rate Notes). All computations of interest on any Notes that bear interest in the Daily Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

**Weekly Rate Mode.** Notes that bear interest at the Weekly Rate (the "Weekly Rate Mode") are those Notes that bear interest that is adjusted on a weekly basis. The interest rate for Notes in the Weekly Rate Mode will be established by the Remarketing Agent no later than 4:30 p.m. (Eastern Time) on each Tuesday (or, if such Tuesday is not a Business Day, then the next succeeding Business Day) (an "Interest Rate Determination Date" with respect to Weekly Rate Notes) for so long as such Series of Notes are to bear interest in the Weekly Rate Mode. Each Weekly Rate (defined below) will apply to (i) the period beginning on the Wednesday of the week in which such Weekly Rate is set and ending on the following Tuesday or, if earlier, ending on the day before the effective date of a new method of determining the interest rate on such Series of Notes or (ii) the period beginning on the effective date of a change to a Weekly Rate and ending on the next Tuesday. The Remarketing Agent is required to make the Weekly Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (Eastern Time) on any Interest Rate Determination Date with respect to Notes in the Weekly Rate Mode.

The "Weekly Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Weekly Rate at a price equal to the principal amount of such Notes.

Interest on Notes in the Weekly Rate Mode will be payable on the first Business Day of each month (an "Interest Payment Date" with respect to Weekly Rate Notes). All computations of interest on any Notes in the Weekly Rate Mode shall be based on a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

**Fixed Rate Mode.** Notes that bear interest at the Fixed Rate (the "Fixed Rate Mode") are those Notes that bear interest that is fixed. The interest rate for Notes in the Fixed Rate Mode for a specific Fixed Rate Period (defined below) will be established by the Remarketing Agent on the Interest Rate Determination Date (defined below) for so long as such Series of Notes are to bear interest in the Fixed Rate Mode.

The "Fixed Rate" is the minimum rate per annum which will, in the judgment of the Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at a fixed rate to maturity at a price equal to the principal amount of such Notes. The Remarketing Agent is required to make the Fixed Rate available by telephone to any Holder requesting such rate after 5:00 p.m. (Eastern Time) on any Interest Rate Determination Date with respect to Notes in the Fixed Rate Mode.

The "Fixed Rate Period" means the period commencing on the Fixed Rate Commencement Date and ending on the maturity date for the Notes in the Fixed Rate Mode. "Fixed Rate Commencement Date" means the first Business Day of a month for any Series of Notes on which the interest rate is being converted to the Fixed Rate. The "Interest Rate Determination Date" means, with respect to Notes in the Fixed Rate Mode, the fifth Business Day preceding the Fixed Rate Commencement Date.

Interest on Notes in the Fixed Rate Mode will be payable on the date(s) set forth in the Certificate of Award for such Notes, provided that, if such Series of Notes is secured by a Credit Facility, there shall be an Interest Payment Date on the first day of a month that is no more than 182 days after the Fixed Rate Commencement Date and at least semi-annually thereafter (an "Interest Payment Date" with respect to Fixed Rate Notes). All computations of interest on any Notes in the Fixed Rate Mode shall be based on a 360-day year of twelve 30-day months.

**Interest Payment Dates.** In addition to the Interest Payment Dates specified above, the final maturity date of the Notes and the date any Notes are redeemed or converted from their existing Interest Rate Mode to a different Interest Rate Mode are Interest Payment Dates.

### **Failure to Determine Interest Rate**

In the event that (i) the Remarketing Agent has been removed or has resigned and no successor has been appointed or the Remarketing Agent has failed to announce the appropriate interest rate (or the Commercial Paper Period, as appropriate) by the time required hereunder, or (ii) the method of determining the interest rate(s) with respect to the Notes shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the appropriate interest rate cannot be determined for whatever reason, the Notes shall thereupon convert to bear interest at the Weekly Rate (unless they are already bearing interest at the Weekly Rate), until such time as the Remarketing Agent again makes such determination or until there is delivered a Counsel's Opinion to the effect that the method of determining such rate is enforceable, bear interest from the last date on which such rate was determined in the case of clauses (i) and (iii), and from the date on which interest was legally paid in the case of clause (ii), at the Alternate Rate (defined below).

"Alternate Rate" means, on any Interest Rate Determination Date, the rate that is equal to the percent of the BMA Index or the percent of LIBOR, for the applicable Series, as follows:

<u>Series</u>	<u>Percent</u>
A	100% of the BMA Index
B	110% of the BMA Index
C	105% of LIBOR

In the event that LIBOR or the BMA Index is no longer published, the Alternate Rate in respect of an Interest Rate Determination Date will be a comparable index selected by the Related Remarketing Agent, and agreed to by the Commission and the Liquidity Provider (if any) or Liquidity Facility (if any) for the applicable Series of Notes.

A conversion to the Weekly Rate Mode under these provisions will not be deemed to cause a mandatory purchase of the Notes under the Indenture.

## **Conversion to Other Interest Rate Modes**

The interest rate on any Series of Notes bearing interest at a Daily Rate, Weekly Rate or Commercial Paper Rate may be converted to a different Interest Rate Mode.

To effect a conversion of an Interest Rate Mode, the Commission is required to provide the Trustee and the Remarketing Agent with a written direction, not less than 20 days prior to an Interest Rate Adjustment Date, to convert the interest rate on such Series of Notes to an Interest Rate Mode other than the Interest Rate Mode then in effect. Except when converting from the Weekly Rate Mode, no Interest Rate Adjustment Date will be earlier than the day after the end of the last Interest Rate Period for the Interest Rate Mode in effect on the date of such direction from the Commission, the end of such Interest Rate Period to be determined as if such direction had not been given.

The direction to convert the interest rate on a Series of Notes to a different Interest Rate Mode must be accompanied by (a) with respect to Notes which bear interest that is excludable from gross income under the Code, a Counsel's Opinion delivered to the Trustee and the Remarketing Agent stating that such conversion to the specified Interest Rate Mode will not adversely affect the exclusion of the interest on such Series of Notes from gross income for federal income tax purposes and (b) a written certificate of the Commission specifying the terms of the Notes and certain information pertaining to any Liquidity Facility or Credit Facility relating to such Series of Notes. Notwithstanding the foregoing, no conversion will be effective (i) if the Commission makes an election on, or prior to, the day immediately succeeding any Interest Rate Determination Date not to proceed with the proposed conversion or (ii) if the Trustee has not received on the effective date of such conversion, a Counsel Opinion to the same effect as described in clause (a) of this paragraph above. In either such event, the Interest Rate Mode for the affected Series of Notes will remain as the Interest Rate Mode then in effect for such Series of Notes without regard to any proposed conversion. Such Series of Notes will continue to be subject to tender for purchase on the scheduled effective date of the proposed conversion without regard to the failure of such proposed conversion (see "THE NOTES – Purchase of Notes"). If the Trustee has sent any notice to Holders regarding the proposed conversion then in the event of a failure of such conversion, as specified above, the Trustee is required to promptly notify all Holders of such failure, of the reason for such failure, and of the continuation of the Interest Rate Mode then in effect.

If the interest rate on a Series of Notes is converted to a different Interest Rate Mode, at least 15 days prior to the Interest Rate Adjustment Date, the Trustee is required to use its best efforts to notify the Holders of all outstanding Notes of such Series by Electronic Means, immediately confirmed by first class mail to all Holders, that upon such Interest Rate Adjustment Date the Notes of such Series shall be converted to a different Interest Rate Mode, which Interest Rate Mode shall be specified, and that all Notes of such Series are subject to mandatory tender pursuant to the provisions of the Indenture.

## **Purchase of Notes**

**Mandatory Tender and Purchase of Notes in the Commercial Paper Rate Mode on Interest Payment Date.** All Notes in the Commercial Paper Rate Mode are subject to mandatory tender by the Holders thereof for purchase on the final Interest Payment Date for such Notes (a "Mandatory Purchase Date" with respect to such Notes) at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is not required to give notice of such mandatory tender. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent at or before 12:00 noon (Eastern Time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.



**Mandatory Tender and Purchase of Notes Upon Conversion of Interest Rate Mode.** If at any time the Commission converts the Interest Rate Mode on a Series of Notes to a different Interest Rate Mode in accordance with the provisions of the Indenture described above (see "THE NOTES – Conversion to Other Interest Rate Modes"), all Notes of such Series shall be subject to mandatory tender by the Holders thereof for purchase on the Interest Rate Adjustment Date upon which such conversion is to be effective (a "Mandatory Purchase Date" with respect to such Notes), at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 15 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent at or before 12:00 noon (Eastern Time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

**Mandatory Tender and Purchase of Notes in Regard to Replacement of Liquidity Facility or Credit Facility.** The Notes of any Series having their purchase price payable from draws on a Liquidity Facility or secured by a Credit Facility are subject to mandatory purchase on the Mandatory Purchase Date at a purchase price of 100% of the principal amount thereof, plus accrued interest, if any, to the Mandatory Purchase Date. The Trustee is required to give notice of such mandatory purchase by mail to the Holders of such Series of Notes subject to mandatory purchase no less than 30 days prior to the Mandatory Purchase Date. Holders of Notes of such Series subject to mandatory tender are required to deliver their Notes (with all necessary endorsements) to the office of the Paying Agent at or before 12:00 noon (Eastern Time) on the Mandatory Purchase Date. Payment of the Purchase Price of such Series of Notes is to be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

**Mandatory Tender and Purchase of Notes at the End of Each Commercial Paper Period.** All Notes bearing interest at a Commercial Paper Rate are subject to mandatory tender by the Holders thereof for purchase on the Mandatory Purchase Date at a Purchase Price of 100% of the principal amount thereof. No notice of such mandatory tender is required to be given and all Notes of such Series to be purchased shall be delivered by the Owners (with all necessary endorsements) to the office of the Paying Agent, at or before 12:00 noon on the Mandatory Purchase Date, and payment of the Purchase Price of such Series of Notes shall be made by wire transfer in immediately available funds by the Paying Agent by the close of business on such Mandatory Purchase Date.

**No Optional Tender of Notes in the Commercial Paper Rate Mode or the Fixed Rate Mode.** The Holders of any Notes that bear interest in the Commercial Paper Rate Mode or the Fixed Rate Mode shall not have the option to tender their Notes for purchase.

**Optional Tender of Notes in the Daily Rate Mode.** The Holders of Notes that bear interest in the Daily Rate Mode shall have the right to tender their Notes (or portions thereof in Authorized Denominations) for purchase on any Business Day (a "Purchase Date" with respect to such Notes) at a purchase price equal to the principal amount thereof plus accrued interest, upon irrevocable written or telephonic notice to the Remarketing Agent, promptly confirmed in writing to the Trustee not later than 11:00 a.m. (Eastern Time) on any Business Day (which may be the date the notice is delivered). The Holders of Notes in the Daily Rate Mode that are tendered for purchase are required to deliver such Notes (with all necessary endorsements) at or before 12:00 noon (Eastern Time) on the Purchase Date at the office of the Paying Agent. The Paying Agent is required to pay the purchase price of tendered Notes to the selling Holders thereof by wire transfer not later than the close of business on the date of surrender of

such Notes to the Paying Agent properly endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent.

**Optional Tender of Notes in the Weekly Rate Mode.** The Holders of Notes that bear interest in the Weekly Rate Mode have the right to tender their Notes (or portions thereof in Authorized Denominations) for purchase on any Business Day (a "Purchase Date" with respect to such Notes) at a price equal to the principal amount thereof plus accrued interest, upon irrevocable written or telephonic notice to the Remarketing Agent, promptly confirmed in writing to the Trustee not later than 5:00 p.m. (Eastern Time) on any Business Day which is at least seven days prior to the Purchase Date. The Holders of Notes in the Weekly Rate Mode tendered for purchase are required to deliver such Notes (with all necessary endorsements) at or before 12:00 noon (Eastern Time) on the Purchase Date at the office of the Paying Agent. The Paying Agent is required to pay the purchase price of tendered Notes to the selling Holders thereof by wire transfer not later than the close of business on the later of (i) the Purchase Date for such Notes or (ii) the date of surrender of such Notes to the Paying Agent properly endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent.

**Form of Notice of Tender with Respect to Optional Tender.** Each notice of tender (a "Notice of Tender") given by a Holder with respect to an optional tender of Notes that is permitted under the Indenture must:

(1) state (i) the CUSIP number and principal amount of the Note to which the notice relates, (ii) the name, address and tax identification number of the Holder, (iii) that the Holder irrevocably demands purchase of such Note (or specified portion thereof in Authorized Denominations) and (iv) the date on which such Note (or specified portion) is to be purchased (which date must be a Business Day);

(2) automatically constitute (i) an irrevocable offer to sell the Note (or portion thereof) to which such notice relates on the Purchase Date at a price equal to the principal amount of such Note (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (ii) an irrevocable authorization and instruction to the Registrar to effect transfer of such Note (or portion thereof) upon payment of such price to the Paying Agent on the Purchase Date, (iii) an irrevocable authorization and instruction to the Paying Agent to effect the exchange of such Note in whole or in part for other Notes in an equal aggregate principal amount so as to facilitate the sale of such Note (or portion thereof), and (iv) an acknowledgment that such Holder will have no further rights with respect to such Note (or portion thereof) upon payment of the purchase price thereof to the Paying Agent on the Purchase Date, except for the right of such owner to receive such Purchase Price upon surrender of such Note to the Paying Agent endorsed for transfer in blank and with guaranty of signatures satisfactory to the Paying Agent and that after the Purchase Date such owner will hold such Note as agent for the Paying Agent; and

(3) be given to the Paying Agent at the following address:

J.P. Morgan Trust Company, National Association  
614 West Main Street, 2<sup>nd</sup> Floor  
Louisville, Kentucky 40202  
Attn: Corporate Trust Department  
Phone: 502/566-6913  
Fax: 502/566-6954

and the Paying Agent shall provide such notice to the Related Remarketing Agent at the address set forth in the Related Remarketing Agreement, as well as to any Liquidity Provider and

Liquidity Facility at the address set forth for notices in the Liquidity Facility Agreement or the Credit Facility Agreement, as applicable.

