

**NEW ISSUE**  
**Book-Entry-Only**

**Ratings: See "RATINGS" herein**

*In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel also is of the opinion that, under existing laws of the Commonwealth of Kentucky, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See "TAX TREATMENT" herein.*

**\$400,000,000**  
**KENTUCKY ASSET/LIABILITY COMMISSION**  
**GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,**  
**2008 SERIES A**

**Dated:** Date of Delivery  
**Interest Rate:** 3.00%

**Due:** June 25, 2009  
**Priced to Yield:** 1.78%

The Kentucky Asset/Liability Commission (the "Commission") is issuing its General Fund Tax and Revenue Anticipation Notes, 2008 Series A (the "Notes") to finance General Fund cash flow requirements of the Commonwealth of Kentucky (the "Commonwealth") for the fiscal year ending June 30, 2009 ("Fiscal Year 2009"). The Notes are issuable only in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple of \$5,000 above \$100,000. When issued the Notes 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. Accordingly, principal of and interest on the Notes will be paid by U.S. Bank National Association, Louisville, Kentucky, as Trustee, Registrar and Paying Agent (in such capacities, the "Trustee," "Registrar" and "Paying Agent"), directly to DTC or Cede & Co., its nominee. DTC will, in turn, remit or direct its nominee to remit such principal and interest to the DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the Notes. See Exhibit C – BOOK-ENTRY-ONLY SYSTEM herein.

The Notes will bear interest at the annual rate shown above, computed on the basis of a 360-day year and 30-day months, accrued from the date of delivery. Principal of and interest on the Notes are payable at maturity. See "THE NOTES – General Provisions."

**The Notes are not subject to redemption prior to their maturity.**

The Notes are direct obligations of the General Fund of the Commonwealth and are payable from taxes and certain revenues collected by the Commonwealth during Fiscal Year 2009. The Notes are issued pursuant to a Trust Indenture dated as of July 1, 2008 between the Commission and the Trustee (the "Indenture"). As provided in the Indenture and under Kentucky law, taxes and revenues in amounts sufficient to pay the Notes and interest thereon are required to be deposited into the General Fund, which shall be held by the Finance and Administration Cabinet of the Commonwealth (the "Finance and Administration Cabinet") for the benefit of the Holders of the Notes. The Notes are secured under the Indenture. The holders of the Notes have a priority lien on all taxes and revenues required to be deposited into the General Fund. **The Notes are special limited obligations of the Commission and are payable solely from the taxes and revenues pledged thereto.** See "SECURITY FOR THE NOTES" herein.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 2008 RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

The Notes are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Kutak Rock LLP, Bond Counsel. Certain legal matters will be passed on for the Underwriter by their counsel, Frost Brown Todd LLC, Louisville, Kentucky. It is expected that the Notes in definitive form will be available for delivery in New York, New York, on or about July 1, 2008.

**Citi**

Dated June 16, 2008

No dealer, broker, salesman or other person has been authorized by the Kentucky Asset/Liability Commission or the Underwriter 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 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 Underwriter. 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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 UNDERWRITER 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.

## TABLE OF CONTENTS

|                                                                | <u>Page</u> |
|----------------------------------------------------------------|-------------|
| SUMMARY .....                                                  | S-1         |
| INTRODUCTION .....                                             | 1           |
| THE NOTES .....                                                | 1           |
| General Provisions .....                                       | 1           |
| Redemption .....                                               | 2           |
| Authorization .....                                            | 2           |
| Book-Entry-Only System.....                                    | 2           |
| Exchange Agreement.....                                        | 2           |
| SECURITY FOR THE NOTES.....                                    | 3           |
| General .....                                                  | 3           |
| Limited Obligations of the Commission.....                     | 3           |
| Estimated Taxes and Revenues for Fiscal Year 2009.....         | 3           |
| BUDGETARY PROCESS IN THE COMMONWEALTH .....                    | 6           |
| General.....                                                   | 6           |
| General Fund Budget Reduction Plan.....                        | 6           |
| The Budget Reserve Trust Fund .....                            | 7           |
| SOURCES AND USES OF FUNDS .....                                | 8           |
| THE COMMONWEALTH .....                                         | 8           |
| Financial Information Regarding the Commonwealth.....          | 8           |
| Certain Financial Information Incorporated by Reference; ..... | 9           |
| Fiscal Year 2006 .....                                         | 10          |
| Fiscal Year 2007 .....                                         | 11          |
| Fiscal Year 2008 (Unaudited).....                              | 12          |
| Investment Policy .....                                        | 13          |
| State Retirement Systems .....                                 | 14          |
| THE KENTUCKY ASSET/LIABILITY COMMISSION .....                  | 16          |
| General Information.....                                       | 16          |
| Financings of the Commission.....                              | 17          |
| DEFINITIONS.....                                               | 20          |
| SUMMARY OF CERTAIN PROVISIONS OF THE 2008 RESOLUTION AND THE   |             |
| INDENTURE.....                                                 | 23          |
| Delivery of the Notes and Additional Notes.....                | 23          |
| Security and Pledge of Revenues.....                           | 23          |
| Establishment Of Funds.....                                    | 24          |
| Cost of Issuance Fund.....                                     | 24          |
| Proceeds Fund.....                                             | 24          |

