

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Notes is included in gross income for federal income tax purposes. Bond Counsel also is of the opinion that, under existing laws of the Commonwealth of Kentucky, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See "CERTAIN FEDERAL INCOME TAX CONSEQUENCES" herein.

\$269,815,000

**KENTUCKY ASSET/LIABILITY COMMISSION
FUNDING NOTES, 2011 GENERAL FUND FIRST SERIES (TAXABLE)**

Dated: Date of Delivery

Due: April 1, as shown below

The Kentucky Asset/Liability Commission (the "Commission") is issuing its Funding Notes, 2011 General Fund First Series (Taxable) (the "Notes") pursuant to a Resolution of the Commission adopted on February 9, 2011. The proceeds of the Notes will be used to (i) finance or refinance obligations of the Commonwealth of Kentucky owed under KRS 161.550(2) to fund state medical insurance fund obligations of the Teachers' Retirement System of the State of Kentucky and (ii) pay the costs of issuing the Notes. The Notes are being issued under a Trust Indenture dated as of March 1, 2011 (the "Indenture") between the Commission and The Bank of New York Mellon Trust Company, N. A., Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent").

The Notes will be issued only as fully registered notes, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. The Notes will be issued in denominations of \$5,000 or any integral multiples thereof. The Notes will bear interest payable on each April 1 and October 1, commencing on October 1, 2011. Principal of and interest on the Notes will be paid directly to DTC by the Trustee.

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

<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP¹</u>	<u>Maturity (April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP¹</u>
2012	\$14,085,000	1.688%	1.688%	491189FD3	2016	\$25,330,000	3.928%	3.928%	491189FH4
2013	23,285,000	2.211	2.211	491189FE1	2017	25,800,000	4.372	4.372	491189FJ0
2014	23,780,000	2.939	2.939	491189FF8	2018	27,450,000	4.722	4.722	491189FK7
2015	24,480,000	3.478	3.478	491189FG6	2019	28,745,000	5.039	5.039	491189FL5

\$76,860,000; 5.339% Term Bonds due April 1, 2022; Price 100%; CUSIP¹ 491189FM3

The Notes are subject to redemption prior to maturity as described herein.

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing Agreement (the "Financing Agreement") among the Commission, the Commonwealth of Kentucky Finance and Administration Cabinet (the "Cabinet") and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The General Assembly of the Commonwealth of Kentucky has appropriated to KTRS amounts projected to be sufficient to meet debt service requirements on the Notes through June 30, 2012. There can be no assurance that such appropriations will be forthcoming in the biennium beginning July 1, 2012 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" 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 Kutak Rock LLP, Omaha, Nebraska, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that the Notes will be available for delivery in New York, New York, on or about March 3, 2011.

J.P. Morgan

Citi

J.J.B. Hilliard, W.L. Lyons, LLC
Edward D. Jones & Co., L.P.
Stifel, Nicolaus & Company, Incorporated

Morgan Keegan & Co., Inc.

Morgan Stanley

PNC Capital Markets LLC
First Kentucky Securities Corp.
Ross, Sinclaire & Associates, LLC

Dated: February 23, 2011

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission 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

Jonathan Miller, Secretary of the Finance and Administration Cabinet, Chairman
Jack Conway, Attorney General
Todd Hollenbach, State Treasurer
Edgar C. Ross, State Controller
Mary E. Lassiter, State Budget Director

SECRETARY TO THE COMMISSION

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

TRUSTEE AND PAYING AGENT

The Bank of New York Mellon Trust Company, N. A.
Louisville, Kentucky

BOND COUNSEL

Kutak Rock LLP
Omaha, Nebraska

UNDERWRITERS' 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 Funding Notes, 2011 General Fund First Series (Taxable) (the "Notes"). See "THE NOTES" herein.

Authority The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), H.B. 531 of the General Assembly of the Commonwealth of Kentucky, 2010 Regular Session, H.B. 1 of the General Assembly of the Commonwealth of Kentucky, 2010 Extraordinary Session, as enacted and vetoed in part, a Resolution adopted by the Commission on February 9, 2011 (the "Resolution"), and the Trust Indenture dated as of March 1, 2011 (the "Indenture"), between the Commission and The Bank of New York Mellon Trust Company, N. A., Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent"). The State Property and Buildings Commission of the Commonwealth of Kentucky has also approved the issuance of the Notes.

Use of Proceeds The proceeds of the Notes will be used to (i) finance or refinance obligations of the Commonwealth owed under KRS 161.550(2) to fund state medical insurance fund obligations of the Teachers' Retirement System of the State of Kentucky and (ii) pay the costs of issuing the Notes. See "PLAN OF FINANCE" herein.

Security The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing Agreement dated as of March 1, 2011 (the "Financing Agreement") among the Commission, the Finance and Administration Cabinet (the "Cabinet") and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The General Assembly of the Commonwealth of Kentucky (the "General Assembly") has appropriated to the KTRS, amounts projected to be sufficient to meet debt service requirements on the Notes through June 30, 2012. Such appropriations are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly. 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 KTRS 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 and KTRS to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

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

- Features** The Notes will be issued in fully registered form, without coupons, initially in denominations of \$5,000 and any integral multiple thereof, at the rates shown on the cover page hereof. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. The Notes will bear interest payable on each April 1 and October 1, commencing on October 1, 2011. Principal of and interest on the Notes will be paid directly to DTC by the Trustee.
- Redemption** The Notes are subject to redemption at the option of the Commission, in whole or in part on any date, at a redemption price equal to the Make-Whole Redemption Price, plus accrued interest to the redemption date. 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 Notes is included 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 "CERTAIN FEDERAL INCOME TAX CONSEQUENCES" herein, and EXHIBIT C.
- 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 representative of the Underwriters, J.P. Morgan Securities LLC, 383 Madison Avenue, 8th Floor, New York, NY 10179, (212) 834-7155.

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OFFICIAL STATEMENT

\$269,815,000

KENTUCKY ASSET/LIABILITY COMMISSION FUNDING NOTES, 2011 GENERAL FUND FIRST SERIES (TAXABLE)

INTRODUCTION

This Official Statement (this "Official Statement"), which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), to furnish pertinent information to the purchasers of \$269,815,000 aggregate principal amount of its Funding Notes, 2011 General Fund First Series (Taxable) (the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on February 9, 2011 (the "Resolution"), and the Trust Indenture dated as of March 1, 2011 (the "Indenture"), between the Commission and The Bank of New York Mellon Trust Company, N. A., Louisville, Kentucky, as trustee and paying agent (the "Trustee" and "Paying Agent").

The proceeds of the Notes will be used to (i) finance or refinance obligations of the Commonwealth owed under KRS 161.550(2) to fund state medical insurance fund obligations of the Teachers' Retirement System of the State of Kentucky (the "Funding Obligation") and (ii) pay the costs of issuing the Notes.

The Commission has pledged to the payment of the Notes, payments to be received by the Commission pursuant to a Financing Agreement dated as of March 1, 2011 (the "Financing Agreement") among the Commission, the Finance and Administration Cabinet (the "Cabinet") and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The initial term of the Financing Agreement ends on June 30, 2012, and the Financing Agreement renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet and KTRS) for successive biennial periods to and including the biennial period which includes the final maturity of the Notes. The Financing Agreement requires the Cabinet or KTRS, for each biennial period during which Notes are outstanding, to seek legislative appropriations in amounts which are projected to be sufficient to permit the Cabinet to make Financing Payments to the Commission in amounts sufficient to pay principal of and interest on the Notes.