The determination of the Paying Agent as to whether a Notice of Tender has been properly delivered will be conclusive and binding upon the Holder. Any Notes described in a Notice of Tender that are not timely delivered to the Paying Agent and for which there has been irrevocably deposited with the Trustee or the Paying Agent, an amount in the Purchase Account of the Note Payment Fund which is sufficient to pay the purchase price thereof ("Undelivered Notes") will be deemed to be purchased by the Paying Agent pursuant to the provisions of the Indenture, provided that Deposited Funds may be deposited by the Paying Agent or the Trustee in a segregated account for such purpose. In the event of a failure by any Holder to deliver its Note or Notes on or prior to the Purchase Date, such Holder will not be entitled to any payment (including any interest to accrue subsequent to such Purchase Date) other than the Purchase Price for such Undelivered Notes.

### **Redemption of Notes**

**No Optional Redemption of Commercial Paper Rate Notes.** Notes of any Series bearing interest at the Commercial Paper Rate will not be subject to optional redemption during a Commercial Paper Period.

**Optional Redemption of Notes.** The Notes of any Series bearing interest at the Daily Rate or Weekly Rate may, at any time, be subject to redemption prior to maturity at the option of the Commission at any time at a redemption price equal to the principal amount thereof plus accrued interest thereon. The Notes of any Series bearing interest at the Fixed Rate are subject to redemption prior to maturity at the option of the Commission upon the terms and subject to the conditions set forth in the Certificate of Award relating to such Series of Notes and if no conditions are set forth in a Certificate of Award, such Notes shall not be subject to redemption prior to maturity. Redemption is further subject to compliance with the requirements of any agreement providing a Liquidity Facility or Credit Facility for such Notes. Written notice to the Trustee is required to be given an adequate number of days in advance of the applicable Redemption Date to permit the Trustee to comply with the Indenture's requirements regarding notice of redemption to be given to Holders. If less than all of a Series of Notes are to be redeemed, the particular Notes of such Series to be called for redemption will be selected by lot or by such other method as the Registrar deems fair and appropriate; provided that in all instances Notes pledged to, or owned by, a Liquidity Provider or Liquidity Facility will be redeemed prior to any other Notes.

**Notice with Respect to Optional Redemption of Notes.** When required to redeem Notes under any provision of the Indenture or when directed to do so in writing by the Commission, the Paying Agent is required to cause notice of the redemption to be given not more than 45 days and not less than 30 days prior to the Redemption Date by mailing copies of such notice of redemption by first class mail to the Liquidity Provider (if any), the Liquidity Facility (if any), the Trustee, the Remarketing Agent and all Holders of Notes to be redeemed at their registered addresses, but neither failure to mail any such notice nor any defect in the mailing thereof in respect of any Note will affect the validity of the redemption of any other Note with respect to which such notice was properly given. Any such notice shall identify the Notes to be redeemed (and, in the case of partial redemption of any Notes, the principal amounts thereof to be redeemed), shall specify the Redemption Date and the redemption price, shall state that on the Redemption Date the Notes (or portions of Notes) called for redemption will be payable at the principal corporate trust office of the Paying Agent and that from that date interest on such Notes will cease to accrue and if amounts to pay redemption premium may not be drawn under the Credit Facility (if any), shall include a statement that the redemption will be cancelled and the Holders will continue to hold their Notes if, on the date set for redemption, the Trustee does not have sufficient funds to pay the entire

redemption price of the Notes to be redeemed. Payment of the redemption price of all redemptions of Notes is to be made solely from Available Funds.

### **Remarketing of Notes**

Notes will be remarketed by each Remarketing Agent under the Indenture and pursuant to a Remarketing Agreement with the Commission. A successor Remarketing Agent may be appointed in accordance with the terms of the Indenture and the Remarketing Agreement. Notes that are not remarketed by the Remarketing Agent will be purchased with the Credit Facility under the terms of the Credit Facility Agreement or with the Liquidity Facility. The principal office of J. P. Morgan Securities Inc. is 270 Park Avenue, Floor 6, Mail Code: NY1-K104, New York, New York 10017-2014 and the principal office of UBS Financial Services Inc. is 1285 Avenue of the Americas, 15<sup>th</sup> Floor, New York, New York 10019.

### **General Provisions**

The Notes will be issued in fully registered form, without coupons, initially in Authorized Denominations. Principal on the Notes will be payable at maturity, as shown on the cover hereof. Principal of and interest on the Notes are payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE NOTES – Book-Entry-Only System."

### **Additional Notes**

From time to time, the Commission may elect to issue additional Notes of each series described herein pursuant to the Indenture, as described under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT" set forth in Exhibit E hereto. If the Commission elects to have the purchase price of such additional Notes payable from either or both of the existing Liquidity Facilities, under the circumstances and subject to the conditions described therein, the Commission may request the Liquidity Provider to amend the applicable Liquidity Facility to increase the Available Interest Commitment and the Available Principal Commitment in order to provide sufficient funds to pay the purchase price of such additional Notes. Any such request, and any such increase, will require an amendment of the applicable Liquidity Facility and otherwise comply with the existing provisions of the applicable Liquidity Facility and the Indenture therefor. In addition, the Commission may elect to issue Notes of an additional series, subject to compliance with the provisions of the Indenture therefor, in which event, the Commission and the Liquidity Provider may, subject to mutually acceptable terms therefor and satisfaction of the conditions precedent described in the Indenture, enter into a liquidity facility that would provide for the payment of the purchase price of such series of Notes when said Notes are tendered but not remarketed. It is expected that any liquidity facility entered into by the Commission and the Liquidity Provider to accommodate an additional series of Notes would have terms and provisions substantially identical to those described herein with respect to the existing Liquidity Facilities. Neither the holders of the Notes described herein nor the holders of any additional Notes issued pursuant to the Indenture will have any right to approve or consent to any amendment of a Liquidity Facility or any right to approve or consent to the issuance of any additional Notes, in each case, as described hereinabove, in the Liquidity Facilities or in the Indenture.

### **Book-Entry-Only System**

The Bonds 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 Bonds

and, except as otherwise provided herein with respect to tenders by Beneficial Owners of beneficial ownership interests, each as described in Exhibit C, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "EXHIBIT C – Book-Entry-Only System."

### **Authorization**

The General Assembly of the Commonwealth of Kentucky (the "General Assembly") enacted the Act at its Extraordinary Session in May, 1997. The Act was codified at Section 56.860 *et seq.* of the Kentucky Revised Statutes. The Commission, at a meeting on August 15, 2005 adopted the Resolution, which (i) authorized the Indenture, (ii) authorized and approved the issuance of not to exceed \$750,000,000 in outstanding principal amount of Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the "Authorized Officer") and (iii) directed the preparation and distribution of this Official Statement. Issuance and delivery of each new principal amount of Notes will be further authorized by a Certificate of Award issued under the Indenture.

## **SECURITY FOR THE NOTES**

### **General**

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to the Financing Agreement. The initial term of the Financing Agreement ends on June 30, 2006, and the Financing Agreement renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet) for successive biennial periods to and including the biennial period which includes the final maturity of the Notes. The Financing Agreement requires the Cabinet, for each biennial period during which Notes are outstanding, to seek legislative appropriations to the Cabinet in amounts which are projected to be sufficient to permit the Cabinet to make rental payments to the Commission in amounts sufficient to pay principal of and interest on the Notes.

In order to comply with the Commonwealth's budget process, the Cabinet has subleased portions of the Project under the Subleases to the State Agencies. See "THE STATE AGENCIES" for information on the State Agencies.

The General Assembly has appropriated to the Cabinet and the State Agencies for the period ending June 30, 2006, debt service with respect to the Notes in an amount equal to six months of required principal payments assuming level amortization of the Notes over their term and six months of interest on the Notes at an assumed rate for Notes anticipated to be issued as (i) Series A Notes (tax-exempt) which may be amortized over 20 years (which constitutes a majority of the Notes), 6.50%; (ii) Series A Notes (tax-exempt) which may be amortized over 10 years, 5.75%; and (iii) for Series C Notes (taxable) which may be amortized over 20 years, 8.15%. Appropriations for debt service for the Notes in periods beyond June 30, 2006 are subject to the discretion and approval of each successive regular or extraordinary sessions of the General Assembly. There can be no assurance that (i) any such appropriation will be forthcoming in future sessions or (ii) the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

In addition, the SPBC has agreed, as provided in the Financing Agreement, to issue Bonds at such times and in such amounts as may be required to retire the Notes at or prior to maturity, subject to the limitations of the Act and the Budget Act.

Under the provisions of the Constitution of the Commonwealth, the Cabinet and the State Agencies are 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 and the SPBC by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein.

THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS SPECIFICALLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE NOTES.

### LIQUIDITY FACILITIES

In accordance with the Indenture, the Commission will cause to be executed and delivered to the Trustee, simultaneously with the issuance of the Series 2005 A-1 Notes and the Series 2005 A-2 Notes (for the purposes of this Section only referred to as the "Notes"), a Liquidity Facility for the Series 2005 A-1 Notes and the Series 2005 A-2 Notes providing for the purchase, in accordance with the terms thereof, of the applicable series of Notes while said Notes bear interest at the Commercial Paper Rate, the Daily Rate or the Weekly Rate (each a "Covered Rate"). Unless otherwise noted below, this summary of terms and provisions is applicable to each of the Liquidity Facilities described in this Official Statement.

The Liquidity Facilities contain various provisions, covenants and conditions, certain of which are summarized below. Certain words or terms used in the following summary are defined hereinbelow under the heading "Defined Terms" and other words or terms not defined hereinbelow are defined elsewhere in this Official Statement, the Liquidity Facilities or in the Indenture, and reference thereto is made for such definitions.

The Liquidity Facility that has been delivered in connection with the Series 2005 A-1 Notes is not available to pay the purchase price of the Series 2005 A-2 Notes, and the Liquidity Facility that has been delivered in connection with the Series 2005 A-2 Notes is not available to pay the purchase price of the Series 2005 A-1 Notes. Under no circumstances will any Liquidity Facility be available to pay principal, premium, if any, or interest in connection with any Notes.

**General.** The Commission expects to execute each Liquidity Facility with the Liquidity Provider on the date of delivery of the Notes. The Liquidity Facilities require the Liquidity Provider to provide funds for the purchase of Notes that have been tendered and not remarketed subject to certain conditions described below.

The obligation of the Liquidity Provider pursuant to each Liquidity Facility to provide funds for the purchase of the Notes that have been tendered and not remarketed shall end on the earliest of (i) October 31, 2008, as such date may be extended from time to time in accordance with such Liquidity Facility, (ii) the date on which no Eligible Notes are Outstanding and no Additional Notes are authorized to be issued and delivered pursuant to the Indenture, (iii) the close of business on the Conversion Date, (iv) the close of business on the thirtieth (30) day following the date on which a Notice of Termination Date is received by the Commission and the Trustee pursuant to such Liquidity Facility or, if such thirtieth (30) day is not a Business Day, the next succeeding Business Day and (v) the date on which the Available Commitment has been reduced to zero or terminated in its entirety at the option of the

Commission (including a Substitution Date), or under the circumstances described below under "Events of Default and Remedies."

Subject to the terms and conditions of each Liquidity Facility, the Liquidity Provider agrees from time to time during the Commitment Period (which is the period described in the immediately preceding paragraph) to purchase, with its own funds, Eligible Notes, at the purchase price on a purchase date. The aggregate principal amount (in denominations established by the Indenture) of any Eligible Note purchased on any purchase date shall not exceed, together with the aggregate principal amount of all Bank Notes that remain due and payable and the aggregate principal amount of all Additional Notes, the Available Principal Commitment (calculated without giving effect to any purchase of Eligible Notes by the Liquidity Provider on such date) at 10:00 a.m. on such purchase date, and the portion of the purchase price constituting accrued interest on such Eligible Notes shall not exceed the lesser of (a) the Available Interest Commitment at 10:00 a.m. on such purchase date and (b) the actual aggregate amount of interest accrued on each such Eligible Note to but excluding such purchase date. Any Eligible Notes so purchased shall thereupon constitute Bank Notes and shall, from the date of such purchase and while they are Bank Notes, bear interest at the Bank Rate and have other characteristics of Bank Notes as set forth in the related Liquidity Facility, the Indenture and the related series of Notes.

If, on any purchase date during the Commitment Period, the Liquidity Provider receives not later than 1:00 p.m. a notice of bank purchase from the Trustee, the Liquidity Provider shall, subject to the conditions set forth in the related Liquidity Facility, transfer to the Trustee not later than 3:00 p.m., on such purchase date, in immediately available funds, an amount equal to the aggregate purchase price of all Eligible Notes tendered or deemed tendered for purchase on such date but not remarketed as specified in such notice of bank purchase. A notice of bank purchase shall be irrevocable after receipt thereof by the Liquidity Provider.

The obligation of the Liquidity Provider to purchase Eligible Notes on any date is subject to the satisfaction of the following conditions, *unless* waived in writing by the Liquidity Provider: (i) no Event of Default described in paragraph 1(a)(i), 1(b), 6, 7, 8(a), 8(b), 8(c), 9, 10(a)(i) or 10(c) below, allowing for the remedy described in paragraph (a) below, shall have occurred and be continuing; and (ii) the Liquidity Provider shall have timely received a notice of bank purchase.