|                                               |        |
|-----------------------------------------------|--------|
| Note Fund .....                               | 24     |
| Rebate Fund .....                             | 25     |
| Investment of Funds.....                      | 26     |
| Defeasance .....                              | 26     |
| Events of Default .....                       | 28     |
| Priority of Payments After Default .....      | 29     |
| Direction of Proceedings.....                 | 30     |
| Supplemental Indentures.....                  | 30     |
| The Trustee .....                             | 30     |
| <br>TAX TREATMENT .....                       | <br>31 |
| Generally.....                                | 31     |
| Tax Treatment of Original Issue Premium ..... | 32     |
| Changes in Federal Tax Law .....              | 32     |
| <br>ABSENCE OF MATERIAL LITIGATION.....       | <br>32 |
| <br>APPROVAL OF LEGALITY.....                 | <br>32 |
| <br>RATINGS .....                             | <br>32 |
| <br>CONTINUING DISCLOSURE.....                | <br>33 |
| <br>UNDERWRITING .....                        | <br>33 |
| <br>MISCELLANEOUS .....                       | <br>34 |
| Exhibit A      Commonwealth Debt Management   |        |
| Exhibit B      Form of Bond Counsel Opinion   |        |
| Exhibit C      Book-Entry-Only System         |        |

**KENTUCKY ASSET/LIABILITY COMMISSION**

**COMMISSION MEMBERS**

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

**SECRETARY TO THE COMMISSION**

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

**TRUSTEE**

U.S. Bank National Association  
Louisville, Kentucky

**BOND COUNSEL**

Kutak Rock LLP

**UNDERWRITER'S COUNSEL**

Frost Brown Todd LLC  
Louisville, Kentucky

[THIS PAGE INTENTIONALLY LEFT BLANK]

## 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."

**The Offering** The Commission is offering its General Fund Tax and Revenue Anticipation Notes, 2008 Series A (the "Notes").

**Authority** The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on May 12, 2008 (the "2008 Resolution"), and the Trust Indenture dated as of July 1, 2008 (the "Indenture"), between the Commission and U.S. Bank National Association, Louisville, Kentucky, as trustee (the "Trustee").

**Use of Proceeds** The proceeds of the Notes will be used by the Commonwealth to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 2009 ("Fiscal Year 2009") in anticipation of taxes and revenues to be collected during Fiscal Year 2009 and to pay the costs of issuance of the Notes.

**Security** The Notes are direct obligations of the General Fund and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the Notes and interest thereon into the General Fund. The Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The Holders of the Notes shall have a priority lien on and security interest in all taxes and revenues required to be deposited into the General Fund. The lien on and security interest in taxes and revenues created by the Act and the Indenture is prior and superior to any other lien or security interest created by law or otherwise.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 2008 RESOLUTION AND THE INDENTURE."

THE NOTES ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION AND ARE PAYABLE SOLELY FROM THE TAXES AND REVENUES PLEDGED THERETO.

**The Notes**

The Notes will bear interest at the annual rate shown on the cover page hereof, computed on the basis of a 360-day year and 30-day months, accrued from the date of delivery. Principal of and interest on the Notes are payable at maturity. See "THE NOTES – General Provisions."

The Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and any integral multiple of \$5,000 above \$100,000. Principal of and interest on the Notes is payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See "THE NOTES – General Provisions" and Exhibit C – BOOK-ENTRY-ONLY SYSTEM.