The General Assembly of the Commonwealth of Kentucky (the "General Assembly") has appropriated to KTRS amounts projected to be sufficient to meet the debt service requirements on the Notes through June 30, 2012. 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 annual budget of the Commonwealth, will not reduce or eliminate such appropriations.

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

The summaries and references to the Act, the Indenture, the Financing Agreement 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 LLC, 10 South Dearborn Street, 43rd Floor, Mail Code IL1-0826, Chicago, Illinois 60670, (312) 385-8456.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them herein under "SUMMARIES OF THE PRINCIPAL DOCUMENTS," in the Indenture or in the Financing Agreement.

THE NOTES

General

The Notes are issuable only as fully registered Notes. The Notes will be issuable in the denominations of \$5,000 or any integral multiples thereof, will be dated as of the date of delivery, and will bear interest payable on each April 1 and October 1, commencing on October 1, 2011, at the rates set forth on the cover page of this Official Statement and will mature on the dates set forth on the cover page of this Official Statement. Principal of and interest on the Notes are payable in lawful money of the United States to the registered owner of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York, pursuant to the global book-entry system operated by DTC. See "EXHIBIT B – BOOK-ENTRY-ONLY SYSTEM."

Redemption of Notes

Optional Redemption. The Notes are subject to redemption at the option of the Commission, in whole or in part on any date, at a redemption price equal to the Make-Whole Redemption Price (determined by an independent accounting, investment banking, or financial advisory firm retained by the Commission to calculate such redemption price), plus accrued interest to the redemption date.

"Make-Whole Redemption Price" means the greater of (i) 100% of the principal amount of the Notes to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Notes are to be redeemed, discounted to the date on which the Notes are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus thirty (30) basis points.

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Notes to be redeemed; provided, however, (i) that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used and (ii) for Notes subject to mandatory sinking fund redemption Weighted Average Life shall be used.

"Weighted Average Life" means the time period determined by (i) multiplying each remaining sinking fund redemption amount by the time from the optional redemption date to the respective sinking fund payment dates (in years) and (ii) dividing the sum of those amounts by the total outstanding principal amount of the particular Notes that are subject to such mandatory sinking fund redemption.

Mandatory Sinking Fund Redemption. The Notes maturing on April 1, 2022 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on the dates and in the principal amounts as follows:

Maturing April 1, 2022

<u>Date</u>	<u>Amount</u>
April 1, 2020	\$30,195,000
April 1, 2021	31,805,000
April 1, 2022	14,860,000*

*Maturity

Selection of Notes for Redemption. The particular maturities of Notes to be redeemed at the option of the Commission will be determined by the Commission in its sole discretion.

If the Notes are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of such Notes, if less than all of the Notes of a maturity are called for prior redemption, the particular Notes or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Notes are held in book-entry-only form, the selection for redemption of such Notes shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Notes will be selected for redemption, in accordance with DTC procedures, by lot.

It is the Commission's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Commission nor the Underwriters can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Notes on such basis. If the DTC operational arrangements do not allow for the redemption of the Notes on a pro rata pass-through distribution of principal basis as discussed above, then the Notes will be selected for redemption, in accordance with DTC procedures, by lot. If the Notes are not registered in book-entry-only form, any redemption of less than all of a maturity of the Notes shall be allocated among the registered owners of such Notes on a pro-rata basis.

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Notes, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Notes to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Note shall not affect the validity of the redemption of any other Note. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least \$1,000,000 in aggregate principal amount of the Notes may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Notes, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Notes of any one maturity then outstanding shall be called for redemption, the distinctive numbers and letters of such Notes to be redeemed and, in the case of Notes to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Note or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to DTC; provided however, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Notes.

A second notice of redemption shall be given within sixty (60) days after the date fixed for redemption in the manner required above to the registered owners of redeemed Notes which have not been presented for payment within thirty (30) days after the date fixed for redemption.

Any notice mailed as provided above, shall be conclusively presumed to have been duly given upon mailing, whether or not the owner of such Notes receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Notes so called for redemption shall cease to accrue after the date fixed for redemption.

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-only system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners of beneficial ownership interests, each as described in EXHIBIT B, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Indenture. For additional information about DTC and the book-entry-only system see "EXHIBIT B – BOOK-ENTRY-ONLY SYSTEM."

Authorization

The Notes are being issued under the provisions of Section 56.860 et seq. of the Kentucky Revised Statutes (the "Act"), H.B. 531 of the General Assembly of the Commonwealth of Kentucky, 2010 Regular Session and H.B. 1 of the General Assembly of the Commonwealth of Kentucky, 2010 Extraordinary Session, as enacted and vetoed in part (the "Budget Act"). The Commission, at a meeting held on February 9, 2011 adopted the Resolution, which (i) authorized the Indenture, (ii) authorized the Financing Agreement, (iii) authorized and approved the issuance of the Notes and (iv) directed the preparation and distribution of this Official Statement. The State Property and Buildings Commission of the Commonwealth of Kentucky has also approved the issuance of the Notes.

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, 2012, and the Financing Agreement renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet and KTRS) for successive biennial periods to and including the biennial period which includes the final maturity of the Notes. The Financing Agreement requires the Cabinet or KTRS, for each biennial period during which Notes are outstanding, to seek legislative appropriations to the Cabinet or KTRS in amounts which are projected to be sufficient to permit the Cabinet to make Financing Payments to the Commission in amounts sufficient to pay principal of and interest on the Notes.

The General Assembly has appropriated to KTRS amounts sufficient to pay the Financing Payments under the Lease, and therefore to permit the Commission to meet the debt service requirements of the Notes through June 30, 2012. Appropriations for Financing Payments related to debt service for the Notes in periods beyond June 30, 2012 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 also secured by certain other funds and accounts pledged therefor and described herein.

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

PLAN OF FINANCE

The proceeds of the Notes will be used by the Commission to (i) finance the Funding Obligation and (ii) pay the costs of issuing the Notes. Upon issuance of the Notes, the proceeds to be applied to the Funding Obligation will immediately be deposited in the Medical Insurance Trust Fund.

SOURCES AND USES OF FUNDS

The following table sets forth the application of the proceeds of the Notes.

SOURCES OF FUNDS:	
Par Amount of Notes	\$269,815,000.00
USES OF FUNDS:	
Deposit to Medical Insurance Trust Fund	\$268,400,000.00
Costs of Issuance ¹	<u>1,415,000.00</u>
TOTAL USES	\$269,815,000.00

¹ Includes underwriter's discount, legal fees, printing, and miscellaneous costs.

THE KENTUCKY ASSET/LIABILITY COMMISSION

General Information

The Act created the Kentucky Asset/Liability Commission, which is composed of five members, each serving in an ex officio capacity. Under the Act, the members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairman; the Attorney General; the State Treasurer; the State Budget Director; and the State Controller. The Secretary of the Commission is the Executive Director of the Cabinet's Office of Financial Management ("OFM").

The current members of the Commission are as follows:

Jonathan Miller	Secretary of the Finance and Administration Cabinet, Chairman
Jack Conway	Attorney General
Todd Hollenbach	State Treasurer
Edgar C. Ross	State Controller
Mary E. Lassiter	State Budget Director

The Commission was created by the General Assembly to develop policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and interest-sensitive liabilities. The Commission is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue anticipation notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected

during the fiscal year. Project notes 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 and certain other obligations relating to the Commonwealth's Teachers' Retirement System. OFM, which is in the Cabinet, serves as staff to the Commission.