**Events of Default and Remedies.** The following events constitute Events of Default under each Liquidity Facility.

(1) (a) The Commission shall fail to pay when due (i) any principal of or sinking fund requirement due on, or interest on, any Note (including any Bank Note) or any Parity Obligation or (ii) any other amounts owed to the Liquidity Provider pursuant to specified sections of a Liquidity Facility (other than amounts described in (i) above), or (b) the Commonwealth, or any agency or department thereof (including, but not limited to, SPBC), shall fail to pay when due any principal or sinking fund requirements due on, or interest on, any Commonwealth Debt; or

(2) The Commission shall fail to pay when due any amount owing under specified sections of a Liquidity Facility (other than those referred to in paragraph (1) above); or

(3) Any representation or warranty made by or on behalf of the Commission in a Liquidity Facility, the Indenture or in any other Financing Document to which it is a party or in any certificate or statement delivered under said documents shall be incorrect or untrue in any material respect when made or deemed to have been made; or

(4) The Commission shall default in the due performance or observance of the covenants set forth in specified sections of a Liquidity Facility; or

(5) The Commission shall materially default in the due performance or observance of any other term, covenant or agreement contained in a Liquidity Facility (other than those referred to in paragraphs (1), (2), (3) and (4) above), the Indenture or any other Financing Document to which it is a party and such default shall remain unremedied for a period of thirty (30) days after the Commission shall have received notice thereof; or

(6) One or more final, nonappealable judgment or order for the payment of money in excess of \$10,000,000 in the aggregate shall be rendered against the Commission and attaches to the Pledged Receipts and (x) such judgment or order shall continue unsatisfied, unbonded and unstayed for a period of one hundred and twenty (120) days, (y) in the reasonable judgment of the Liquidity Provider, neither adequate cash reserves have been established nor sufficient proceeds from an existing policy of insurance are available and (z) the Liquidity Provider has concluded, based on its reasonable opinion, that such judgment or order has materially impaired the ability of the Commission to make payments on the Notes (including Bank Notes) or any Parity Obligations or the security for any such Notes or Parity Obligations; or

(7) To the extent that the Constitution and/or the statutes of the Commonwealth shall so authorize (a) the Commonwealth or any agency, department or division thereof, including, without limitation, the Commission or the Cabinet, shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of its or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall declare a moratorium, or shall take any action to authorize any of the foregoing; or (b) (i) a case or other proceeding shall be commenced against the Commonwealth or any agency, department or division thereof, including, without limitation, the Commission, SPBC or the Cabinet, seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case shall remain undismissed and unstayed for a period of sixty (60) days; or (ii) an order for relief shall be entered against the Commission or the Cabinet under the federal bankruptcy laws as now or hereafter in effect; or

(8) (a) Any material provision of the Act, the Budget Act, the Liquidity Facility, the Indenture, the Resolution, the SPBC Resolution, the Financing/Lease Agreement, the Subleases, the Notes or any Parity Obligation relating to the payment of the Notes or any Parity Obligation or the security therefor shall at any time for any reason cease to be valid and binding on the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, as a result of federal or state legislative or administrative action, or shall be declared, in a final nonappealable judgment by any court of competent jurisdiction over the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, to be null and void, invalid or unenforceable; or (b) the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, shall have taken or permitted to be taken any official action, or has duly enacted any statute or regulation, which would materially adversely affect the enforceability of the Act, the Budget Act, the Liquidity Facility, the Indenture, the Resolution, the SPBC Resolution, the Financing/Lease Agreement, any Sublease, the Notes or any Parity Obligation; or (c) the Legislature of the Commonwealth shall fail to appropriate (as such appropriations may have been calculated using assumed rates of interest), on a timely basis, the funds necessary to pay any amounts when due in



connection with the Notes (including any Bank Notes) or any Parity Obligations; or (d) any governmental entity with jurisdiction to rule on the validity of the Act, the Budget Act, the Liquidity Facility, the Indenture, the Resolution, the SPBC Resolution, the Financing/Lease Agreement, any Sublease, the Notes or any Parity Obligation shall announce, find or rule that any material provision of any of the foregoing is not valid or not binding on the Commonwealth, the Commission, the Cabinet or the SPBC; or (e) the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, (i) makes a claim in a judicial or administrative proceeding that the Commonwealth, the Commission, the Cabinet or the SPBC, as applicable, has no further liability or obligation under the Act, the Budget Act, the Liquidity Facility, the Indenture, the Resolution, the SPBC Resolution, the Financing/Lease Agreement, any Sublease, the Notes or any Parity Obligation, as and to the extent such entity has obligations thereunder, or (ii) contests in a judicial or administrative proceeding the validity or enforceability of any material provision of the Act, the Budget Act, the Liquidity Facility, the Indenture, the Resolution, the SPBC Resolution, the Financing/Lease Agreement, any Sublease, the Notes or any Parity Obligation relating to or otherwise affecting the Commission's obligation to pay the principal of or interest on any Notes (including any Bank Notes) or such Parity Obligations; or

(9) Each Rating Agency then under contract with the Commission to maintain ratings on the Notes shall have (a) assigned the Notes or any Parity Obligations a long-term rating below Investment Grade, (b) withdrawn their long-term ratings of the Notes or any Parity Obligations for any credit related reason or (c) suspended their long-term ratings of the Notes or any Parity Obligations for any credit related reason; *provided, however*, that any downgrade, withdrawal or suspension described in any of the foregoing provisions of this paragraph shall not be deemed an Event of Default hereunder if said downgrade, withdrawal or suspension, as the case may be, shall be attributable to the downgrade, withdrawal or suspension of the long-term ratings assigned to any bond insurance or other credit enhancement provided by a Person other than the Commission; or

(10) (a) (i) Any "event of default" as defined in Section 9.02(d) or (e) of the Indenture (other than as a result of the Bank's failure to perform under a Liquidity Facility Agreement) has occurred and is continuing if the effect of such "event of default" is to result in the Notes or Other Notes to become due and payable immediately; *provided* that, any "event of default" described in Section 9.02(d) or (e) of the Indenture must, in order for the remedy described in this paragraph (a) below to be available to the Bank in such circumstances, be the result of a failure by the Commission, the Commonwealth or any agency or department of the Commonwealth, to pay when due, any Parity Obligation, in the case of the Commission, or any Commonwealth Debt, in the case of the Commonwealth or any agency or department thereof; or (ii) any "event of default" which is not cured within any applicable grace period shall occur which, if not cured, would give rise to remedies available under any Other Agreement regarding Parity Obligations (excluding the Other Notes or any other liquidity facility to which the Commission and the Liquidity Provider are parties); (b) the Commonwealth, or any agency, department or division thereof, shall fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any Debt or financing lease supported by payments from the General Fund of the Commonwealth when required to be performed or observed; or (c) the Commonwealth, or any agency or department thereof (including, but not limited to, SPBC), shall fail to perform or observe any term, covenant or condition on its part to be performed or observed under any agreement or instrument relating to any Commonwealth Debt and, as a consequence of such failure, such Commonwealth Debt shall be declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment or an optional prepayment) prior to the stated maturity thereof; *provided* that, any such failure to perform or observe any such term, covenant or condition described in this sub-paragraph 10(c) must, in order for the remedy described in paragraph (a) below to be available to the Bank in such circumstances, be the result of a failure by the Commonwealth, or any agency or department thereof, to pay when due the Commonwealth Debt related to such agreement or instrument;

Following the occurrence of certain of the above referenced Events of Default, the Liquidity Provider may take any one or more of the following actions, among others. Reference is made to the Liquidity Facilities for a complete listing of all consequences of Events of Default.

(a) In the case of any Event of Default specified in paragraph 1(a)(i), 1(b), 6, 7, 8(a), 8(b), 8(c), 9, 10(a)(i) or 10(c) above (each a "Special Event of Default"), the Available Commitment shall immediately be reduced to zero, in which case the obligations of the Liquidity Provider to purchase Notes shall immediately terminate and expire without requirement of notice by the Liquidity Provider; *provided*, that the remedy described herein may not be available in all circumstances with respect to paragraphs 10(a)(i) and 10(c) as described therein. After such termination or expiration, the Liquidity Provider shall deliver, within two (2) Business Days, to the Commission, the Trustee and the Remarketing Agent written notice of such termination or expiration; *provided, however*, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

(b) In the case of any Event of Default specified in paragraph 7(b)(i), 8(d) or 8(e) above (each, a "Suspension Event"), the obligation of the Liquidity Provider to purchase Eligible Notes under a Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the Liquidity Provider shall be under no obligation to purchase Eligible Notes until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Liquidity Provider shall notify the Commission, the Trustee, the Tender Agent and the Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; *provided*, that the Liquidity Provider shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase Eligible Notes pursuant to the related Liquidity Facility.

Upon the occurrence of an Event of Default described in paragraph 8(d) or 8(e) above, if a court with jurisdiction to rule on such an Event of Default shall enter a final and nonappealable judgment that any of the material provisions of the Act or any other document described in paragraph 8(d) above are not valid or not binding on the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, or that a claim or contest described in paragraph 8(e) shall have been upheld in favor of the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, in accordance with a final and nonappealable judgment, then, in each such case, the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Notes shall immediately terminate without notice or demand and, thereafter, the Liquidity Provider shall be under no obligation to purchase Eligible Notes. If a court with jurisdiction to rule on such an Event of Default shall find or rule by entry of a final and nonappealable judgment that the material provision of the Act or any other document described in paragraph 8(d) above is valid and binding on the Commonwealth, the Commission, the Cabinet or the SPBC, as the case may be, or that the claim or contest described in paragraph 8(e) above shall have been dismissed pursuant to a final and nonappealable judgment, then the Available Commitment and the obligations of the Liquidity Provider under a Liquidity Facility shall, in each such case, thereupon be reinstated (unless the Commitment Period shall otherwise have expired or the Available Commitment shall otherwise have been terminated, suspended or expired as provided in said Liquidity Facility). Notwithstanding the foregoing, if three (3) years after the effective date of the suspension of the obligations of the Liquidity Provider pursuant to any Event of Default described in paragraph 8(d) or paragraph 8(e) above, litigation is still pending and a determination regarding same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Notes shall at such time terminate without notice or demand and, thereafter, the Liquidity Provider shall be under no obligation to purchase Eligible Notes.

During the pendency of a case or proceeding as described in paragraph 7(b)(i) above, the Liquidity Provider's obligations to purchase Notes shall remain suspended unless and until the Available Commitment is reinstated as set forth below or until said Default results in a Special Event of Default. In the event such Default is cured prior to becoming a Special Event of Default under the related Liquidity Facility, the Liquidity Provider's obligation to purchase Eligible Notes shall be automatically reinstated and the terms of this Agreement will continue in full force and effect (unless the Liquidity Facility shall otherwise have terminated or been suspended by its terms or in accordance with such Liquidity Facility. Notwithstanding the foregoing, however, if three (3) years after the effective date of the suspension of the obligations of the Liquidity Provider pursuant to such Default, litigation regarding the case or proceeding is still pending and a determination regarding same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, then the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Notes shall at such time terminate without notice or demand and, thereafter, the Liquidity Provider shall be under no obligation to purchase Eligible Notes.

In the case of each Suspension Event, the Trustee shall immediately notify all Noteowners of the suspension and/or termination of both the Available Commitment and the obligation of the Liquidity Provider to purchase Eligible Notes.

(c) Upon the occurrence of any Event of Default, the Liquidity Provider shall have all remedies provided at law or equity; and in addition, the Liquidity Provider, in its sole discretion, may do one or more of the following: (i) declare all obligations of the Commission to the Liquidity Provider under the related Liquidity Facility to be immediately due and payable, and the same shall thereupon become due and payable without demand, presentment, protest, notice of intent to accelerate, notice of acceleration or further notice of any kind, all of which are expressly waived; (ii) the Liquidity Provider may give written notice of such Event of Default and termination of the Liquidity Facility (a "Notice of Termination Date") to the Trustee, the Commission and the Remarketing Agent requesting a default tender; *provided*, that the obligation of the Liquidity Provider to purchase the Notes shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Trustee and, on such date, the Available Commitment shall terminate and the Liquidity Provider shall be under no obligation to purchase Notes; or (iii) exercise any right or remedy available to it under any other provision of a Liquidity Facility, the Indenture and any other Financing Document; *provided, further, however*, the Liquidity Provider shall not have the right to terminate its obligation to purchase Notes except as provided in the related Liquidity Facility. Notwithstanding anything to the contrary herein, no failure or delay by the Liquidity Provider in exercising any right, power or privilege under a Liquidity Facility, under the Indenture and any other Financing Document or under the Notes and no course of dealing between the Commission and the Liquidity Provider shall operate as a waiver hereof or thereof nor shall any single or partial exercise hereof or thereof preclude any other or further exercise hereof or thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies which the Liquidity Provider would otherwise have.

**Defined Terms.** As used in this section entitled "The Liquidity Facilities," the following terms have the meanings indicated below:

"Additional Notes" means Notes of the Commission that are authorized to be issued and delivered from time to time in accordance with the terms of the Indenture and that, upon said issuance and delivery, would be deemed Eligible Notes in accordance with the terms of the Liquidity Facility.

"Available Commitment" means, as of any day, the sum of the Available Principal Commitment and the Available Interest Commitment, in each case, as of such day.

"Available Interest Commitment" means, in the case of each of the Series A-1 Notes and Series A-2 Notes, and prior to any amendment to the related Liquidity Facility to increase the principal amount of the related Notes, an amount equal to \$6,410,959 (which amount equals 195 days' interest on the Available Principal Commitment for the Series A-1 Notes and Series A-2 Notes, respectively, based upon an assumed rate of interest of 12.00% per annum and a 365-day year based on actual days elapsed), as such amount shall be adjusted from time to time as follows:

(A) downward by an amount that bears the same proportion to such amount as the amount of any reduction in the Available Principal Commitment, in accordance with clause (a) or (b) of the definition of Available Principal Commitment, bears to the initial Available Principal Commitment; and

(B) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the Available Principal Commitment, in accordance with clause (c) of the definition of Available Principal Commitment, bears to the initial Available Principal Commitment.