The Commission expects to enter into an interest rate exchange agreement (the "Exchange Agreement") with a Counterparty (the "Counterparty") in relation to all or a portion of the principal amount of the Notes, pursuant to which the Commission will pay the Counterparty a variable payment and the Counterparty will pay to the Commission a fixed payment. See "THE NOTES – Exchange Agreement" and "SECURITY FOR THE NOTES – General."

**Redemption**

The Notes are not subject to redemption prior to their maturity.

**Tax Status**

In the opinion of Bond Counsel for the Notes, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Notes is excludable from gross income for Federal income tax purposes. Bond Counsel for the Notes is also of the opinion that interest on the Notes is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended, (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions. See "TAX TREATMENT" and Exhibit B – FORM OF BOND COUNSEL OPINION.

**Continuing Disclosure**

The Notes are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934 (the "Rule"), as amended. In general, the Rule 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, described in the Rule. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee.

**General**

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



**Information**

Information regarding the Notes is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924, or the Underwriter, Citigroup Global Markets Inc., Short Term Finance Group, 390 Greenwich Street, New York, New York 10013, (212) 723-7082.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## OFFICIAL STATEMENT

**\$400,000,000**

### **KENTUCKY ASSET/LIABILITY COMMISSION GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, 2008 SERIES A**

#### **INTRODUCTION**

This Official Statement, which includes the cover page, is being distributed by the Kentucky Asset/Liability Commission (the "Commission") to furnish pertinent information to the purchasers of \$400,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2008 Series A (the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq.* of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on May 12, 2008 (the "2008 Resolution") and the Trust Indenture dated as of July 1, 2008 (the "Indenture"), between the Commission and U.S. Bank National Association, Louisville, Kentucky, as trustee (the "Trustee").

The proceeds of the Notes will be used by the Commonwealth of Kentucky (the "Commonwealth") to discharge expenditure demands on the General Fund of the Commonwealth (the "General Fund") for the fiscal year ending June 30, 2009 ("Fiscal Year 2009") in anticipation of taxes and revenues to be collected during Fiscal Year 2009 and to pay the costs of issuance of the Notes.

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 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 Citigroup Global Markets Inc., Short Term Finance Group, 390 Greenwich Street, New York, New York 10013, (212) 723-7082.

Capitalized terms used in this Official Statement and not otherwise defined will have the meanings given them under the caption "DEFINITIONS" herein, in the 2008 Resolution or in the Indenture.

#### **THE NOTES**

##### **General Provisions**

The Notes will bear interest at the annual rate shown on the cover page hereof, computed on the basis of a 360-day year and 30-day months, accrued from the date of delivery. Principal of and interest on the Notes will be payable at the maturity date shown on the cover hereof.

The Notes will be issued in fully registered form, without coupons, initially in denominations of \$100,000 and integral multiples of \$5,000 above \$100,000. Principal of and interest on the Notes are payable in lawful money of the United States to the registered holder of the Notes, Cede & Co., as nominee of The Depository Trust Company ("DTC") in New York, New York. See Exhibit C – BOOK-ENTRY-ONLY SYSTEM.

### **Redemption**

The Notes are not subject to redemption prior to their maturity.

### **Authorization**

The Notes are being issued pursuant to the Act. The Commission held a meeting on May 12, 2008 and at that meeting adopted the 2008 Resolution, which (i) authorized the Indenture and (ii) authorized and approved the issuance of up to Six Hundred Million Dollars (\$600,000,000) in outstanding principal amount of Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the "Authorized Officer").

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

The Notes will be issued 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, 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. For a description of the book-entry-only system, see Exhibit C hereto.

### **Exchange Agreement**

The Commission expects to enter into an interest rate exchange agreement (the "Exchange Agreement") with UBS AG (the "Counterparty") in relation to all or a portion of the principal amount of the Notes, pursuant to which the Commission will pay the Counterparty a variable payment and the Counterparty will pay the Commission a fixed payment. Certain provisions of the Exchange Agreement are summarized below:

(i) The obligation of the Counterparty to pay certain amounts to the Commission under the Exchange Agreement will not affect the Commission's obligation to pay the principal and interest on the Notes. Neither the owners of the Notes, nor any person other than the Commission shall have any rights under the Exchange Agreement or against the Counterparty.

(ii) Under certain circumstances, the Exchange Agreement may be subject to termination prior to its scheduled termination date and prior to the maturity of the Notes, in which event the Commission may be obligated to make a payment to the Counterparty.