Financings of the Commission

General. The Commission has had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes have been issued as General Fund Series, Agency Fund Series, Road Fund Series and Federal Highway Trust Fund Series depending upon the appropriation fund source that is being used to fund the payments under the related financing/lease agreement. Each type of obligation, described below, is secured by the trust indenture to which such types of obligations relate, and holders of notes issued under a particular trust indenture do not have any claim on the pledged receipts of the Commission arising under any other trust indenture. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations as of February 1, 2011 are described below.

General Fund Tax and Revenue Anticipation Notes. From 1997 through 2008, with the exception of 2003, the Commission issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. TRANs are payable from taxes and certain revenues collected by the Commonwealth in the fiscal year in which they are issued. No TRANs have been issued since 2008 and none are currently outstanding.

Project Notes, General Fund Series. The Commission from time to time issues separate series of project notes (the "General Fund Project Notes"), the proceeds of which are used to fund capital projects 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 ("SPBC"). These payments are ultimately dependent upon General Fund appropriations by the General Assembly. The Commission has the following General Fund Project Notes outstanding:

<u>Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2003 General Fund Series A	\$171,260,000	\$15,140,000
2005 General Fund First Series	81,850,000	67,395,000
2007 General Fund FRN Series A	100,835,000	82,710,000
2007 General Fund FRN Series B	<u>142,245,000</u>	<u>139,345,000</u>
TOTAL	\$496,190,000	\$304,590,000

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 SPBC or a state agency. The payments used to pay Agency Fund Project Notes are ultimately dependent upon Agency Fund appropriations by the General Assembly. The Commission has the following Agency Fund Project Notes outstanding:

<u>Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 Agency Fund Taxable First Series	\$11,275,000	\$9,640,000
2005 UK General Receipts Series A	107,540,000	98,600,000
2006 UK General Receipts Series A	66,305,000	56,615,000
2007 UK General Receipts Series A	77,905,000	75,170,000
2007 UK General Receipts Series B	<u>80,245,000</u>	<u>77,920,000</u>
TOTAL	\$343,270,000	\$317,945,000

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

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

<u>Project Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2005 First Series	\$139,635,000	\$88,885,000
2007 First Series	277,910,000	228,300,000
2010 First Series	<u>89,710,000</u>	<u>89,710,000</u>
TOTAL	\$507,255,000	\$406,895,000

Funding Notes, General Fund Series. The Commission is authorized to issue funding notes (the "General Fund Funding Notes"), the proceeds of which are to be used for the purpose of funding judgments against the Commonwealth or any state agency or to be used to finance or refinance obligations owed to the Teachers' Retirement System of Kentucky ("KTRS"). All General Fund Funding Notes are payable from payments to be received by the Commission under separate financing/lease agreements with KTRS or other state agencies. The Commission has the following General Fund Funding Notes outstanding:

<u>Funding Notes</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2010 First Series	\$467,555,000	\$467,555,000

Future Financings. The 2010 Extraordinary Session of the General Assembly enacted a State Budget for the biennium ending June 30, 2012 which authorized \$1,980.2 million of bond funded capital projects. The General Fund authorization was \$507.4 million; the Road Fund authorization was \$522.5 million; authorization for Agency Funds was \$515.3 million; and \$435 million was authorized to be supported by Federal Highway Trust Funds through Grant Anticipation Revenue Vehicle bonds designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. Bonds have been issued to permanently finance a portion of the General Fund and Agency Fund projects. The Commission may provide interim or permanent financing for certain of these authorizations. In addition, the 2010 Regular Session of the General Assembly authorized up to \$875 million to finance or refinance the Funding Obligation. A portion of the Funding Obligation is being financed by the Notes.

The General Assembly may authorize debt financing to support various capital initiatives or funding obligations of the Commonwealth in future sessions, which may result in the issuance of additional notes by the Commission. Notes may also be issued to refund outstanding Commission notes. The Commission may also issue TRANs as funding needs arise. The Commission may also enter into

interest rate swaps or other agreements to manage the state's interest rate risk profile and/or hedge the future issuance of bonds authorized by the General Assembly.

THE FINANCE AND ADMINISTRATION CABINET

General. 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. 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) 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) 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.

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.

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.

Commonwealth Office of Technology ("COT"). The Commonwealth Office of Technology is headed by the Commonwealth's Chief Information Officer (and Commissioner of Technology). The agency carries out the functions necessary for the efficient, effective and economical administration of information technology and resources within the Executive Branch. These duties include overseeing shared Information Technology ("IT") infrastructure resources and services; developing and implementing statewide IT applications; establishing IT policy and standards, strategic and tactical IT planning, assessing; recommending and implementing IT governance and organization design; and establishing partnerships and alliances for effective implementation of IT projects.

Office of the Controller. The Office of the Controller is responsible for all state accounting policies and procedures, cash management and strategic financial planning. The Controller serves as the Commonwealth's chief accounting officer. The office maintains internal accounting controls, operates the statewide accounting system and reports the results of financial operations to management and the public. The office works closely with other agencies to coordinate the program, budget, and cost management components of the Commonwealth long-range business planning process.

THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

The Teachers' Retirement System of the State of Kentucky is an independent agency and instrumentality of the Commonwealth established under KRS 161.230. It provides pension benefit plan coverage to employees of local school districts and educational agencies of the Commonwealth. The governing board of KTRS includes two ex officio members and seven elected members.

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 Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy -- illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. 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.

The U.S. and Kentucky economies continue to emerge from the 2007-2009 recession. Much like the U.S. economy, state economist are projecting that export led sectors are leading the recovery which is being buoyed by a weak dollar and depleted inventories. While personal income in Kentucky has averaged 0.9 percent growth over the past seven quarters, employment growth continues to struggle with only a net gain of 25,600 seasonally-adjusted jobs since the trough in the third quarter of Fiscal Year 2010. Kentucky's non-farm employment shed nearly 115,000 jobs since December 2007, although the decline was near the median of states in terms of the employment effect of the recession. Recent data suggests that Kentucky could rebound more quickly than a number of states if the resurgence in the domestic auto industry and parts manufacturing can be sustained.

Financial Information Regarding the Commonwealth

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

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2010 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

Municipal Securities Rulemaking Board
Electronic Municipal Market Access System ("EMMA")
Internet: <http://emma.msrb.org>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010 may be obtained from EMMA 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 2010 and certain other fiscal years may be found on the Internet at:

<http://finance.ky.gov/ourcabinet/caboff/OOC/ofm/debt/cafr.htm>

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

The Commission will enter into a Continuing Disclosure Agreement (as hereinafter defined) 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 EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

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

In the absence of a legislatively enacted budget, the Supreme Court has ruled that the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of and interest, when due, on obligations that are subject to appropriation. The Notes are obligations that are subject to appropriation.

Fiscal Year 2009

The Commonwealth's combined net assets (governmental and business type activities) totaled \$14.3 billion at the end of 2009, as compared to \$16.1 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$19.9 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. 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 \$1.1 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, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative \$6.7 billion; therefore funds are not 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 \$11.24 billion and general revenues (including transfers) of \$9.86 billion for total revenues of \$21.1 billion during Fiscal Year 2009. Expenses for the Commonwealth during Fiscal Year 2009 were \$23 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of (\$1.9) billion, net of contributions, transfers and special items.