"Available Principal Commitment" means the maximum principal amount of Notes that is authorized to be issued and delivered pursuant to the Indenture, as such amount is adjusted from time to time in accordance with the following:

(a) downward by the amount of any mandatory reduction of the Available Principal Commitment pursuant to a Liquidity Facility;

(b) downward by the principal amount of any Notes purchased by the Liquidity Provider pursuant to a Liquidity Facility; and

(c) upward by the principal amount of any Notes theretofore purchased by the Liquidity Provider which are remarketed (or deemed to be remarketed) pursuant to a Liquidity Facility by the Remarketing Agent and for which the Bank Owner has received immediately available funds equal to the principal amount thereof and accrued interest thereon;

*provided, however,* that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank Notes, until such time as the Liquidity Facilities are amended therefor, shall never exceed \$100,000,000 for each of Series A-1 and A-2. Any adjustment to the Available Principal Commitment pursuant to clause (a), (b) or (c) hereof shall occur simultaneously with the occurrence of the events described in such clauses.

"Commonwealth Debt" means bonds, notes, debentures or other similar obligations issued by, or on behalf of, the Commonwealth, or any agency or department thereof (including, without limitation, SPBC), (a) that are payable from General Fund appropriations of the Commonwealth or (b) that are supported by payments from the General Fund.

"Conversion Date" means the first date on which (a) no Outstanding Note bears interest at a Covered Rate and (b) no Additional Notes that could be deemed Eligible Notes are authorized to be issued and delivered pursuant to the Indenture.

"Debt" of any person means, at any date, without duplication: (a) all obligations of such person evidenced by bonds, debentures, notes or other similar instruments; (b) all obligations of such person as lessee under capital leases; (c) all obligations of such person to pay the deferred purchase price of

property; (d) certificates of participation evidencing an undivided ownership interest in payments made by such person as lessee under capital leases, as purchaser under an installment sale agreement or otherwise as an obligor in connection therewith; (e) each financing lease for which such Person is an obligor; and (f) all guarantees by a person of Debt of another person.

"Dexia Agreement" means each Other Agreement by and between the Commission and the Bank pursuant to which the Bank has agreed to purchase Other Notes of the Commission on terms that are materially identical to those set forth in the Liquidity Facilities.

"Eligible Notes" means Notes bearing interest at a Covered Rate and which are not Bank Notes or Notes owned by or held on behalf of, for the benefit of or for the account of, the Commission, the Commonwealth, or any agency, department or division of the Commonwealth.

"Financing Documents" means the Indenture, the Resolution, the SPBC Resolution, the Notes, the Other Notes, the Note Purchase Agreement, the Financing/Lease Agreement, the Official Statement, each Dexia Agreement and the Remarketing Agreement.

"Investment Grade" means any rating in one of the four highest rating categories of any Rating Agency without regard to any numerical designations or the symbols "+" or "-".

"Other Agreement" means any other "credit facility" or "liquidity facility" (as such terms are defined in the Indenture) entered into by the Commission with respect to any Other Notes that are authorized to be issued and delivered from time to time pursuant the Indenture (but excluding the Liquidity Facilities and any Dexia Agreements).

"Other Notes" means Debt of the Commission evidenced by notes (excluding the Notes) and Additional Notes that are authorized from time to time to be issued and delivered by the Commission pursuant to the Indenture; *provided, however*, that said Other Notes shall have a lien on the Trust Estate (including the Pledged Receipts) that is on a parity with the Notes under the terms of the Indenture.

"Outstanding" when used in reference to Notes means, as of a particular date, all Notes that have been issued and delivered by the Commission pursuant to the Indenture and which, as of such date, are payable, in part or in whole, from the Trust Estate.

"Parity Obligation" means bonds, notes, debentures or other similar obligations issued by or on behalf of the Commission (a) that are payable from General Fund appropriations of the Commonwealth or (b) that are supported by payments from the General Fund including, in each case, Other Notes and Bonds.

"Rating Agencies" means, collectively, Moody's, S&P and Fitch.

"Rating Agency" means any one of Moody's, S&P or Fitch.

"Substitution Date" means the effective date of an alternate liquidity facility pursuant to the Indenture.

## PLAN OF FINANCE

The proceeds of the Notes will be used by the Commission to (i) pay the cost of constructing, acquiring, installing and equipping the Project in an amount up to \$726,454,000 and (ii) pay costs of issuance of the Notes.

## THE PROJECT

The Project (the "Project") financed with the proceeds of the Notes consists of the different project components identified in Exhibit B. The Cabinet will lease the Project from the Commission and the SPBC under the Financing Agreement. Portions of the Project will be subleased to the respective State Agencies under subleases. Listed in Exhibit B are the various project components.

## THE KENTUCKY ASSET/LIABILITY COMMISSION

### General Information

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

The current members of the Commission are as follows:

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

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

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

## Financings of the Commission

**General.** The Commission has had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes are issued as General Fund Series, Agency Fund Series, Road Fund Series and Federal Highway Trust Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreement. Each type of obligation, described below, is secured by the trust indenture to which such types of obligations relate, and holders of notes issued under a particular trust indenture do not have any claim on the pledged receipts of the Commission arising under any other trust indenture.

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

**General Fund Tax and Revenue Anticipation Notes.** Since 1997, with the exception of 2003, the Commission has issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. The TRANs are payable from taxes and certain revenues collected by the Commonwealth in the Fiscal Year in which they are issued. The 2005 TRAN Series was issued on July 1, 2005 in the amount of \$600,000,000 and will mature on June 28, 2006.

**Project Notes, General Fund Series.** The Commission from time to time issues separate series of project notes, the proceeds of which are used to fund capital projects (the "General Fund Project Notes") authorized by the General Assembly. All General Fund Project Notes are payable from payments to be received by the Commission under separate financing/lease agreements and, as to bond anticipation notes, the issuance of bonds by the State Property and Buildings Commission. These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. In addition to the Notes, the Commission has the following General Fund Project Notes outstanding.

<b>Project Notes</b>	<b>Amount Issued</b>	<b>Amount Outstanding as of November 1, 2005</b>
2001 General Fund First Series	\$ 37,450,000	\$ 17,475,000
2003 General Fund Series A	171,260,000	84,485,000
2005 General Fund First Series	<u>81,850,000</u>	<u>81,850,000</u>
Total	\$290,560,000	\$183,810,000

**Project Notes, Agency Fund Series.** The Commission from time to time also issues separate series of project notes (the "Agency Fund Project Notes"), which are payable from payments to be received by the Commission under financing/lease agreements with various state agencies and from proceeds of bonds to be issued by the State Property and Buildings Commission or a state agency. The payments used to pay Agency Fund Project Notes are ultimately dependent upon Agency Fund appropriations by the General Assembly of the Commonwealth. As of November 1, 2005, \$11,275,000 in principal amount of the 2005 Agency Fund Taxable First Series Project Notes is outstanding. The Commission on August 15, 2005, authorized the issuance of an aggregate principal amount not to exceed \$250,000,000 of Project Notes, 2005 Agency Fund Second Series. These notes will be issued incrementally as needed by various state agencies.

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

**Project Notes, Federal Highway Trust Fund Series.** The Commission is authorized to issue notes which are payable from payments to be received by the Commonwealth of Kentucky Transportation Cabinet from the Federal Highway Administration. Amounts used to pay those notes are ultimately dependent upon receipt of federal highway funds. As of November 1, 2005, \$136,425,000 principal amount of the 2005 Federal Highway Trust Fund First Series Project Notes are outstanding.

**Future Financings.** The 2005 Kentucky General Assembly authorized debt financing for projects totaling \$2,056,315,300 to support various capital initiatives of the Commonwealth. Of the total authorization, \$1,204,589,300 is General Fund supported, \$251,726,000 is Agency Restricted Fund supported, \$450,000,000 is Road Fund supported and \$150,000,000 is Federal Highway Trust Fund supported (Grant Anticipation Revenue Vehicle Bonds).

Except for \$100,000,000 Agency Restricted Fund supported and \$225,000,000 Road Fund supported authorizations, the Notes and the 2005 Agency Fund Second Series Notes complete the financing plans related to this authorization (excluding the General Fund supported School Facilities Construction Commission authorization). It is anticipated the Commission will issue notes for the \$100,000,000 Agency Restricted Fund supported University of Kentucky General Receipts Project Notes by year end. The Commission or another Authority may finance the remaining \$225,000,000 Road Fund authorization prior to June 30, 2006.

The authorization to issue notes for the purposes described above is in addition to the authority to issue refunding bonds to refund outstanding issues. The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets.

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

### **General**

The SPBC is composed of the Governor (who is the Chairman of the SPBC), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the SPBC) and the Secretary of the Cabinet for Economic Development. The Office of Financial Management in the Finance and Administration Cabinet serves as staff to the SPBC, and the Executive Director of the OFM serves as Secretary to the SPBC. The SPBC is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

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

### **Future Financings**

The 2005 Kentucky General Assembly authorized debt financing as described under "THE KENTUCKY ASSET/LIABILITY COMMISSION – Financings of the Commission – Future



Financings." The SPBC may issue bonds based on this authorization to the extent the Commission does not issue notes. In addition, the SPBC may issue bonds to refund notes issued by the Commission. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues of the SPBC. The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future budgets.

## **THE FINANCE AND ADMINISTRATION CABINET**

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

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

*Commonwealth Office of Technology.* The Commonwealth Office of Technology ("COT") provides the leadership, policy direction and technical support to all executive branch agencies of state government in the application of information technology and the delivery of information services. Its goal is to transform the Commonwealth's use of information technology to improve the efficiency of state government and delivery of services.

*Department of Facilities and Support Services.* The Department of Facilities and Support Services is responsible for the Commonwealth's capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services. The Department includes four divisions: Division of Historic Properties, Division of Engineering and Contract Administration, Division of Surplus Properties, and Division of Real Properties. The Department of Facilities and Support Services also includes the Office of Building and Mechanical Services which provides building and grounds maintenance, mechanical maintenance, and electronic security to state-owned facilities across the Commonwealth.

*Department of Revenue.* The Department of Revenue is responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. The Department of Revenue bills and collects the tax revenue necessary to support the state services provided by the Commonwealth.

## THE STATE AGENCIES

### **Kentucky State Fair Board**

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

### **Council on Postsecondary Education**

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

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

### **Education Cabinet**

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

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

*Kentucky Educational Television.* Kentucky Educational Television ("KET") signed on the air in September 1968 as Kentucky's statewide public broadcasting network. Today, 32 transmitters (16 analog, 16 digital) and three translators deliver the PBS national schedule; a wide range of local arts, cultural, documentary, and public affairs productions; and adult education programs and college-credit courses to viewers throughout Kentucky and in parts of seven surrounding states. Through digital broadcast and multimedia products, KET also brings hundreds of hours of instructional programs and professional

development seminars to Kentucky schools each year. KET Distance Learning offers fully accredited high school classes in foreign languages, the humanities, and physics via videotape/DVD and online delivery.

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

### **Cabinet for Economic Development**

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

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

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

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

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

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

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

GOLD also partners with the state's fifteen Area Development Districts in serving the local governments of Kentucky.

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

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

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

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

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

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

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

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

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

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

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

## **Personnel Cabinet**

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

## **THE COMMONWEALTH**

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

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

## **Financial Information Regarding the Commonwealth**

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

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

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

*The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2004 and certain other fiscal years may be found on the Internet at:

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

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

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

### **Budgetary Process in the Commonwealth**

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

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

### **Fiscal Year 2003**

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

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

The largest portion of the Commonwealth's net assets \$16.6 billion reflects its investment in capital assets (e.g. land, infrastructure, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

An additional portion of the Commonwealth's net assets \$1.65 billion is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets which, if positive could be used at the Commonwealth's discretion, showed a negative balance of \$(2.06) billion.

Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of \$7.7 billion and general revenues of \$8.1 billion for total revenues of \$15.8 billion during Fiscal Year 2003. Expenses for the Commonwealth during Fiscal Year 2003 were \$15 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$770 million, net of contributions, transfers and special items.

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

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

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.16 billion, a decrease of \$196 million in comparison with the prior year. Just over two-thirds (\$1.47 billion or 68 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of the fiscal year, the total fund balance reached \$298 million, with an unreserved balance of \$184 million. This compares to a General Fund unreserved balance of \$(36) million as of June 30, 2002. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's General Fund increased by \$214 million during the fiscal year. This is a 253 percent increase from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

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

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



## **Fiscal Year 2004**

The Commonwealth's Government-Wide Financial Statements provide a broad view of the state's operations in a manner similar to a private-sector business. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$16.6 billion at the end of 2004, as compared to \$16.2 billion at the end of the previous year.

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

The second largest portion of the Commonwealth's net assets, totaling \$1.38 billion is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$2.2 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of \$7.3 billion and general revenues of \$8.5 billion for total revenues of \$15.8 billion during Fiscal Year 2004. Expenses for the Commonwealth during Fiscal Year 2004 were \$15.5 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of \$311 million, net of contributions, transfers and special items.

During the fiscal year, the net assets of governmental activities increased by \$344 million or 2.10 percent. Approximately 54 percent of the governmental activities' total revenue came from taxes, while 35 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

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

At the end of the fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.03 billion, a decrease of \$74 million in comparison with the prior year. Approximately half (\$999 million or 49 percent) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of the fiscal year, total fund balance reached \$389 million, with an unreserved balance of \$304 million. This compares to a General Fund unreserved balance of \$184 million as of June 30, 2003. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's General Fund increased by \$94 million during the fiscal year. This is a 31.4 percent increase in net assets from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in.