(iii) The taxes and revenues pledged to repayment of the Notes will also be pledged, on a parity basis, to payment of any amounts owed by the Commission (if any) to the Counterparty under the Exchange Agreement. See "SECURITY FOR THE NOTES – General."

## SECURITY FOR THE NOTES

### General

The Notes are direct obligations of the General Fund of the Commonwealth and are payable from taxes and revenues collected by the Commonwealth. Under the Act, the Commonwealth is required to deposit collected taxes and revenues in amounts sufficient to pay the Notes and interest thereon into the General Fund. The Act provides that Revenues to be deposited to the General Fund shall be pledged for the repayment of Notes so long as any Notes remain outstanding. The Act further provides that the lien on and security interest in taxes and revenues created by the Act and Indenture is prior and superior to any other lien or security interest created by law or otherwise.

**Repayment of the Notes is not subject to appropriation of funds by the General Assembly, but solely from the taxes and revenues pledged thereto.**

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 2008 RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

Payments owing (if any) from the Commission to the Counterparty under the Exchange Agreement will be secured, on a parity basis, by the taxes and revenues and the funds and accounts securing the Notes. See "THE NOTES – Exchange Agreement."

### Limited Obligations of the Commission

The Notes are special and limited obligations of the Commission. The Notes are payable solely from the taxes and revenues pledged thereto, as described above.

### Estimated Taxes and Revenues for Fiscal Year 2009

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop detailed revenue estimates as defined in the Act (the "Estimated Revenues") for the General Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "CFG"). The CFG is comprised of six individuals jointly nominated by the Executive Branch and the Legislative Branch. The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each even numbered year session of the General Assembly. The Legislative Research Commission or the State Budget Director can convene the CFG as the need arises to review and revise the forecast. The CFG met on January 16, 2008 and determined the Official Estimate for the General Fund of \$8,823.6 million for Fiscal Year 2009. Tobacco Master Settlement Agreement payments of \$119.7 million are not included in the Fiscal Year 2009 General Fund Official Estimate amount.

The Governor's Office for Economic Analysis has day-to-day responsibility for monitoring receipts activity. The staff prepares the monthly receipts report that is required by law and also prepares the Quarterly Economic and Revenue Report (the "Report"). The Report provides a review of the most recently concluded quarter of activity and also contains a staff analysis of the expected receipts for a period nine months into the future. This information is distributed to the executive, judicial and legislative branches of state government and others.

Table 1 displays General Fund Total Receipts since Fiscal Year 1996-97. OFM has projected the maximum cumulative cashflow deficit for the General Fund for Fiscal Year 2009 to occur in November

2008 and to be approximately negative \$1,122 million. The cumulative cashflow deficit calculation is based upon 8 years of historical daily General Fund cash balance data. The Commission has sized the issue of Notes with the expectation that the applicable requirements of the Code and the Treasury Regulations promulgated thereunder will be achieved.

**Table 1**  
**General Fund Total Receipts**

| <u>Fiscal Year</u> | <u>Total Receipts</u> | <u>Percent Change</u> |
|--------------------|-----------------------|-----------------------|
| 2007-08            | \$8,633,038,000 *     | 0.7%                  |
| 2006-07            | 8,573,819,250         | 2.4                   |
| 2005-06            | 8,376,083,216         | 9.6                   |
| 2004-05            | 7,645,046,634         | 9.6                   |
| 2003-04            | 6,977,623,200         | 2.9                   |
| 2002-03            | 6,783,458,295         | 3.4                   |
| 2001-02            | 6,560,216,551         | (1.4)                 |
| 2000-01            | 6,653,897,653         | 2.7                   |
| 1999-00            | 6,478,385,032         | 4.5                   |
| 1998-99            | 6,198,387,525         | 3.1                   |
| 1997-98            | 6,011,806,561         | 6.1                   |
| 1996-97            | 5,663,553,289         | 6.1                   |

---

\* Estimated.

OFM has made certain assumptions in preparing the projected cashflows in Table 2 for Fiscal Year 2009. The revenue and expenditure projections are based on House Bill 406, the Budget Act of the General Assembly of the Commonwealth, 2008 Regular Session as enacted and vetoed in part (the "Budget Bill"). The \$9,307.4 million in projected revenues consists of the Official Estimate, the tobacco settlement payments and other funds and transfers. The expected \$316.3 million beginning balance plus projected revenues less \$9,357.6 million in expenditures result in an ending balance of \$272 million. These projections are reflected in Table 2 and are based upon assumptions made solely by OFM staff. There is no assurance that actual taxes and revenues, expenditures or transfers will resemble these assumptions or that the results in Table 2 will be achieved.