The slowing economy, during the fiscal year caused revenues to decline, resulting in the decrease in net assets of governmental activities by (\$1.3) billion or 8.12 percent. Approximately 53 percent of the governmental activities' total revenue came from taxes, while 40 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2009, the Commonwealth's governmental funds reported combined ending fund balances of \$1.99 billion, a decrease of \$444 million in comparison with the prior year. \$962.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is \$1.02 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2009 was \$30.4 million. The balance reported reflects a decrease of \$257.7 million from the previously reported amount, which represents a decline of 89.44 percent. The major factor for the decline is attributable to the slow national and state economy which has reduced individual and corporate income taxes.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2009 had \$80.13 million as a reserved fund balance and a negative \$49.7 million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Transportation Fund which was affected by the nation's current economic conditions. The Transportation Fund taxes motor fuel consumption and levies a use tax on motor vehicles transfers. Both of these activities experience a downturn resulting in a \$69 million decrease in tax receipts.

The Commonwealth of Kentucky's bonded debt increased by \$812.4 million to \$4.4 billion, a 22.46 percent increase during Fiscal Year 2009. The major factors in this increase were the issuance of bonds to replace notes which had been issued as an interim financing source and additional bonds to fund new projects. No general obligation bonds were authorized or outstanding at June 30, 2009.

Fiscal Year 2010

The Commonwealth's combined net assets (governmental and business type activities) totaled \$12 billion at the end of 2010, as compared to \$13.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$18.8 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. 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 \$1.2 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, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative \$7.9 billion; therefore funds are not 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 \$13.4 billion and general revenues (including transfers) of \$9.8 billion for total revenues of \$23.2 billion during Fiscal Year 2010. Expenses for the Commonwealth during Fiscal Year 2010 were \$24.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of (\$1.46) billion, net of contributions, transfers and special items.

The slowing economy, during the fiscal year, caused revenues to decline resulting in the decrease in net assets of governmental activities by \$1.2 billion or 8.46 percent. Approximately 49 percent of the governmental activities' total revenue came from taxes, while 44 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2010, the Commonwealth's governmental funds reported combined ending fund balances of \$2.15 billion, an increase of \$139 million in comparison with the prior year. \$972.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is \$1.18 billion.

The General Fund is the primary operating fund of the Commonwealth. The fund balance at the end of Fiscal Year 2010 was \$79.6 million. The balance reported reflects an increase of \$50.9 million from the previously reported amount, which represents an increase of 167 percent. The major factor for the increase is the enhanced federal participation for Medicaid; thus, reducing the Commonwealth's share of these expenditures.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at the end of Fiscal Year 2010 had \$77 million as a reserved fund balance and \$2.5 million unreserved. The unreserved represents the amount available for current expenditures.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund which experienced a significant increase in grant revenue as a result of the American Recovery and Reinvestment Act ("ARRA"), resulting in a significant increase in federal fund expenditures. The Transportation Fund experienced a slight increase in revenues due to increased tax receipts and a reduction in expenditures, again due to increased federal funds under ARRA, resulting in an increase in fund balance of \$89 million.

The Commonwealth of Kentucky's bonded debt increased by \$707.8 million to \$6.0 billion, a 13.5 percent increase during Fiscal Year 2010. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding. No general obligation bonds were authorized or outstanding at June 30, 2010.

Fiscal Year 2011 (Unaudited)

On December 21, 2009, the Consensus Forecasting Group ("CFG") released their official revenue forecast for the General Fund for Fiscal Years 2011 and 2012. The estimate for Fiscal Year 2011, as modified by the 2010 Extraordinary Session of the General Assembly, is \$8,570.9 million. The official estimate reflects a 4.2 percent increase in General Fund receipts for Fiscal Year 2011 when compared to Fiscal Year 2010 actual receipts. The estimate excludes Phase I Tobacco MSA payments, which are estimated by CFG to be \$111.3 million in Fiscal Year 2011.

Fiscal Year 2011 General Fund actual revenues total \$5,097.8 million through January 2011, an increase of 5.6 percent over the same period in Fiscal Year 2010. The official revenue estimate calls for a 2.3 percent increase for the remainder of Fiscal Year 2011.

General Fund revenues for January 2011 were \$744.4 million, an increase of 6.6 percent compared to January 2010. During January 2011, sales and use tax revenues were up 2.3 percent when compared to January 2010. January individual income tax receipts rose by 18.1 percent. Corporation income tax receipts for January 2011 rose by 34.0 percent compared to January 2010. Property tax revenues for January 2011 were off by 26.9 percent compared to January 2010, primarily due to timing differences in the collection and remittance of the real property tax receipts. Cigarette tax receipts declined 11.4 percent in January 2011 compared to January 2010. Coal severance tax receipts grew 27.0 percent in January 2011 compared to January 2010. The Kentucky Lottery Corporation dividend payment for January 2011 was up 3.0 percent from last January.

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 January 31, 2011, the Commonwealth's operating portfolio was approximately \$3.51 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (20%); securities issued by agencies and instrumentalities of the United States Government (22%); mortgage-backed securities and collateralized mortgage obligations (8%); repurchase agreements collateralized by the aforementioned (27%); municipal securities (3%); and corporate and asset-backed securities, including money market securities (20%). The portfolio had a current yield of 0.66% and an effective duration of 1.14 years.

The Commonwealth's investments are currently categorized into two investment pools; the Short Term and Intermediate Term 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 the General Fund and related accounts and provides liquidity to the Intermediate Term Pool as necessary. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale.

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 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio. The Commonwealth has not had any options positions outstanding since April 2004.

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, Credit Suisse, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth.

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. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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. The Commonwealth currently holds several asset-backed securities that have been downgraded from the highest rating category.

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 \$25 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 the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage-Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase.

Interest Rate Swaps

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. The Commission is the agency with specific statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of February 1, 2011, the Commission had interest rate swap transactions outstanding with a total notional amount outstanding of \$222,055,000. This swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled \$243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the Commission's 2007 \$243.08 million General Fund Floating Rate Project Notes.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky. The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems

information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2010, Note 8 beginning on page 80. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at <http://kyret.ky.gov> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). 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.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2010 actuarial valuation reports used in preparing the associated Pension Plans' 2010 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$7,288 million, while KTRS had a UAAL of \$9,493 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2010 had funding percentages of 40.8 percent for the Kentucky Retirement Systems and 61.0 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 pension benefits was \$385.1 million versus the Actual Contribution of \$171.2 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 was \$633.9 million; \$418.6 million was contributed.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"). The State was required to adopt the standards after the Fiscal Year ending June 30, 2008.

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

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010 and will be presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2010 has been estimated to not exceed \$4,487 million for the Kentucky Retirement Systems and \$2,970 million for KTRS. These estimates represent present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2010. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities increased slightly from the \$4,403 million previously reported in the Kentucky Retirement Systems' 2009 CAFR. The actuarial estimates for KTRS decreased substantially from the \$6,231 million previously reported in their 2009 CAFR due to the changes adopted in House Bill 540 (see "Changes to State Retirement Systems" below).

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 healthcare benefits was \$441.9 million versus the Actual Contribution of \$133.7 million. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2010 was \$459.0 million; \$175.3 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2010 had funding percentages of 16.8 percent for the Kentucky Retirement Systems and 10.0 percent for KTRS.

The Commonwealth's 2010-2012 biennial budget increased employer contribution rates by 71 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 58 percent.

Changes to State Retirement Systems. During the 2008 Regular Session, there was significant discussion and debate between both the House and the Senate regarding pension reform. However both sides of the General Assembly failed to reach an agreement. On May 29, 2008, the Governor issued an executive order creating the Kentucky Public Pension Working Group and urged both the House and Senate to work together toward an agreement for a special session. In June 2008, the Governor called a special session of the General Assembly after both the House and Senate reached an agreement on pension reform, which ultimately became House Bill 1. The final agreement accomplished several things, including: a schedule to improve state funding by reaching the full actuarially required contribution ("ARC") by 2025; proposed a new benefit tier for future hires that would require workers to stay longer and place more money into their own retirement over time in order to reach their full retirement benefit; established a floor for annual cost of living adjustments ("COLA") equal to 1.5% of the Consumer Price Index with the potential for future increases if the COLA is pre-funded; closed several loopholes; and created increased legislative oversight of the pension funds in future years.