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

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

### **Fiscal Year 2005 (Unaudited)**

The Commonwealth began Fiscal Year 2005 without a legislatively enacted budget for the Executive branch of government and operated under quarterly Public Services Continuation Plans implemented by Executive Orders of the Governor. In the General Assembly's 2005 Regular Session, which concluded on March 22, 2005, the legislature enacted House Bill 267 (the "Budget Bill") which included a budget for the Executive branch of government for the 2005-2006 biennium and effectively ratified all amounts previously spent under the Public Services Continuation Plans.

Fiscal Year 2005 General Fund revenues totaled \$7,645.0 million versus \$6,997.6 million for the prior fiscal year, which represents an increase of 9.6 percent. Actual revenues for Fiscal Year 2005 were \$195.1 million above the official revenue estimate on which the Budget Bill was based. Most major taxes exhibited across-the-board growth. Sales and use tax grew 6.0 percent (\$147.4 million), the highest growth rate since 1996. Individual income taxes increased 8.6 percent (\$239.9 million), while corporate income taxes increased by a sharp 57.8 percent (\$175.3 million) due primarily to lower refund payments. Coal severance taxes rose 25 percent (\$36.9 million) due to strong energy markets. Property tax receipts grew 5.3 percent (\$23.8 million), while the lottery fell 7.2 percent (\$12.5 million). Cigarette tax receipts rose 97.1 percent (\$16.5 million) in the last month due to an increase in the rate of the tobacco tax and the imposition of a one-time floor stock tax as of May 31, 2005. Per pack taxes increased from 3 cents to 30 cents per pack. The ending General Fund undesignated balance was \$468.8 million, which is \$214.3 million above the budgeted undesignated balance. \$90.2 million of the undesignated balance will be deposited in the Budget Reserve Trust Fund, bringing the balance in the fund to 1.5 percent of the estimated General Fund revenues in the Budget Bill for Fiscal Year 2006.

### **Fiscal Year 2006 (Unaudited)**

On October 11, 2005, the Consensus Forecasting Group (the "Group") made a preliminary planning estimate for the Fiscal Year 2006 General Fund revenues of \$8,184.9 million, an increase of \$359.1 million over the estimate used in the Budget Bill. The Fiscal Year 2006 General Fund revenue estimate assumes 7.1 percent growth over the actual Fiscal Year 2005 General Fund revenues. These estimates exclude Phase I Tobacco Settlement Agreement ("MSA") payments, expected to be \$91.3 million in Fiscal Year 2006. The MSA estimate decreased from prior estimates due to the Non-Participating Manufacturer's ("NPM") Adjustment.

Total General Fund revenues for September 2005 were \$796.6 million, compared to \$679.1 million during September 2004, an increase of 17.3 percent for the month. Fiscal year-to-date growth in the General Fund is 11.6 percent. Growth needed in the final nine months to meet the preliminary planning estimate is 5.1 percent. Much of the growth in September was due to the cigarette taxes that

were imposed by the 2005 General Assembly. Cigarette taxes raised about \$11.8 million more in revenue this September compared to last. Individual income tax receipts were up \$5.8 million or 2.1 percent, and sales and use tax revenues rose \$23 million or 11.1 percent. Corporation income taxes were up \$77.4 million from last September, with revenues rising by 86.2 percent. The coal severance tax grew by \$3.6 million or 24.6 percent, and the property tax rose by \$5.1 million or 27.4 percent, principally due to a change in the timing of payments to the property tax on public service companies. Lottery receipts were \$13 million, down by \$6 million from the previous September.

## **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 September 30, 2005, the Commonwealth's operating portfolio was approximately \$3.88 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (11%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (31%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (6%); and corporate and asset backed securities, including money market securities (39%). The portfolio had a current yield of 3.96% and an effective duration of 0.81 years.

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

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of

eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

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

As of September 30, 2005, the Commonwealth had no asset-based interest rate swaps outstanding.

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

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

## **TAX TREATMENT**

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2005 A-1 Notes and the Series 2005 A-2 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. Interest on the Taxable Series 2005 C-1 Notes is includable in gross income for Federal income tax purposes. Interest on the Notes is exempt from Kentucky income tax and the Notes are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Notes is set forth in Exhibit D, 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 Series 2005 A-1 Notes and the Series 2005 A-2 Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 Notes may adversely affect the tax status of the interest on the Series 2005 A-1 Notes and the Series 2005 A-2 Notes.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 Notes is excludable from gross income for Federal income tax purposes and that interest on all 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 Bondholder'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 Bondholder or the Bondholder'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 Bondholder or potential Bondholder 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 Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 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 Series 2005 A-1 Notes and the Series 2005 A-2 Notes as "qualified tax-exempt obligations" under Section 265 of the Code.

## **ABSENCE OF MATERIAL 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 approving opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel to the Commission. Certain other legal matters will be passed on by Frost Brown Todd LLC, Louisville, Kentucky, and Ungaretti & Harris LLP, Chicago, Illinois, co-counsel to the Underwriters. Certain other legal matters will be passed on by Nixon Peabody LLP, New York, New York, domestic counsel to the Liquidity Provider and by its French counsel.

## **RATINGS**

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

J. P. Morgan Securities Inc. has agreed to purchase a principal amount of the Series 2005 A-1 Notes not to exceed \$363,000,000. J. P. Morgan Securities Inc. will receive a fee in an amount equal to 99.93% of the aggregate amount of the Series 2005 A-1 Notes sold. J. P. Morgan Securities Inc. is committed to purchase all of the Series 2005 A-1 Notes if any are purchased.

J. P. Morgan Securities Inc. has agreed to purchase a principal amount of the Taxable Series 2005 C-1 Notes not to exceed \$22,000,000. J. P. Morgan Securities Inc. will receive a fee in an amount equal to 99.93% of the aggregate amount of the Taxable Series 2005 C-1 Notes sold. J. P. Morgan Securities Inc. is committed to purchase all of the Taxable Series 2005 C-1 Notes if any are purchased.

UBS Financial Services Inc. has agreed to purchase a principal amount of the Series 2005 A-2 Notes not to exceed \$365,000,000. UBS Financial Services Inc. will receive a fee in an amount equal to 99.93% of the aggregate amount of the Series 2005 A-2 Notes sold. UBS Financial Services Inc. is committed to purchase all of the Series 2005 A-2 Notes if any are purchased.

The Underwriters have advised the Commission that they intend to make a public offering of the Notes at the initial public offering prices set forth on the cover page hereof; provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters deem necessary in connection with the marketing of the Notes.

**MISCELLANEOUS**

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

KENTUCKY ASSET/LIABILITY COMMISSION

By \_\_\_\_\_  
R.B. Rudolph, Jr.  
Chairman

By \_\_\_\_\_  
F. Thomas Howard  
Secretary



## **EXHIBIT A**

### **DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY**

#### **COMMONWEALTH DEBT MANAGEMENT**

##### **Management**

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

##### **Structure**

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

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

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

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

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

##### **Default Record**

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

**TABLE I  
ACTIVE DEBT ISSUING ENTITIES**

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

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

**EXHIBIT B**

**THE PROJECT LIST**

<u>Project Description</u>	<u>Authorized Project Amount<sup>(1)</sup></u>
<u>State Fair Board</u>	
Design East Wing/Hall Renovation Project	\$50,000,000
<u>Council on Postsecondary Education</u>	
Eastern Kentucky University - Science Complex	5,000,000
Eastern Kentucky University - Construct Business Technology Center – Phase II	32,850,000
Eastern Kentucky University - Manchester Postsecondary Education Center	9,000,000
Kentucky Community and Technical College System - Jefferson Community College Building – Design	600,000
Kentucky Community and Technical College System - Somerset Aviation	1,650,000
Kentucky Community and Technical College System - Henderson CC Technology Center	13,066,000
Kentucky Community and Technical College System - Madisonville Technology Center	14,000,000
Kentucky Community and Technical College System - Gateway CTC – Expand Edgewood Campus	15,477,000
Kentucky Community and Technical College System - Ashland Technology Center	18,030,000
Kentucky Community and Technical College System - LCC Classroom/Lab Building	31,741,000
Kentucky State University - Young Hall Renovation	5,339,000
Kentucky State University - Hathaway Hall Renovation – Phase II	7,400,000
Morehead State University - Design Health Science Classroom Building	1,500,000
Morehead State University - NASA Space Science Center	12,200,000
Murray State University - New Science Complex	15,000,000
Northern Kentucky University - Regional Special Events Center	54,000,000
University of Kentucky - Expand & Upgrade Livestock Disease Diag. Center	8,500,000
University of Kentucky - Biological/Pharmaceutical Complex	40,000,000
University of Louisville - HSC Research Campus Facility, Phase III	39,150,000
Western Kentucky University - Math and Science Academy Renovation	3,750,000
Western Kentucky University - Renovate Science Campus, Phase II	33,000,000
<u>Education Cabinet</u>	
Department of Education Operation and Support Services - Facility for Education Arts Programs	1,800,000
Department of Education Operation and Support Services - Various Major Maintenance – KSD	3,839,000
Department of Education Operation and Support Services - Rockcastle Area Vocational Technical School	8,000,000
Kentucky Educational Television - Replace Roof at Network Center	1,000,000
Vocational Rehabilitation - Replace Roof Perkins Rehabilitation Center	1,320,000

Cabinet for Economic Development

Financial Incentives - Innovation and Commercialization for a Knowledge-Based Economy Bond Pool	5,000,000
Financial Incentives - Economic Development Bond Pool	10,000,000
Financial Incentives - Economic Development Bond Pool	2,860,000 <sup>(2)</sup>

Environmental and Public Protection Cabinet

Environmental Protection - State-Owned Dam Repair	1,000,000
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Finance and Administration Cabinet

Facilities and Support Services - Improve Site Infrastructure – KY Capitol Complex II	6,000,000
COT - UCJIS -Court Improvements (E-Warrants)	4,500,000
COT - Public Safety Communications Infrastructure - KEWS	13,768,000
Revenue - Collection System Interface Phase I	1,500,000
Revenue - Business Refund Off-Set System	1,750,000
Revenue - Develop Streamlined Sales Tax Simplification System	14,062,000

Governor's Office of Agricultural Policy

Kentucky Agriculture Finance Corporation - Loan Pool	17,000,000
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Governor's Office for Local Development

Southeastern Regional Agricultural and Exposition Center in Corbin	12,000,000
KIA Fund A – Federally Assisted Wastewater Program	2,200,000
KIA Fund F Drinking Water Revolving Loan Program	2,600,000
KIA Infrastructure for Economic Development Fund for Coal-Producing Counties	60,000,000 <sup>(3)</sup>
KIA Infrastructure for Economic Development Fund for Tobacco-Producing Counties	94,500,000 <sup>(3)</sup>

Cabinet for Health and Family Services

General Administration and Program Support - Network Infrastructure Upgrade	782,000
General Administration and Program Support - Child Support Enforcement (KASES II)	2,040,000
General Administration and Program Support - Safeguarding Children at Risk (TWIST Re-Write)	2,205,000
Mental Health and Mental Retardation - Upgrade HVAC Pipes & Electric – Glasgow	2,200,000
Mental Health and Mental Retardation - Replace Roof – Oakwood	2,200,000
Public Health - Upgrade KASPER System DPH	5,000,000

Justice and Public Safety Cabinet

Corrections - Replace Electronic Offender Mgt. Systems Ph I	5,000,000
State Police - Replace Records and Secure Evidence Facility	6,075,000

Personnel Cabinet

General Operations - Replace Commonwealth's Personnel Payroll System	<u>25,000,000</u>
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TOTAL	\$726,454,000
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<sup>(1)</sup> Excludes allocable costs of issuance.

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

<sup>(3)</sup> Remaining  $\frac{3}{4}$  authorization ( $\frac{1}{4}$  authorization financed by SPBC 85).

## EXHIBIT C

### 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 (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Resolution.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## EXHIBIT D

### FORM OF BOND COUNSEL OPINION

[Date of Initial Delivery]

Kentucky Asset/Liability Commission  
Frankfort, Kentucky

Re: Kentucky Asset/Liability Commission Project Notes, 2005 General Fund Second Series

We have acted as bond counsel in connection with the issuance by the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer"), of its Project Notes, 2005 General Fund Second Series A-1 and 2005 General Fund Second Series A-2 (collectively the "Tax-Exempt Notes") and its Project Notes, 2005 General Fund Second Series C-1 in an amount not to exceed \$750,000,000 (collectively, 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 August 15, 2005 (the "Resolution"), and a Trust Indenture (the "Indenture") dated as of November 1, 2005 between the Issuer and J.P. Morgan Trust Company, National Association, Louisville, Kentucky, as trustee (the "Trustee").

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

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Project Notes, including specimen Project Notes, a Financing/Lease Agreement (the "Financing Agreement") dated as of November 1, 2005 among the Issuer, the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Commonwealth of Kentucky State Property and Buildings Commission, certain Subleases (the "Subleases") dated as of November 1, 2005 between the Cabinet and various State Agencies, as defined in the Act, and other relevant matters. 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, the State Agencies 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, the Financing Agreement and the Subleases have been duly authorized, executed and delivered by the Cabinet and the Subleases have been duly authorized, executed

and delivered by the State Agencies and are each valid and binding obligations of the Issuer, the Cabinet and the State Agencies, 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 and each Certificate of Award, as defined 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, the State Agencies 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 or the State Agencies, which have respectively leased and subleased the Project for an initial term ending June 30, 2006, with the right to renew for additional successive terms of two years each until the Project Notes and interest thereon have been paid and discharged.

6. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Tax-exempt 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 Tax-exempt 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. The 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 Subleases, the Project Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

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

Unless otherwise notified by us, you may continue to rely on this opinion to the extent that (i) there is no change in pertinent existing state or federal law, (ii) the Resolution, the Indenture, the Financing Agreement and the Subleases, each in the form in effect on the date hereof, remain in full force and effect and there is no default, or an event that with notice or passage of time would constitute a default thereunder, (iii) the representations, warranties and covenants of the parties contained in the Liquidity Facility, as defined in the Indenture, and certain certificates dated the date hereof and delivered by authorized officers of the Commonwealth, the Issuer, the Cabinet and the State Agencies remain true

and accurate and are complied with in all material respects, and (iv) no litigation affecting the issuance or validity of the Project Notes is pending or threatened at the time of delivery of any such instruments.

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

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## EXHIBIT E

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE FINANCING AGREEMENT

Summarized below are certain provisions of the Indenture and Financing Agreement. This summary does not purport to be complete, and is qualified by reference to the Indenture and 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" shall mean Section 56.860 et seq. of the Kentucky Revised Statutes, as amended.

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

"Alternate Credit Facility" shall mean any Credit Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution of a Credit Facility, which Credit Facility shall be the same in all material respects (except as to expiration date) as the Credit Facility it is replacing.

"Alternate Liquidity Facility" shall mean any Liquidity Facility delivered to, and accepted by, the Trustee pursuant to the Indenture in substitution for a Liquidity Facility. Extensions of the term of a Liquidity Facility then in effect shall not be deemed an Alternate Liquidity Facility.

"Alternate Rate" means, on any Interest Rate Determination Date, the rate that is equal to the percent of the BMA Index or the percent of LIBOR, for the applicable Series, as follows:

<u>Series</u>	<u>Percent</u>
A	100% of the BMA Index
B	110% of the BMA Index
C	105% of LIBOR

In the event that LIBOR or the BMA Index is no longer published, the Alternate Rate in respect of an Interest Rate Determination Date will be a comparable index selected by the Related Remarketing Agent, and agreed to by the Commission and the Liquidity Provider (if any) or Credit Facility Provider (if any) for the applicable Series of Notes.

"Applicable Interest Period" shall mean for Notes bearing interest at (i) the Daily Rate, 50 days, (ii) the Weekly Rate, 45 days and (iii) the Commercial Paper Rate or a Fixed Rate, 195 days, or such other number of days as may be required by a Rating Service with respect to a Credit Facility or Liquidity Facility.

"Application" shall mean that certain written instrument tendered to the SPBC by the Secretary of the Cabinet pursuant to KRS 56.450(4), wherein and whereby the Cabinet has requested the SPBC to finance the costs of the Projects, through application of the proceeds of the Bonds to be issued by the

SPBC in its own name in the manner authorized by the Act. The application is, in part, contained in the Financing Agreement.

"Authorized Denominations" shall mean, (i) for Notes bearing interest at a Fixed Rate, \$5,000 or any integral multiple thereof and (ii) for Notes bearing interest at a Daily Rate, Commercial Paper Rate or Weekly Rate, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

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

"Bank Notes" shall mean Notes of any Series pledged to, or owned by a Related Liquidity Provider or Related Credit Facility Provider.

"BMA Index" shall mean the per annum rate established weekly by Municipal Market Data for tax-exempt seven-day variable rate demand obligations meeting the Bond Market Association's criteria for inclusion in the index and if such index is no longer published, a successor or equivalent index selected by the Related Remarketing Agent (or if there is no Related Remarketing Agent, the Trustee), after consultation with the Commission.

"Bond Counsel" shall mean an attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America, selected by the Commission and reasonably acceptable to the Trustee.

"Bonds" shall mean bonds authenticated and delivered by the SPBC to provide permanent financing for the Projects for which Notes were issued and delivered, the proceeds of which will be used to pay the principal of or interest on the Notes or a portion thereof.

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

"Budget Act" shall mean, collectively, H.B. 267 of the General Assembly of the Commonwealth of Kentucky, 2005 Regular Session and H.B. 269 of the General Assembly of the Commonwealth, 2003 Regular Session.

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

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

"Certificate of Award" shall mean the certificate of an Authorized Officer establishing certain terms of the Notes.

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

"Commencement Date" shall mean, as to any Series of Notes, the applicable Issue Date or the date on which the interest rate on that Series of Notes is being converted from one Interest Rate Mode to a different Interest Rate Mode.

"Commercial Paper Period" shall mean a period of not less than one day, nor more than 365 days, ending on or before the Final Maturity Date, as shall be determined by the Related Remarketing Agent to result in the lowest overall interest expense on all Series of Notes bearing interest at the Commercial Paper Rate over their term. Different Commercial Paper Periods may apply to different Series of Notes bearing interest at the Commercial Paper Rate and no Commercial Paper Period for any Notes shall extend beyond a Mandatory Purchase Date that is applicable to such Notes.

"Commercial Paper Rate" shall mean the minimum rate of interest per annum which would, in the judgment of the Related Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Commercial Paper Rate at a price equal to the principal amount of such Notes (exclusive of accrued interest).

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

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

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

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

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

"Credit Facility" shall mean with respect to any Series of Notes (A) a letter of credit, a bond insurance policy or a surety bond to be issued by a Credit Facility Provider and delivered to the Trustee on the same date as the initial delivery of such Series of Notes and being an irrevocable obligation to make payment to the Trustee of up to the amounts therein specified with respect to (a) the principal amount of such Series of Notes outstanding to enable the Trustee to pay (i) the principal amount of such Series of Notes when due at maturity or upon redemption, and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the principal portion of the Purchase Price of any of such Series of Notes tendered for purchase pursuant to the Indenture or due upon acceleration, plus (b) the amount of interest due on such Series of Notes at the Maximum Rate to enable the Trustee to pay (i) interest on such Series of Notes when due on any Interest Payment Date or upon acceleration and (ii) if the Credit Facility is in the form of a letter of credit, an amount equal to the interest portion, if any, of the Purchase Price of such Series of Notes tendered for purchase; as the same may be transferred, reissued, amended or replaced in accordance with the Indenture and the Credit Facility and (B) upon the issuance and effectiveness thereof, any Alternate Credit Facility. A Credit Facility shall not constitute a Liquidity Facility under the Indenture.

"Credit Facility Agreement" shall mean the reimbursement agreement, bond insurance agreement or similar agreement between the Commission and any Credit Facility Provider.

"Credit Facility Provider" shall mean the provider of a Credit Facility with respect to any Series of Notes named in the Certificate of Award relating to such Series of Notes, the unsecured, uninsured and unguaranteed short term debt obligations of which have been rated at a rating no lower than the then existing rating, if any, on the Related Notes by each Rating Service.

"Daily Rate" shall mean the minimum rate per annum which would, in the judgment of the Related Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Daily Rate at a price equal to the principal amount of such Notes. In the event the Interest Rate Adjustment Date shall not be a Business Day, Daily Rate shall mean the Daily Rate for the last day on which a Daily Rate was set.

"Daily Rate Period" shall mean the calendar day on which a Daily Rate is established.

"Depository" shall mean any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry system to record ownership of beneficial interest in any series of Notes, and to effect transfers of book entry interests in such Notes, and includes and means initially DTC.

"DTC" shall mean The Depository Trust Company, New York, New York (a limited purpose trust company).

"DTC Letter" shall mean the blanket letter of representations from the Commission to DTC, dated July 7, 1997.

"DTC Operational Arrangements" shall mean DTC's operational arrangements, as amended from time to time.

"Electronic Means" shall mean (i) telecopy, telegraph, telex, electronic mail, 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" shall mean any investment authorized by Section 42.500 of the Kentucky Revised Statutes, as the same may be amended from time to time.

"Exchange Agreement" shall mean an interest rate exchange agreement between the Commission or the Trustee and an Exchange Counterparty, as originally executed and as amended or supplemented, or a similar interest rate hedge agreement, as originally executed and as amended or supplemented.

"Exchange Counterparty" shall mean any party with whom the Commission or the Trustee shall, from time to time, enter into an Exchange Agreement.

"Exchange Payment" shall mean a payment due from the Commission or the Trustee to an Exchange Counterparty, pursuant to the applicable Exchange Agreement (including, but not limited to, payments in respect of any early termination date, as defined in the applicable Exchange Agreement).

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



"Expiration Date" shall mean the stated expiration date of a Liquidity Facility or Credit Facility, as such may be extended from time to time, or any earlier date on which the Liquidity Facility or Credit Facility shall terminate, expire or be cancelled.

"Expiration Tender Date" shall mean the day that is five Business Days prior to the Expiration Date; provided that if the Expiration Date is after the Final Maturity Date there shall be no Expiration Tender Date.

"Extension Date" shall mean the forty-fifth day prior to the Expiration Date.

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

"Final Maturity Date" shall mean November 1, 2025.

"Financing Agreement" shall mean the Financing/Lease Agreement, dated as of November 1, 2005 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" shall mean Financing Payments payable under the Financing Agreement.

"Fitch" shall mean Fitch Ratings.

"Fixed Rate" shall mean, for (i) Notes to bear interest at a fixed rate to maturity from their Issue Date, the interest rate set forth in the Related Certificate of Award and (ii) any remarketing upon conversion from a different Interest Rate Mode, the minimum rate per annum which would, in the judgment of the Related Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at a fixed rate to maturity at a price equal to the principal amount of such Notes (exclusive of accrued interest).

"Funds and Accounts" shall mean a Cost of Issuance Fund, Note Payment Fund, Project Fund and Rebate Fund and the accounts within such funds established by the Indenture.

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

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

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

"Interest Payment Date" shall mean (i) with respect to any Series of Notes bearing interest at the Daily Rate, the first Business Day of each month; (ii) with respect to any Series of Notes bearing interest at the Weekly Rate, the first Business Day of each month; (iii) with respect to any Series of Notes bearing interest at the Commercial Paper Rate, each Mandatory Purchase Date, and, if the Commercial Paper Period exceeds 182 days, an additional Interest Payment Date that is 182 days after the first day of such Commercial Paper Period (or the first Business Day thereafter if such day is not a Business Day); (iv) with respect to any Series of Notes bearing interest at the Fixed Rate, the date(s) set forth in the Certificate of Award for such Notes, provided that, if such Series of Notes is secured by a Credit Facility,

there shall be an Interest Payment Date on the first day of a month that is no more than 182 days after the Commencement Date and at least semi-annually thereafter; (v) the date any Notes are redeemed, mature or are converted from their existing Interest Rate Mode to bear interest in a different Interest Rate Mode; and (vi) with respect to Bank Notes, the dates set forth in the Related Credit Facility Agreement or Related Liquidity Facility.

"Interest Rate Adjustment Date" shall mean any date on which the interest rate on a Series of Notes may be adjusted, either as the result of the conversion of the interest rate on a Series of Notes to a different Interest Rate Mode, or by adjustment of the interest rate on a Series of Notes within the applicable Interest Rate Mode. An Interest Rate Adjustment Date shall be each Business Day with respect to a Series of Notes bearing interest at the Daily Rate; each Wednesday with respect to a Series of Notes bearing interest at the Weekly Rate; the Commencement Date with respect to a Series of Notes to bear interest at the Fixed Rate; and the first day of each Commercial Paper Period with respect to any Series of Notes bearing interest at a Commercial Paper Rate.

"Interest Rate Determination Date" shall mean with respect to each Series of Notes, the Issue Date of such Series of Notes, and thereafter shall mean, (i) with respect to any Series of Notes to bear interest at the Daily Rate, each day such Series of Notes bears interest at the Daily Rate, (ii) with respect to any Series of Notes to bear interest at the Weekly Rate, Tuesday, or if such Tuesday is not a Business Day, then the next succeeding Business Day, (iii) with respect to any Series of Notes to bear interest at the Commercial Paper Rate, the first day of each Commercial Paper Period, and (iv) with respect to any Series of Notes to bear interest at the Fixed Rate, the fifth Business Day preceding the Commencement Date.

"Interest Rate Mode" shall mean any of those modes of interest with respect to a Series of Notes permitted by the Indenture, specifically, the Daily Rate, the Weekly Rate, the Commercial Paper Rate and the Fixed Rate.

"Interest Rate Period" shall mean that period of time for which the interest rate with respect to a Series of Notes has been determined by the Related Remarketing Agent or otherwise as provided in the definition of the applicable Interest Rate Mode, commencing on the applicable Interest Rate Adjustment Date, and terminating on the day immediately preceding the following Interest Rate Adjustment Date.

"Issue Date" shall mean the date of any Notes issued under the Indenture as determined by the Certificate of Award authorizing such Notes.

"KRS" shall mean the Kentucky Revised Statutes.

"Legal Officer" shall mean the attorney at law licensed to practice law in the State and serving as legal counsel to the Commission.

"LIBOR" shall mean:

(a) The per annum rate for deposits in United States dollars for one month which appears on the Bloomberg British Bankers' Association Official BBA LIBOR Fixings page ("BBA LIBOR Fixings Page" as defined below) as of 11:00 A.M. London, England time, on the applicable Interest Rate Adjustment Date. LIBOR shall be rounded upwards, if necessary, to the nearest 0.01 percent. If such rate does not appear on the BBA LIBOR Fixings Page or if fewer than two offered rates appear, LIBOR will be determined on such date as described in (b) below. "BBA LIBOR Fixings Page" means the display designated as page "Official BBA LIBOR Fixings" on the Bloomberg Financial Markets Commodities News Service (or such other page as

may replace the BBA LIBOR Fixings Page on that service for the purpose of displaying London interbank offered rates of major banks).