Table 2 displays the projected General Fund revenue sources and uses on a monthly basis for Fiscal Year 2009 as previously described.



## **BUDGETARY PROCESS IN THE COMMONWEALTH**

### **General**

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.

### **General Fund Budget Reduction Plan**

Pursuant to KRS 48.130 and 48.600, a General Fund Budget Reduction Plan is enacted for state government in the event of an actual or projected deficit in Estimated Revenues as modified by related Acts and actions of the General Assembly in an extraordinary or regular session. Direct services, obligations essential to the minimum level of constitutional functions, and other items that may be specified in the Budget Act, are exempt from the requirements of this Plan. No budget revision shall be taken by a branch government head in excess of the actual or projected deficit.

The Governor, the Chief Justice of the Supreme Court, and the Chairman of the Legislative Research Commission are required to direct and implement reductions in allotments and appropriations only for their respective branch budget units as may be necessary, as well as other measures which are consistent with the provisions of branch budget bills.

In the event of a revenue shortfall, a General Fund Budget Reduction Plan has historically been implemented consistent with the provisions of KRS 48.130 through an enacted budget bill, which has typically contained the following sequence of events:

1. The Local Government Economic Assistance and the Local Government Economic Development Funds must be adjusted by the Secretary of the Finance and Administration Cabinet to equal revised estimates of receipts pursuant to KRS 42.4582.
2. Transfers of excess unappropriated and unbudgeted restricted funds other than fiduciary funds must be applied as determined by the head of each branch for its respective budget unit.
3. Excess General Fund appropriations which accrue as a result of personnel vacancies and turnover, and reduced requirements for operating expenses, grants, and capital outlay must be determined and applied by the heads of the executive, judicial and legislative departments of state government for their respective branches. The branch heads must certify the available amounts which are to be applied to budget units within the respective branches and then promptly transmit the certification to the Secretary of the Finance and Administration Cabinet and the Legislative Research Commission. The Secretary of the Finance and Administration Cabinet must execute the certified actions as transmitted by the branch heads.

Branch government heads must take care, by their respective actions, to protect, preserve, and advance the fundamental health, safety, legal and social welfare, and educational well being of the citizens of the Commonwealth.



4. Funds available in the Budget Reserve Trust Fund must be applied in an amount not to exceed 25 percent of the trust fund balance in the first fiscal year and 50 percent of the trust fund balance in the second fiscal year of the biennium.
5. If actions contained in one (1) through four (4) are insufficient to eliminate a revenue shortfall of up to five (5) percent of the enacted General Fund revenue receipts, then the Governor is empowered and directed to take necessary actions with respect to the Executive Branch budget units to balance the budget by such actions conforming with the criteria expressed in the preceding subsection and subject to the limit imposed under KRS 48.130 and 48.600.

**The Budget Reserve Trust Fund**

The Commonwealth established the Budget Reserve Trust Fund (the "Trust Fund") as a statutory account in the 1995 Third Extraordinary Session of the General Assembly. The provisions for the Trust Fund are found in KRS 48.705, which outlines the manner in which the funds may be added or withdrawn.

Table 3 below displays certified Budget Reserve Trust Fund Year End Balances for Fiscal Years 1996-2007 and an estimate for Fiscal Year 2008.

**Table 3  
Budget Reserve Trust Fund Year End Balances**

| <u>Fiscal Year</u> | <u>Year End Balance</u> |
|--------------------|-------------------------|
| 2008               | \$214,775,400*          |
| 2007               | 231,489,736             |
| 2006               | 119,015,100             |
| 2005               | 28,764,844              |
| 2004               | 50,764,829              |
| 2003               | 54,764,829              |
| 2002               | 0                       |
| 2001               | 240,014,383             |
| 2000               | 278,620,936             |
| 1999               | 239,283,400             |
| 1998               | 230,533,000             |
| 1997               | 200,000,000             |
| 1996               | 200,000,000             |

---

\*Budgeted

See "THE COMMONWEALTH" herein and Exhibit A – COMMONWEALTH DEBT MANAGEMENT for additional financial information on the Commonwealth of Kentucky.