As a result of the passage of House Bill 1, the growth in the state's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group and by following the schedule of payments included in House Bill 1, the state expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky Retirement System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

In addition, House Bill 540 was signed by the Governor on April 13, 2010, creating the Teachers' Retirement System of the State of Kentucky insurance trust fund to supplement the current medical insurance fund, specifically dedicated to health benefits. The purpose of this bill is to increase over a six-year period the active employee and employer contributions to the KTRS for retiree health benefits and to authorize the KTRS Board to require retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage. Once the medical insurance fund achieves sufficient funding status, the Board may recommend to the General Assembly that the member contributions be decreased, suspended, or terminated.

Also, House Bill 545 was signed by the Governor on April 26, 2010, amending certain sections of KRS 161 regarding the administration of KTRS including federal tax compliance relating to establishing a medical insurance trust fund under Section 115 of the Internal Revenue Code to supplement the current Section 401(h) medical insurance trust fund as well as other technical amendments. The legislation will not increase or decrease benefits or the participation in benefits or change actuarial liability of KTRS.

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Act by modifying the definition of "funding

notes" and authorizing funding notes to be issued by the Commission for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (which obligation has been defined herein as the Funding Obligation). This authorization, together with certain authorizations in the Budget Act, permits the Commission to issue funding notes in an amount not to exceed \$875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, the Commission issued its \$467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. The Notes are the second issuance of funding notes to be issued in accordance with these authorizations and will provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Indenture and the Financing Agreement. The statements regarding the Indenture and the Financing Agreement do not purport to be complete and reference is made to the Indenture and the Financing Agreement, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601.

Definitions

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

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

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

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

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

"Budget Act" shall mean House Bill 1 of the General Assembly of the Commonwealth of Kentucky, 2010 Extraordinary Session, as enacted and vetoed in part.

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

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

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

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

"Costs of Issuance" shall mean only the costs of issuing Notes as designated by the Commission; including, but not being limited to, the fees and charges of the financial advisors or underwriters, bond

counsel, Trustee, Trustee's counsel, rating agencies, note and official statement printers and such other fees and expenses normally attendant to an issue of the Notes.

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

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

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

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

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

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

"Financing Agreement" shall mean the Financing Agreement, dated as of March 1, 2011 among the Commission, the Cabinet and KTRS, and any amendments or supplements thereto.

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

"Fitch" shall mean Fitch Ratings.

"Funding Obligation" shall mean the obligation of the Commonwealth owed under KRS 161.550(2) to fund state medical insurance fund stabilization contributions.

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

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

"Indenture" or "Trust Indenture" shall mean the Indenture, dated as of March 1, 2011, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

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

"Interest Payment Date" shall mean each April 1 and October 1, commencing October 1, 2011.

"KTRS" shall mean the Teachers' Retirement System of the State of Kentucky.

"Medical Insurance Trust Fund" means the Medical Insurance Trust Fund that is so identified in the Commonwealth's management, administrative and reporting system.

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

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

"Notes" shall mean the Commission's Funding Notes, 2011 General Fund First Series (Taxable), issued from time to time under the provisions of the Indenture.

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

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

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

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

(d) Notes in lieu of which others have been authenticated under 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 Indenture.

"Pledged Receipts" shall include:

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

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

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

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

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

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

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

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

"Resolution" shall mean the resolution of the Commission adopted February 9, 2011 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.

"State" shall mean the Commonwealth of Kentucky.

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

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

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

The Indenture

Delivery of the Notes. The Indenture authorizes the issuance of the Notes in the aggregate amount set forth on the cover page hereto. All Notes issued under the Indenture will rank on a parity and equality with one another and are entitled to the benefit of the continuing pledge and lien created by the Indenture to secure the full and final payment of the principal of and interest on the Notes. (Section 2.03)

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

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

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

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

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

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

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

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

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

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

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

Investment of Funds. The Indenture requires amounts on deposit in any Fund or Account to be invested in Eligible Investments, and for the Trustee to sell at the best price reasonably obtainable, or present for redemption or exchange, any Eligible Investments purchased by it as an investment pursuant to the Indenture whenever it will be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account from which such investment was made. Except as otherwise provided in the Indenture, earnings and losses on Eligible Investments are required to be credited to the Fund or Account with respect to which such investments were made (or pro-rated thereto) and will become a part thereof for all purposes, except as otherwise provided in the Indenture. (Section 5.06)

Further Assurance. The Indenture requires the Commission, so far as it may be authorized by law, to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better

assuring, conveying, granting, assigning and confirming all and singular the rights, assets and revenues pledged and assigned, or intended so to be, or which the Commission may become bound to pledge or assign. (Section 6.04)

Powers as to Notes and Pledge. Under the Indenture, the Commission is authorized to issue the Notes and execute and deliver the Indenture and pledge the income, revenues and assets pledged by the Indenture in the manner and to the extent provided in the Indenture. The income, revenues and assets pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Indenture, and all official action on the part of the Commission to that end has been or will be duly and validly taken. The Notes and the provisions of the Indenture are and will be the valid and legally enforceable obligations of the Commission in accordance with their terms and the terms of the Indenture. The Act and H.B. 531 of the General Assembly of the Commonwealth of Kentucky, 2010 Regular Session, as enacted, include authorization for the issuance of "funding notes" (being the Notes) to finance and refinance the Funding Obligation and the Budget Act includes adequate funds for the payment of Financing Payments and Additional Payments under the Financing Agreement for the period ending June 30, 2012. The Commission is required at all times, to the extent permitted by law, defend, preserve and protect the pledge of the incomes, revenues and assets pledged under the Trust Indenture and all the rights of the Holders under the Trust Indenture against all claims and demands therefore of all persons whomsoever. (Section 6.05)

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

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

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

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

Supplemental Trust Indentures Effective Without Consent of Holders. The Indenture prescribes procedures whereby the Commission may, with the written consent of the Trustee, execute and deliver at any time from time to time Supplemental Trust Indentures for any one or more of the following purposes; to further secure the payment of the Notes; to further limit and restrict the issuance of Notes and the incurring of indebtedness by the Commission; to surrender any right, power or privilege reserved to or conferred upon the Commission by the terms of the Indenture, to confirm any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Indenture; to

modify any of the provisions of the Indenture in any other respects (provided that such modifications will not be effective until after all Notes outstanding as of the date of execution and delivery of such Supplemental Trust Indenture cease to be Outstanding; to cure any ambiguity or defect or inconsistent provision; and for any other purpose provided that, in the opinion of Counsel, any such amendment or modification does not materially adversely affect the rights of Holders affected thereby.

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

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

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

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

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

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

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

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

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

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

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

Any such declaration is required to be by notice in writing to the Commission, and, upon said declaration, principal and interest on all Notes will become and be immediately due and payable. The Trustee immediately upon such declaration is required to give notice thereof in the same manner as provided in the Indenture with respect to the redemption of the Notes without regard to the times stated for notice of redemption that the payment of principal and interest will be tendered immediately to the Holders of the Notes and that interest has ceased to accrue as of the date of such declaration of acceleration. Nothing contained in the Indenture shall be construed to permit the acceleration of any payments of Financing Payments or Additional Payments by the Cabinet beyond the current term of the Financing Agreement. (Section 9.03)

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

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

unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the moneys adjudged or decreed to be payable. (Section 9.04.)