(b) If, on any applicable Interest Rate Adjustment Date, fewer than two offered rates appear on the BBA LIBOR Fixings Page, the Trustee will request the principal London office of each of at least two major banks, determined by the Trustee, that are engaged in transactions in the London interbank market, to provide the Trustee with its offered quotation for United States dollar deposits for one month to prime banks in the London interbank market as of 11:00 A.M., London, England time, on such date. If at least two such major banks provide the Trustee with such offered quotations, LIBOR on such date will be the arithmetic mean (rounded upwards, if necessary, to the nearest 0.01 percent), of all such quotations. If on such date fewer than two of the major banks provide the Trustee with such an offered quotation, LIBOR on such date will be the arithmetic mean (rounded upwards, if necessary, to the nearest 0.01 percent) of the offered rates which one or more leading banks in the City of New York (other than the Trustee or another bank owned by, or affiliated with, the Trustee) are quoting as of 11:00 A.M., New York City time, on such date to leading European banks for United States dollar deposits for one month; provided, however, that if such banks are not quoting as described above, LIBOR will be the LIBOR applicable to the immediately preceding Interest Rate Period.

"Liquidity Facility" shall mean with respect to any Series of Notes (a) the obligation of the Commission to purchase such Series of Notes that are tendered or required to be tendered for purchase as contemplated pursuant to the Indenture, (b) a standby note purchase agreement, letter of credit, line of credit, revolving credit agreement, bond insurance policy, surety bond or similar liquidity enhancement or support facility or agreement or undertaking or combination thereof issued by a Liquidity Provider in favor of the Trustee, for the account of the Commission, obligating a Liquidity Provider to pay during the periods described therein, upon request and in accordance with the terms thereof, the amounts described therein for the purposes of making certain payments on or with respect to such Series of Notes as contemplated pursuant to the Indenture or (c) upon acceptance by the Trustee of any Alternate Liquidity Facility, such Alternate Liquidity Facility; provided, that (i) any Alternate Liquidity Facility accepted under the Indenture shall (except as otherwise specifically required by the Indenture) support payments of Purchase Price to the same extent as the Liquidity Facility it replaces and (ii) for purposes of drawing upon or otherwise causing moneys to be available pursuant to a Liquidity Facility on or prior to a Purchase Date relating to the acceptance by the Trustee of an Alternate Liquidity Facility, "Liquidity Facility" shall mean the Liquidity Facility in effect immediately prior to acceptance of such Alternate Liquidity Facility. A Liquidity Facility shall not constitute a Credit Facility under the Indenture.

"Liquidity Provider" shall mean the provider of a Liquidity Facility with respect to any Series of Notes named in the Certificate of Award relating to such Notes, the unsecured, uninsured and unguaranteed short-term debt obligations of which have been rated at a rating no lower than the then existing rating, if any, on the Related Notes by each Rating Service.

"Mandatory Purchase Date" shall mean, with respect to any particular Series of Notes, (i) a Substitution Tender Date, (ii) an Expiration Tender Date, (iii) the date the interest rate on a series of Notes is converted to a different Interest Rate Mode, and (iv) for Notes bearing interest at a Commercial Paper Rate, the end of each Commercial Paper Period.

"Maximum Interest Rate" shall mean, with respect to any Series of Notes secured by a Liquidity Facility or Credit Facility, the maximum interest rate for which draws for the payment of interest on such Series of Notes is permitted under the applicable Liquidity Facility or Credit Facility.

"Memorandum of Instructions" shall mean 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.

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

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

"Note Purchase Agreement" shall mean the applicable Note Purchase Agreement between the Commission and the applicable Underwriter or purchaser providing for the purchase by such Underwriter or purchaser of a Series of Notes.

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

"Notice of Tender" shall mean a Notice of Tender described in the Indenture.

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

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

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

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

(d) Notes in lieu of which others have been authenticated under the Indenture; and

(e) Undelivered Notes as defined in the Indenture.

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

"Person" shall mean any individual, firm, partnership, association, corporation, or governmental agency.

"Pledged Receipts" shall include:

- (i) all amounts received as drawings under a Credit Facility or Liquidity Facility;
- (ii) 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;
- (iii) all interest earned and gains realized on Eligible Investments (a) except for earnings and gains on any investments in a Rebate Fund and (b) unless the Trust Indenture specifically requires such interest earned or gains realized to remain in a particular Fund or Account and does not therefore constitute a Pledged Receipt; and
- (iv) the proceeds of any Bonds to the extent such proceeds are deposited in a Note Payment Fund.

"Project" shall mean the several projects authorized by the Budget Act, which are more particularly described in Exhibit A to the Indenture and in the Financing Agreement.

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

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

"Purchase Account" shall mean the account by that name within a Note Payment Fund established under the Indenture.

"Purchase Date" shall mean a date on which Notes shall be purchased upon tender thereof under the provisions of the Indenture.

"Purchase Price" shall mean (i) an amount equal to the principal amount of any Notes purchased on any Purchase Date, plus, accrued interest, if any, to such Purchase Date, or (ii) an amount equal to the principal amount of any Notes purchased on a Mandatory Purchase Date, plus accrued interest, if any, to such Mandatory Purchase Date.

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

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

"Record Date" shall mean (i) for Notes bearing interest at the Daily Rate, the last day of the month (whether or not a Business Day) next preceding the applicable Interest Payment Date, or, in the case of the last Interest Payment Date in respect to Notes bearing interest at the Daily Rate, the Business Day immediately preceding such Interest Payment Date, (ii) for Notes bearing interest at the Fixed Rate, the fifteenth day of the month (whether or not a Business Day) next preceding the applicable Interest Payment Date, and (iii) for Notes bearing interest at the Commercial Paper Rate or the Weekly Rate, the Business Day next preceding the applicable Interest Payment Date.

"Redemption Date" shall mean the date established for the redemption of Notes under Article IV of the Indenture.

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

"Related" shall mean (i) in reference to Notes, all Notes of a particular Series; (ii) in reference to Holders, the Holders of a particular Series of Notes; (iii) in reference to a Trust Estate, Pledged Receipts, Financing Payments, Counterparty Exchange Payments or any Fund or Account, the Trust Estate comprised of particular Pledged Receipts, Financing Payments and Counterparty Exchange Payments and Funds and Accounts under the Indenture, the Pledged Receipts, Financing Payments and Counterparty Exchange Payments pledged to a particular Trust Estate and the Funds and Accounts created for a particular Trust Estate; (iv) in reference to a Credit Facility, Credit Facility Agreement, Exchange Agreement, Liquidity Facility and Remarketing Agreement, Credit Facility, Credit Facility Agreement, Exchange Agreement, Liquidity Facility and Remarketing Agreement entered into with respect to a particular Series of Notes; (v) in reference to Credit Facility Provider, Exchange Counterparty, Liquidity Provider and Remarketing Agent, the Credit Facility Provider, Exchange Counterparty, Liquidity Provider and Remarketing Agent under any Credit Facility, Credit Facility Agreement, Exchange Agreement, Liquidity Facility and Remarketing Agreement entered into with respect to a particular Series of Notes; and (vi) in reference to Financing Agreement or Sublease, a Financing Agreement or Sublease entered into with respect to a particular Series of Notes.

"Remarketing Agent" shall mean any entity acting in the capacity of Remarketing Agent under a Remarketing Agreement or a successor Remarketing Agent appointed under the terms of the Indenture.

"Remarketing Agreement" shall mean the Remarketing Agreement, if any, between a Remarketing Agent and the Commission providing for the remarketing of a Series of Notes, as the same may be amended or supplemented from time to time in accordance with its terms.

"Resolution" shall mean the resolution of the Commission authorizing the issuance of the Notes and the execution and delivery of the Indenture.

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

"Series" shall mean Series A Notes, Series B Notes or Series C Notes which are secured by the same Trust Estate.

"Series A Notes" shall mean Notes which are not Series B Notes or Series C Notes under the terms of the Indenture.

"Series B Notes" shall mean Notes which are "private activity bonds" under Section 141 of the Code except Notes which are "qualified 501(c)(3) bonds" under Section 145 of the Code.

"Series C Notes" shall mean Notes which bear interest that is not excludable from "gross income" under the Code.

"SPBC" shall mean the Commonwealth of Kentucky State Property and Buildings Commission.

"SPBC Resolution" shall mean the resolution or resolution of the SPBC authorizing the Projects, approving the issuance of the Bonds and approving the issuance of the Notes.

"State" shall mean the Commonwealth of Kentucky.

"State Agency" shall mean any State Agency, as defined in the Act.

"Sublease" means a Sublease, by which portions of the Project are subleased by the Cabinet, as sublessor, to a State Agency as sublessee.

"Substitution Date" shall mean the date on which an Alternate Liquidity Facility or Alternate Credit Facility, as the case may be, is to be substituted for another Liquidity Facility or Credit Facility in accordance with the provisions of the Indenture.

"Substitution Tender Date" shall mean the date five Business Days prior to the Substitution Date.

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

"Treasurer" shall mean the Treasurer of the State.

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

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

"Underwriter" shall mean the Underwriter identified in the Note Purchase Agreement for a particular Series of Notes.

"Weekly Rate" shall mean the minimum rate per annum which would, in the judgment of the Related Remarketing Agent, under then prevailing market conditions, result in a remarketing and sale of the applicable Series of Notes to bear interest at the Weekly Rate at a price equal to the principal amount of such Notes (exclusive of accrued interest).

## **The Indenture**

**Delivery of the Notes and Additional Notes.** The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$750,000,000. The Notes are to be issued in anticipation of the issuance of bonds by the SPBC. The Indenture provides that the Commission may authorize the issuance of Notes upon execution of a Certificate of Award. Every Certificate of Award is required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes will be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of Notes, including the Interest Payment Dates for Fixed Rate Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the Remarketing Agent, if any, for such Series of Notes; (vii) the optional redemption provisions relating to such Series of Notes; (viii) the optional and mandatory tender provisions relating to such Series of Notes; (ix) the price at which such Series of Notes will be sold to the Underwriter; (x) the allocation of the proceeds of such Series of Notes; (xi) that (a) the amount that may be drawn under a Credit Facility or Liquidity Facility, if such Series of Notes is to be secured by a Credit Facility or Liquidity Facility, is (excluding Bank Notes) no less than the aggregate principal amount Outstanding of all Notes secured by such Credit Facility or Liquidity Facility plus interest at the Maximum Rate for the Applicable Interest Period, (b) any notice of increase in the amounts payable under a Credit Facility or Liquidity Facility which are required to be filed with any Rating Service has been so filed and (c) such Rating Service has confirmed that its current rating of the Notes is effective with respect to the Notes authorized by such Certificate of Award; (xii) that, for Notes which bear interest that is excludable from

gross income under the Code, an IRS Form 8038-G or Form 8038, as appropriate, will be filed in a timely manner; (xiii) directions to the Trustee regarding the establishment of separate and distinct Funds and Accounts and the application of payments under the Financing Agreement, if a separate Trust Estate is to be established for that Series of Notes; and (xiv) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Indenture. The Indenture provides the conditions precedent to authentication and delivery of the Notes.

All Notes will rank on a parity and equality with one another, without regard to Series designation or date of original issuance and is 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 Related Funds and Accounts subject to the limitations of (iv) below), (iii) the Pledged Receipts, and (iv) all Related Funds and Accounts created and established pursuant to the Indenture except the Rebate Fund, including moneys and securities therein. Upon the issuance of a Series of Notes, there may be created a separate and distinct Trust Estate for such Series, as determined by the Commission.

**Establishment of Funds.** The Indenture establishes, for each separate Series of Notes issued, the following special trust Funds (i) the Cost of Issuance Fund (Series)(Date); (ii) the Project Fund; (iii) the Note Payment Fund (Series); and (iv) the Rebate Fund (Series). Each of these Funds is discussed below.

**Cost of Issuance Fund.** The Indenture establishes a separate Cost of Issuance Fund for each Series for which a separate Trust Estate is created, and within such Fund for each Series a separate Account on each Issue Date, which separate Accounts shall be identified by inserting in the designation therefore the Issue Date of the Notes for which the Account was established.

In the Cost of Issuance Account established on the Issue Date for each Series of Notes, there shall be deposited the amount of moneys necessary to pay the Costs of Issuance of the Related Notes specified and determined in the Certificate of Award authorizing the issuance of such Notes.

The Trustee is required from time to time to pay out, or to permit the withdrawal of, moneys from the applicable Cost of Issuance Account 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 for the Related Notes, upon receipt by the Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made, the Costs of Issuance to be so paid and identifying the Account from which such requisition is to be paid.

If any moneys remain in a Cost of Issuance Account on the date which is five months from the date of issuance of the Related Series of Notes, the Trustee is required to transfer such amounts to the Related Note Payment Fund.

**Project Fund.** The Indenture establishes a separate Project Fund, which will be an account in the Commonwealth's management administrative and reporting system. The Project Fund will be separately identified from all other accounts in the Commonwealth's management administrative and reporting system and will be used solely for the purposes provided in the Indenture.



The proceeds of the issuance and delivery of any Notes remaining after the deposit of (a) accrued interest and capitalized interest to the Interest Account of the Related Note Payment Fund, (b) Costs of Issuance to the Related Cost of Issuance Fund and (c) amounts needed to pay the principal of, interest on and premium, if any, on any Related Notes, as may be set forth in a Certificate of Award to the Related Note Payment Fund, will be deposited in the Project Fund, which may have accounts for the Cabinet and for each State Agency for which a Sublease is in effect and for the Related Project of such State Agency, all in accordance with the Commonwealth's management administrative and reporting system.

The Indenture authorizes and directs the Treasurer to make disbursements from the Project Fund on a first-in-first-out basis in accordance with and as required by the provisions of written requisitions filed from time to time by the Cabinet and in accordance with the provisions of the Related Financing Agreement or by a State Agency in accordance with the provisions of a Related Sublease.

The Cabinet will keep and maintain adequate records pertaining to the Project Fund and all disbursements therefrom. Except for amounts which must be transferred to the Rebate Fund, all of the income derived from investment of the Project Fund will, at the option of the Cabinet, be transferred as received to the Note Payment Fund and disbursed therefrom on the next succeeding Interest Payment Date or held in the Project Fund and used for the purposes thereof.