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

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

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

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

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

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

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

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

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

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

Evidence on Which Fiduciaries May Act. Each Fiduciary will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, note, or other paper or document

believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Commission, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith. Whenever any Fiduciary will deem necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, including payment of moneys out of any Fund or Account, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a certificate signed by an Authorized Officer, and such certificate will be full warrant for any action taken or suffered in good faith under the provisions of the Trust Indenture in which said Fiduciary has accepted said trust upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may deem reasonable. Except as otherwise expressly provided in the Indenture, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision of the Indenture by the Commission to any Fiduciary is required to be sufficiently executed if executed in the name of the Commission by an Authorized Officer. (Section 10.04)

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

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

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

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Commission covenants and agrees that it will thereupon appoint a successor Trustee. The Commission is required to provide notice of any such appointment made by it within twenty (20) days after such appointment to Holders of Notes.

If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions within forty-five (45) days after the Trustee shall have given to the Commission written, as provided in

above, or after a vacancy in the office of the Trustee shall have occurred by reason of its removal or inability to act, the Trustee or the Holder of any Note may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

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

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

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

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

(i) non-callable direct obligations of the United States of America, non-callable and non prepayable direct federal agency obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS, "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by S&P and Moody's (as each term is hereinafter defined) with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

(ii) non-callable obligations, timely maturing and bearing interest, to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof;

(iii) certificates rated "AAA" at the time of purchase by S&P, "Aaa" at the time of purchase by Moody's and "AAA" at the time of purchase by Fitch (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (ii), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee, including the Trustee or any of its affiliates, in a segregated trust account in the trust department separate from the general assets of such custodian;

(iv) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (i), (ii) or (iii) which fund may be applied only to the payment when due of such bonds or other obligations, and (c) rated "AAA" at the time of purchase by S&P, "Aaa" at the time of purchase by Moody's and "AAA" at the time of purchase by Fitch (if rated by Fitch); and

(v) non-callable senior debt obligations of U.S. government-sponsored agencies that are not backed by the full faith and credit of the U.S. government, including, but not limited to, Federal Home Loan Mortgage Corp. debt obligations, Farm Credit System consolidated systemwide bonds and notes, Federal Home Loan Banks consolidated debt obligations, Federal National Mortgage Association debt obligations, Resolution Funding Corp. debt obligations and U.S. Agency for International Development guaranteed notes (which must mature at least four business days before the appropriate payment date); provided, that, in each case, the obligations are rated "AAA" at the time of purchase by S&P, "Aaa" at the time of purchase by Moody's and "AAA" at the time of purchase by Fitch (if rated by Fitch). (Section 11.01)

The Financing Agreement

The Commission, the Cabinet and KTRS have entered into the Financing Agreement which provides for (i) the financing and refinancing of the Funding Obligation by issuance of the Notes by the Commission; and (ii) the revenues from the payments by the Cabinet to provide for the amortization of the Notes.

Term, Renewals and Financing Payments. The Commission has agreed to provide financing to the Cabinet to finance and refinance the Funding Obligation, for an initial term ending June 30, 2012. The Cabinet and KTRS have the right to continue the Financing Agreement for succeeding biennial periods. The Cabinet is required to pay, as Financing Payments during the initial period ending on June 30, 2012, and for each Renewal Term, the Debt Servicing Obligation relating to the Notes so long as any Notes are Outstanding. The Cabinet and KTRS have 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, 2022. 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 and KTRS' election not to renew is delivered to the Commission before the close of business on the last business day in May, immediately preceding the beginning of such succeeding Renewal Term. (Sections 5.01 – 5.05)

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

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

(2) To the Commission, upon demand, all reasonable expenses incurred by it in relation to the Funding Obligation which are not otherwise specifically identified and required to be paid by the Commission under the terms of the Financing Agreement. (Section 5.06)

Cooperation by KTRS. In the Financing Agreement KTRS agrees that, to the extent appropriations to pay the Debt Servicing Obligation are made to KTRS in future budget acts, KTRS will take such actions with respect to such appropriations as may be necessary to enable the Cabinet to pay the Financing Payments, when due. (Section 5.08)

Effect of Election not to Renew. In the event the Cabinet and KTRS give written notice to the Commission of their election not to renew the Financing Agreement for any ensuing optional biennial Renewal Term, prior to the automatic renewal provided for in the Financing Agreement, the Cabinet shall not become obligated to pay Financing Payments or Additional Payments beyond the last day of the then current term; provided, however, an election on the part of the Cabinet and KTRS not to renew for a future term shall not in any manner alter or diminish any obligation of the Cabinet under the Financing Agreement for the then current term; and shall not preclude subsequent reinstatement of the Financing Agreement for any future renewal term, if agreed to by the Commission, upon the same terms and conditions as would have been applicable if the Financing Agreement had been renewed according to the provisions of the Financing Agreement, except that if such reinstatement is sought when one or more installments of Financing Payments or any Additional Payments for such Renewal Term are overdue and unpaid, it shall be a condition of such reinstatement that such overdue Financing Payments or Additional Payments be tendered. (Article VII)

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

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

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

If an event of default occurs, the Commission may pursue all remedies set forth in the Indenture for events of default thereunder. (Article IX)

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

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

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

All right, title and interest of the Commission in and to the Financing Agreement and the Financing Payments payable thereunder are assigned by the Commission to the Trustee, so long as the Notes are outstanding. (Article XII)

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

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain material federal income tax consequences of the purchase, ownership and disposition of the Notes for the investors described below and is based on the advice of Kutak Rock LLP, as Bond Counsel. This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change. The discussion does not deal with all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules, including but not limited to, partnerships or entities treated as partnerships for federal income tax purposes, pension plans and foreign investors, except as otherwise indicated. In addition, this summary is generally limited to investors who will hold the Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). Investors should consult their own tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of Notes. To ensure compliance with Treasury Circular 230, taxpayers are hereby notified that: (A) any discussion of U.S. federal tax issues in this Official Statement is not intended or written by us to be relied upon, and cannot be relied upon, by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code; (B) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (C) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

In General. Although the Notes are issued by the Commonwealth, interest on the Notes (including original issue discount, as discussed below) is not excludable from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Notes will be fully subject to federal income taxation. Thus, owners of the Notes generally must include interest (including original issue discount) on the Notes in gross income for federal income tax purposes.

Taxation of Interest Income of the Notes. Payments of interest with regard to the Notes will be includible as ordinary income when received or accrued by the holders thereof in accordance with their respective methods of accounting and applicable provisions of the Code. If the Notes are deemed to be issued with original issue discount, Section 1272 of the Code requires the current ratable inclusion in income of original issue discount greater than a specified de minimis amount using a constant yield method of accounting. In general, original issue discount is calculated, with regard to any accrual period, by applying the instrument's yield to its adjusted issue price at the beginning of the accrual period, reduced by any qualified stated interest (as defined below) allocable to the period. The aggregate original

issue discount allocable to an accrual period is allocated to each day included in such period. The holder of a debt instrument must include in income the sum of the daily portions of original issue discount attributable to the number of days he owned the instrument. The legislative history of the original issue discount provisions indicates that the calculation and accrual of original issue discount should be based on the prepayment assumptions used by the parties in pricing the transaction.

Original issue discount is the stated redemption price at maturity of a debt instrument over its issue price. The stated redemption price at maturity includes all payments with respect to an instrument other than interest unconditionally payable at a fixed rate or a qualified variable rate at fixed intervals of one year or less ("qualified stated interest"). Caps or floors may be ignored in determining whether an obligation bears interest at a qualified variable rate, if among other things, the cap or floor is fixed through the term of the obligation. The Commonwealth expects that interest payable with respect to the Notes will constitute qualified stated interest and that the Notes will not be issued with original issue discount. However, there can be no assurance that the Service would not assert that the interest payable with respect to the Notes may not be qualified stated interest because such payments are not unconditional and/or that the Notes otherwise are issued with original issue discount.

Payments of interest received with respect to the Notes will also constitute investment income for purposes of certain limitations of the Code concerning the deductibility of investment interest expense. Potential holders of the Notes should consult their own tax advisors concerning the treatment of interest payments with regard to the Notes.

A purchaser (other than a person who purchases a Note upon issuance at the issue price) who buys a Note at a discount from its principal amount (or its adjusted issue price if issued with original issue discount greater than a specified de minimis amount) will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. Although the accrued market discount on debt instruments such as the Notes which are subject to prepayment based on the prepayment of other debt instruments is to be determined under regulations yet to be issued, the legislative history of the market discount provisions of the Code indicate that the same prepayment assumption used to calculate original issue discount should be utilized. Each potential investor should consult his tax advisor concerning the application of the market discount rules to the Notes.

In the event that the Notes are considered to be purchased by a holder at a price greater than their remaining stated redemption price at maturity, they will be considered to have been purchased at a premium. The holder of a Note may elect to amortize such premium (as an offset to interest income), using a constant yield method, over the remaining term of the Notes. Special rules apply to determine the amount of premium on a "variable rate debt instrument" and certain other debt instruments. Prospective holders of a Note should consult their tax advisors regarding the amortization of bond premium.

Sale or Exchange of Notes. If the holder of a Note sells its Note, such person will recognize gain or loss equal to the difference between the amount realized on such sale and the holder's basis in such Note. Ordinarily, such gain or loss will be treated as a capital gain or loss. Currently, and through December 31, 2012, the maximum capital gain rate for certain assets held for more than twelve months is 15%. However, if a Note was subject to its initial issuance at a discount, a portion of such gain will be recharacterized as interest and therefore ordinary income.

If the term of a Note was materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those which relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential holder of a Note should consult its own tax advisor concerning the circumstances in which the Notes would be deemed reissued and the likely effects, if any, of such reissuance.

Backup Withholding. Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the Notes if the purchasers, upon issuance, fail to supply the indenture trustee or their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide the indenture trustee with a certified statement, under penalty of perjury, that they are not subject to backup withholding. Information returns will be sent annually to the Service and to each purchaser setting forth the amount of interest paid with respect to the Notes and the amount of tax withheld thereon.

State, Local or Foreign Taxation. The Commission makes no representations regarding the tax consequences of purchase, ownership or disposition of the Notes under the tax laws of any other state, locality or foreign jurisdiction. Investors considering an investment in the Notes should consult their own tax advisors regarding such tax consequences.

Tax-Exempt Investors. In general, an entity which is exempt from federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business which is not substantially related to the purpose which forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation which gave rise to such interest is subject to acquisition indebtedness. Therefore, except to the extent any holder of a Note incurs acquisition indebtedness with respect to a Note, interest paid or accrued with respect to such holder may be excluded by such tax exempt holder from the calculation of unrelated business taxable income. Each potential tax exempt holder of a Note is urged to consult its own tax advisor regarding the application of these provisions.

European Union Directive on the Taxation of Savings Income. The European Union adopted a directive (2003/48/EC) (the "Directive") regarding the taxation of savings income. The Directive requires a member state of the European Union (a "Member State") to provide to the tax authorities of another Member State details of payments of interest or other similar income payments made by a person within its jurisdiction for the immediate benefit of an individual or to certain non-corporate entities resident in that other Member State (or for certain payments secured for their benefit). However, the Member States of Austria, Belgium, and Luxembourg (the "Exempted Member States") are not required to comply with the reporting requirements until the end of the transitional period. The Exempted Member States are instead applying a special withholding tax in relation to such payments of interest, deducting tax at a rate of 20% until July 1, 2011, at which time the rate increases to 35% for the remainder of the transitional period. By agreement, the non-European Union countries of Switzerland, Andorra, Liechtenstein, Monaco and San Marino will apply the same withholding tax provisions as the Exempted Member States during the transitional period and will comply with the reporting requirements of the Directive thereafter.

A number of non-European Union countries and certain dependent or associated territories of Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments of interest or other similar income payments made by a person in that jurisdiction for the immediate benefit of an individual or to certain non-corporate entities in any Member State. The Member States have entered into reciprocal provision of information or transitional special withholding tax arrangements with certain of those dependent or associated territories. These apply in the same way to payments by persons in any Member State to individuals or certain non-corporate residents in those territories.

On November 13, 2008, the European Commission proposed changes to the Directive which would extend its scope so that it applies to interest payments to certain intermediate persons or structures interposed between the person making the payment and the individual who is the beneficial owner of the interest. It is proposed that a Member State intermediary that receives an interest payment be treated as a person making payment, so as to subject it to the exchange of information or withholding obligation in the Directive. Further, it is proposed that an interest payment made to an intermediary established outside

the European Union be treated as a payment made directly to the individual beneficiary if the person making the payment knows that the individual beneficiary is European Union resident.

No additional amounts will be payable with respect to the Notes if a payment on such Note is reduced as a result of any tax, assessment or other governmental charge that is required to be made pursuant to any European Union directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such directive. Holders of Notes should consult their tax advisers regarding the implications of the Directive in their particular circumstances.

Foreign Investors. A holder of a Note which is not a U.S. person ("foreign holder") will not be subject to U.S. federal income or withholding tax in respect of interest income or gain on such Notes if certain conditions are satisfied, including: (1) the foreign holder provides an appropriate statement, signed under penalties of perjury, identifying the foreign holder as the beneficial owner and stating, among other things, that the foreign holder is not a U.S. person, (2) the foreign holder is not a "10 percent shareholder" or "related controlled foreign corporation" with respect to the Commission, and (3) the interest income is not effectively connected with a United States trade or business of the holder. The foregoing exemption does not apply to contingent interest or market discount. To the extent these conditions are not met, a 30% withholding tax will apply to interest income on the Notes, unless an income tax treaty reduces or eliminates such tax or the interest is effectively connected with the conduct of a trade or business within the United States by such foreign holder. In the latter case, such foreign holder will be subject to U.S. federal income tax with respect to all income from the Notes at regular rates applicable to U.S. taxpayers, and may be subject to the branch profits tax if it is a corporation. A "U.S. person" is: (i) a citizen or resident of the United States, (ii) a corporation (or other entity that is treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions.

Generally, a foreign holder will not be subject to federal income tax on any amount which constitutes capital gain upon the sale, exchange, retirement or other disposition of a Note unless such foreign holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met, or unless the gain is effectively connected with the conduct of a trade or business in the United States by such foreign holder. If the gain is effectively connected with the conduct of a trade or business in the United States by such foreign holder, such holder will generally be subject to U.S. federal income tax with respect to such gain in the same manner as U.S. holders, as described above, and a foreign holder that is a corporation could be subject to a branch profits tax on such income as well.

Exemption Under State Tax Law

In Bond Counsel's further opinion, under the existing laws of the Commonwealth, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from taxation or assessment of any type by the Commonwealth of Kentucky, its agencies and departments, and by all political subdivisions thereof.