**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:

(A) An Interest Account, into which shall be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Related Notes; (ii) received as the interest portion of Financing Payments (including any prepayments of the interest portion of Financing Payments) received with respect to the Related Notes; (iii) received as proceeds of Related Notes to pay capitalized interest on such Notes; and (iv) received as Related Counterparty Exchange Payments.

(B) A Purchase Account for any Notes bearing interest at a rate other than the Fixed Rate, into which shall be deposited all amounts received (i) from the Remarketing Agent with respect to any remarketing of the Notes Related to that Account, which shall be deposited into a "Remarketing Proceeds Subaccount," (ii) under a draw on any Related Liquidity Facility or Related Credit Facility for the payment of the Purchase Price for any Notes Related to that Account which are tendered and not remarketed by the Remarketing Agent, which shall be deposited in a "Draw Subaccount" or (iii) from the Commission for the payment of the Purchase Price of the Notes Related to that Account, which shall be deposited into a "Commission Proceeds Subaccount."

(C) 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 Related Notes due at maturity, on a Redemption Date or upon acceleration; (ii) received as the principal portion of Financing Payments (including any prepayments of the principal portion of Financing Payments) received with respect to the Related Notes; and (iii) representing proceeds of and premium, if any, on Related Notes to pay principal of the Related Notes at maturity on a Redemption Date, or upon acceleration.

(D) A Credit Facility Account, into which will be deposited all amounts received from draws under a Related Credit Facility to pay the principal of, interest on and premium, if any, on Related Notes or any related Exchange Payments.

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:

- (1) Amounts in the Interest Account will be used to pay (i) interest on the Related Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws will be paid to the Related Credit Facility Provider, (ii) to pay any Related Exchange Payments then due and payable and (iii) to pay the fees of any Related Remarketing Agent, Related Credit Facility Provider or Related Liquidity Provider.
- (2) Amounts in a Purchase Account will be used to purchase Related Notes. Amounts in the Remarketing Proceeds Subaccount will be used first for such purpose, then amounts in the Draw Subaccount, if any, and then amounts in the Commission Proceeds Subaccount. If the Trustee deposits moneys in the Draw Subaccount in accordance with the Indenture to pay the Purchase Price of Related Notes on a Purchase Date or Mandatory Purchase Date and thereafter deposits amounts in the Related Remarketing Proceeds Subaccount upon the remarketing of Related Notes that were the subject of such deposit, the Paying Agent, by wire transfer, will pay to the Commission (if the Commission has deposited funds to the Related Draw Subaccount) or to the Related Liquidity Provider or Related Credit Facility Provider, the amount deposited in the Related Remarketing Proceeds Subaccount as a result of remarketing such Notes.

If the Paying Agent fails to receive remarketing proceeds from the Related Remarketing Agent, moneys paid by the Commission or moneys drawn on a Related Liquidity Facility or Related Credit Facility in an amount sufficient to pay the Purchase Price of tendered Notes, (a) the Paying Agent is required to pay to the Related Remarketing Agent the entire amount then on deposit in the Related Purchase Account, and the Related Remarketing Agent is required to return such amount to the prospective purchasers which provided such moneys to the Related Remarketing Agent, (ii) any amount paid by the Commission, a Liquidity Provider or Credit Facility Provider on such draw will be deposited in a segregated Account of the Related Note Payment Fund, (iii) pursuant to Section 9.02(c), the Trustee shall declare the Related Notes to be due and payable and (iv) the Trustee will hold for payment pursuant to the Indenture all such Notes tendered for purchase on the applicable Purchase Date or required to be purchased on a Mandatory Purchase Date.

Amounts deposited in the Purchase Account will remain uninvested pending application thereof in accordance with the provisions of the Indenture.

- (3) Amounts in the Principal Account will be used to pay principal of and premium, if any, on the Related Notes, unless draws have been made on a Credit Facility for such purpose, in which case, amounts corresponding to such draws (plus any related fees of the Related Credit Facility Provider) will be paid to the Related Credit Facility Provider.

- (4) Amounts in the Credit Facility Account will be used to pay the principal of, interest on (or any Related Exchange Payments) and premium, if any, on Related Notes that are secured by a Related Credit Facility.

The Trustee is required to draw on any Liquidity Facility pursuant to its terms, in the amounts and at the times necessary to pay the Purchase Price on the Related Notes pursuant to the Indenture.

The Trustee is required to draw on any Credit Facility pursuant to its terms, in the amounts and at the times necessary to pay the Purchase Price, principal of, interest on (and any Related Exchange Payments) and premium, if any, on any Notes. The Trustee will draw upon the Credit Facility in accordance with the terms thereof under the circumstances described in the Indenture.

The Trustee is required to transmit to any Paying Agent, as appropriate, from moneys in the Related Note Payment Fund applicable thereto, amounts sufficient to make timely payments of principal of, Purchase Price of, interest on and premium, if any, on the Related 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 or Purchase Price of, premium, if any, and interest on Related Notes as they become due and payable (whether on an Interest Payment Date, upon tender thereof, 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, Purchase Price, premium and interest. Exchange Payments and reimbursement payments under a Credit Facility Agreement and a Liquidity Facility shall be paid by wire transfer of immediately available funds.

**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. Amounts in any Purchase Account and Credit Facility Account will be held uninvested.

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, and all amounts payable under the Liquidity Facility and the Credit Facility Agreement shall have been satisfied and the Liquidity Facility and the Credit Facility shall have terminated in accordance with their terms, 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

(f) 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, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Land Banks, Federal Home Loan Banks, Bank for Cooperatives and any other similar institution.

**Events of Default and Remedies.** Each of the following events is an "Event of Default" under the Indenture, but only with respect to the Series of Notes to which such Event of Default applies:

(1) payment of any principal on any Related 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 Related Note or any Related Exchange Payment shall not be made when and as the same shall become due; or

(3) payment of any Related Note tendered to a Related Remarketing Agent or the Commission for purchase pursuant to the Indenture shall not be made when due and the continuance of such failure for one Business Day after the Paying Agent has given written notice of such failure to such Related Remarketing Agent, any Related Liquidity Provider, any Related Credit Facility Provider, and the Commission; or

(4) the Commission shall fail or refuse to comply with the provisions of the Act, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or the Related Notes and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by (i) a Related Liquidity Provider or Related Credit Facility Provider or (ii) the Trustee or the Holders of not less than five percent (5%) in principal amount of the Outstanding Notes of a Series, provided that the notice set forth in clause (ii) may only be given for Notes secured by a Credit Facility or having their Purchase Price payable from draws on a Liquidity Facility if the Related Credit Facility Provider or the Related Liquidity Provider is not in default of its obligations under the Related Credit Facility or the Related Liquidity Facility, as applicable; or

(5) receipt by the Trustee (i) from a Credit Facility Provider, within the time period specified in a Related Credit Facility, of notice that it will not reinstate amounts drawn on such Credit Facility to pay interest on the Related Notes or (ii) from a Liquidity Provider or Credit Facility Provider of notice that an Event of Default has occurred under the Related Liquidity Facility or Related Credit Facility Agreement.

Subject to provisions in the this paragraph and upon the occurrence of an Event of Default as specified in paragraph (1), (2), (3) or (5) 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 an Event of Default specified in paragraph (4) above, 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. Anything in this paragraph to the contrary notwithstanding, upon the occurrence of an Event of Default with respect to Notes secured by a Credit Facility or having their Purchase Price payable from draws on a Liquidity Facility, the Trustee shall make any such declaration only upon the written direction, or upon the written consent of the Related Credit Facility Provider or Related Liquidity Provider; provided that such consent shall only be required when the Event of Default is not described in paragraph (5)(a) above and Related Credit Facility Provider or Related Liquidity Provider is not in default of its obligations under its Credit Facility or Liquidity Facility, as applicable. Upon the occurrence of an Event of Default described in paragraph (5)(b) above, the Trustee shall not declare the Notes to be immediately due and payable, until the applicable Credit Facility Provider or Liquidity Provider has paid to the Exchange Party, if any, the amount of any termination fee that would be payable on the date of acceleration under the related Exchange Agreement, anything in the Indenture or the Notes to the contrary notwithstanding.

Any such declaration will be by notice in writing to the Commission, Remarketing Agent, Credit Facility Provider, Liquidity Provider and the Exchange Counterparty, and, upon said declaration, principal and interest on all Notes (or Related 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.

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 a Series of 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 any Related Credit Facility Provider, any Related Liquidity Provider, any Related Exchange Counterparty and the Holders of the Related 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 Indenture, it being understood that amounts drawn on a Credit Facility shall not be used for the purposes described in clauses (i) and (ii) and will be applied as follows:

(1) Unless the principal of all of all Related 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 (or Related Exchange Payments) 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, including amounts owed to a Related Credit Facility Provider in respect of interest, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Related Notes (or Related Exchange Payments) 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 Related 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, including amounts owed to any Related Credit Facility Provider in respect of principal, without any discrimination or preference.

(2) If the principal of all of the Related Notes shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Related Notes (or Related Exchange Payments) without preference or priority of principal over interest (or Related Exchange Payments) or of interest over principal (or Related Exchange Payments), or of any installment of interest over any other installment of interest (or Related Exchange Payments), or of any Related Note over any other Related Note, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, including amounts owed to any Related Credit Facility Provider, 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.

**Direction of Proceedings.** The Related Credit Facility Provider or the Related Liquidity Provider and the Related Holders of the majority in principal amount of Notes then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Trust Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction. In the event of a conflict between directions from the Credit Facility Provider, the Liquidity Provider and such Holders, directions shall be followed in priority order as follows: (i) the Credit Facility Provider, so long as the Credit Facility Provider is not in default of its obligations under the Credit Facility Agreement; (ii) the Liquidity Provider, so long as the Liquidity Provider is not in default of its obligations under the Liquidity Facility; (iii) the Holders; and (iv) an Exchange Counterparty, as long as such Exchange Counterparty is not in default of its obligations under its Exchange Agreement.

**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 and the Credit Facility Provider. Amendments that may be made without the consent of the Holders and the Credit Facility Provider 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 Credit Facility Provider and the Holders of not less than a majority 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 the Financing Agreement which provides for (i) financing for the Project by issuance of the Notes by the Commission; (ii) revenues for amortization for the Notes; (iii) the issuance of the Bonds for the payment of the Notes which have not been amortized; (iv) the transfer of the Project to the SPBC upon the issuance of the Bonds; and (v) the leasing of the Project from the SPBC to the Cabinet and the State Agencies, if applicable, to provide revenues for amortization of the Bonds. The Financing Agreement provides for revenues to reimburse the SPBC and the Commission for their commitments to amortize such Bonds and Notes, respectively.

Each of the State Agencies has agreed to enter into a Sublease (collectively the "Sublease") with the Cabinet pursuant to which the Project will be leased by the Cabinet to the respective State Agencies on terms and conditions sufficient to provide financing for their respective portion of the Project.

**Term, Renewals, Financing Payments and Rent.** The Commission has agreed to provide financing for the Project to the Cabinet, for an initial term ending June 30, 2006. 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, 2006, and for each Renewal Term the Debt Service Obligation relating to the Notes so long as any Notes are Outstanding. The SPBC has agreed to provide permanent financing for the Project to the Cabinet, for an initial term commencing on the date of issuance of the Bonds and ending June 30 of the first even numbered year after the Bonds are issued. The Cabinet is required to pay, as Rent during the such period, the Debt Servicing Obligation, relating to the Bonds, during the term of the Financing Agreement so long as any Bonds 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, 2026 (the final maturity date permissible for any Bonds to be issued by the SPBC for the Project), or such other date as may be set forth in a Supplemental Financing Agreement entered into pursuant to the Financing Agreement or otherwise agreed to by the SPBC and the Cabinet. 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 and the SPBC 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 and Additional Rent under 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, Additional Payments, Rent and Additional Rent and thereby provide the Commission with moneys sufficient for the payment of the principal and interest of the Notes as they mature, subject to the SPBC's obligation to issue Bonds or the Commission's obligation to issue renewal Notes upon the maturity of any Notes. In its statutory role as the financial agency of the Commonwealth, the Cabinet has agreed to apply appropriated

funds to make the Financing Payments, Additional Payments, Rent and Additional Rent 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, Rent, Additional Payments or Additional Rent; 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 rent (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, Rent, Additional Payments or Additional Rent 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 or the SPBC, as applicable, 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 or the SPBC, as applicable, 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 and the SPBC's expenses incurred by reason of the Cabinet's 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 from the Cabinet under the Financing Agreement. All remedies available to the Commission and the SPBC are declared to be cumulative and concurrent. No termination of the Financing Agreement nor any taking or recovering of possession of the Project shall deprive the Commission or the SPBC of any of its remedies or actions against the Cabinet nor affect the rights of State Agencies arising under the Subleases.

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

All of the Cabinet's right, title and interest in and to any Subleases and the payments payable thereunder, have been assigned by the Cabinet to the Commission and by the Commission to the Trustee for the security and benefit of the Credit Facility Provider and the holders of the Notes.

## EXHIBIT F

### LIQUIDITY PROVIDER

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 19 billion euros as of December 31, 2004, the Dexia Group ranks in the top third of the Euronext 100 companies.

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

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2004 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2004, total funding raised by Dexia and Dexia Municipal Agency was 11.7 billion euros.

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

As of December 31, 2004, Dexia had total consolidated assets of 206.0 billion euros, outstanding medium and long-term loans to customers of 168.13 billion euros and shareholders' equity of over 4.32 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 705 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2004, the exchange rate was 1.0000 euro equals 1.3621 United States dollar. Such exchange rate fluctuates from time to time.

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

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

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