Treatment of Interest Expense for Financial Institutions

Bond Counsel has expressed no opinion with respect to any deduction for federal tax law purposes of interest on indebtedness incurred or continued by a holder of the Notes or a related person to purchase or carry the Notes.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds and notes issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Notes. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Notes or the market value thereof would be impacted thereby. Purchasers of the Notes should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Notes and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

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 Kutak Rock LLP, Omaha, Nebraska, Bond Counsel to the Commission. Certain other legal matters will be passed on by Peck, Shaffer & Williams LLP, Covington, Kentucky, counsel to the Underwriters.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned the ratings of "Aa2," "A+" and "AA-" to the Notes, respectively. The ratings of Moody's and Fitch reflect the global scale ratings of each such rating agency resulting from their recent recalibrations of ratings. The ratings of each respective rating agency only reflect the views of such rating agency. An explanation of the significance of the ratings given by Moody's may be obtained from Moody's Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 583-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Notes.

CONTINUING DISCLOSURE

The Notes are subject to Rule 15c2-12. In general, Rule 15c2-12 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 described in Rule 15c2-12, if material. In order to enable the

Underwriters to comply with the provisions of Rule 15c2-12, the Commission will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee. Specifically, the Commission will covenant (i) annually to file the Commonwealth's annual financial information, including its audited financial statements, with the Municipal Securities Rulemaking Board (the "MSRB"); (ii) to provide notice in a timely manner of any of the following types of events with respect to the Notes:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the securities;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person
(Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material; and

(iii) in a timely manner, to the MSRB, notice of a failure (of which the Commission has knowledge) of the Commission to provide the Commonwealth's annual financial information on or before the date specified in the Disclosure Agreement.

For purposes of this transaction with respect to events set forth in Rule 15c2-12:

- (1) there are no credit enhancements applicable to the Notes;
- (2) there are no liquidity providers applicable to the Notes; and
- (3) there is no property securing the Notes.

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 and has complied with requirements of Rule 15c2-12. The Commission is in compliance in all material respects with all

previous undertakings with regard to Rule 15c2-12 to provide annual financial information or notices of material events pursuant to Rule 15c2-12.

UNDERWRITING

J.P. Morgan Securities LLC ("JPM"), as representative of the Underwriters, has agreed to purchase the Notes for an aggregate purchase price of \$268,678,385.09, which is an amount equal to the par amount of the Notes, less underwriters' discount of \$1,136,614.91. The Underwriters intend to make an initial public offering of all of the Notes at not in excess of the public offering price or prices set forth on the cover page hereof. The Underwriters may offer and sell the Notes to certain dealers (including dealers depositing Notes into investment trusts) at prices lower than the public offering price or prices stated on the inside cover page hereof.

JPM has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the Notes, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS& Co. will purchase Notes from JPM at the original issue price less a negotiated portion of the selling concession applicable to any Notes that such firm sells.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Notes, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of the Notes.

MISCELLANEOUS

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

KENTUCKY ASSET/LIABILITY COMMISSION

By: /s/ Jonathan Miller
Jonathan Miller
Chairman

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

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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 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, the Turnpike Authority of Kentucky, 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 lease revenue obligation of one of its debt issuing agencies created by the 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 revenue debt is 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.

The payment of debt service by the state universities is enhanced by a state intercept provision that provides that in the event of a default, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the University but not yet disbursed and to remit those funds to the Trustee to remedy the default.

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 does 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. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, Kentucky Infrastructure Authority Governmental Agencies Program bonds, and Kentucky Infrastructure Authority Wastewater and Drinking Water Revolving Fund Revenue bonds are not moral obligation debt.

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING *
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide interim financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa2/AA+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa2/A+/AA-**
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$5.0 billion of debt outstanding.	NR/AAA/AAA (Senior Series) NR/A/A (Subordinate Series)***
School Facilities Construction Commission	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa2
Kentucky Economic Development Finance Authority	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing and service entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	KRS 441.605-441.695 Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa1/BBB/NR (National Insured)

* Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. Certain State Property and Buildings Commission Agency Fund Revenue Bonds may have ratings different than those identified above. The ratings displayed in Table I reflect the recalibrated ratings to date by Moody's and Fitch.

** The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.

*** The Kentucky Higher Education Student Loan Corporation, Series 2008A-1, A-2 and A-3 Bonds are rated A+ by Standard & Poor's due to the downgrade of the letter of credit provider for the transaction.

EXHIBIT B
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-only system is used, only DTC will receive or have the right to receive physical delivery of Notes and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Notes under the Indenture.

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 2.2 million issues of U.S. and non U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, 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 and www.dtc.org.

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-only 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 nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

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

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

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

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

The information in this EXHIBIT B concerning DTC and DTC's book-entry-only system has been obtained from sources that the Commission believes to be reliable, but neither the Commission nor the Underwriters take any responsibility for the accuracy thereof.

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EXHIBIT C
FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Commonwealth of Kentucky
Kentucky Asset/Liability Commission
Frankfort, Kentucky

\$269,815,000
Commonwealth of Kentucky
Kentucky Asset/Liability Commission
Funding Notes
2011 General Fund First Series (Taxable)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Kentucky Asset/Liability Commission (the "Commission") of \$269,815,000 aggregate principal amount of Funding Notes, 2011 General Fund First Series (Taxable) (the "Notes"). The Notes are issuable as fully registered Notes without coupons dated as of their date of delivery in the denomination of \$5,000 or any integral multiple thereof, bearing interest payable semiannually on April 1 and October 1 of each year commencing on October 1, 2011, at the rates per annum set forth in the schedule below and maturing on the dates and in the principal amounts as follows:

2011 General Fund First Series (Taxable)

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2012	\$14,085,000	1.688%
2013	23,285,000	2.211
2014	23,780,000	2.939
2015	24,480,000	3.478
2016	25,330,000	3.928
2017	25,800,000	4.372
2018	27,450,000	4.722
2019	28,745,000	5.039
2022	76,860,000	5.339

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

The Notes are being issued by the Commission, pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Sections 56.860 et seq. of the Kentucky Revised Statutes, as supplemented and amended (the "Act"), a resolution adopted by the Commission on February 9, 2011 (the "Resolution"), and a Trust Indenture, dated as of March 1, 2011 (the "Indenture"), between the Commission and The Bank of New York Mellon Trust Company, N. A., having offices in Louisville, Kentucky, as trustee (the "Trustee").

We have examined the laws of the Commonwealth of Kentucky, the Act, a certified copy of the Indenture, an executed counterpart of the Financing Agreement, dated as of March 1, 2011, by and among the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") and the Teachers' Retirement System of the State of Kentucky ("KTRS") (the "Financing

Agreement"), certified copies of proceedings of the Commission authorizing the issuance of the Notes, a copy of an executed note of said issue and such other documents, records, certificates and opinions as we have deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Indenture and the Resolution have been duly authorized, executed and delivered by the Commission, and constitute valid and binding obligations of the Commission enforceable in accordance with their respective terms.

2. The Financing Agreement has been duly authorized, executed and delivered by the Commission, KTRS and the Cabinet, and constitutes the valid and binding obligation of the Commission, KTRS and the Cabinet, as applicable, enforceable in accordance with its terms.

3. Interest on the Notes is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Purchasers of the Notes should consult their own tax advisors as to the tax consequences of purchasing or owning the Notes.

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

5. The Notes 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 and/or KTRS. The Financing Agreement has a current term ending on June 30, 2012, with the right to renew for additional successive terms of two years each until the Notes and interest thereon have been paid and discharged.

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

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

In order to ensure compliance with Treasury Circular 230, please note that: (i) this opinion was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; and (ii) each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

This opinion is based upon existing law as of the date of issuance and delivery of the Notes and we express no opinion as of any date subsequent thereto.

Very truly yours,