## SOURCES AND USES OF FUNDS

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

### Sources

|                          |                     |
|--------------------------|---------------------|
| Par Amount of Notes      | \$400,000,000.00    |
| Net Premium on the Notes | <u>4,716,000.00</u> |
| Total Sources            | \$404,716,000.00    |

### Uses

|                          |                   |
|--------------------------|-------------------|
| Deposit to Proceeds Fund | \$404,292,350.00  |
| Cost of Issuance *       | <u>423,650.00</u> |
| Total Uses               | \$404,716,000.00  |

\*Includes underwriter's discount, legal fees, rating fees, printing and miscellaneous costs.

## THE COMMONWEALTH

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

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

### **Financial Information Regarding the Commonwealth**

Information regarding debt issuing authorities of the Commonwealth is included in Exhibit A – COMMONWEALTH DEBT MANAGEMENT attached hereto.

A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 2006, 2007 and 2008 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 2006 and 2007 is drawn from *The Kentucky Comprehensive Annual Financial Report* for each of such Fiscal Years. The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. The *Kentucky Comprehensive Annual Financial Report* includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in *The Kentucky Comprehensive Annual Financial Report* contain information regarding the basis of preparation of the Commonwealth's financial statements,

Funds and Pension Plans. The "Statistical Section" of *The Kentucky Comprehensive Annual Financial Report* includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

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

*The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

- (i) Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, New Jersey 08558  
Internet: [munis@bloomberg.com](mailto:munis@bloomberg.com)  
Tel: (609) 279-3225  
Fax: (609) 279-5962
- (ii) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Internet: [nrmsir@dpcdata.com](mailto:nrmsir@dpcdata.com)  
Tel: (201) 346-0701  
Fax: (201) 947-0107
- (iii) Interactive Data Pricing and Reference Data, Inc.  
Attn: NRMSIR  
100 Williams Street, 15<sup>th</sup> Floor  
New York, New York 10038  
Internet: [nrmsir@interactivedata.com](mailto:nrmsir@interactivedata.com)  
Tel: (212) 771-6999, 800-689-8466  
Fax: (212) 771-7390
- (iv) Standard & Poor's Securities Evaluations, Inc.  
55 Water Street, 45th Floor  
New York, New York 10041  
Internet: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)  
Tel: (212) 770-4595  
Fax: (212) 770-7994

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2007 and certain other fiscal years may be found on the Internet at:

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

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

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the 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 annual filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

### **Fiscal Year 2006**

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

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

The second largest portion of the Commonwealth's net assets, totaling \$1.77 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, which if positive could be used at the Commonwealth's discretion, showed a negative balance of \$1.80 billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

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

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

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

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

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

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

### **Fiscal Year 2007**

The Commonwealth's combined net assets (governmental and business-type activities) totaled \$17.4 billion at the end of Fiscal Year 2007, as compared to \$17.9 billion at the end of the previous Fiscal Year.

The largest portion of the Commonwealth's net assets, \$18.2 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), and 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 \$1.6 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 \$2.4 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 \$9.5 billion and general revenues (including transfers) of \$10.2 billion for total revenues of \$19.7 billion during Fiscal Year 2007. Expenses for the Commonwealth during Fiscal Year 2007 were \$20.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$(507) million, net of contributions, transfers and special items.

The slowing economy, during Fiscal Year 2007, caused revenues to decline resulting in the decrease in net assets of governmental activities by \$(466) million or 2.6 percent. Approximately 56 percent of the governmental activities' total revenue came from taxes, while 34 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the end of Fiscal Year 2007, the Commonwealth's governmental funds reported combined ending fund balance of \$2.86 billion, a decrease of \$(280) million in comparison with the prior year. The unreserved portion of fund balance (\$1.86 billion), which is the portion of fund balance available for spending in the coming year, has increased to 65 percent of the total fund balance. The remaining fund balance is reserved to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the Commonwealth. At the end of Fiscal Year 2007, total fund balance reached \$813 million, with an unreserved balance of \$517 million. This compares to a General Fund unreserved fund balance of \$713 million as of June 30, 2006. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The Commonwealth's General Fund balance, after several years of growth, decreased by \$81 million during Fiscal Year 2007, which represents a decline of 9 percent, from the Fiscal Year 2006 balance. The slow economy which reduced tax revenues is the major factor for this decline.

The major special revenue funds had no significant changes in fund balances, however, some changes in a fund's revenues and/or expenditures, might be considered significant. These changes include an increase in motor fuels tax receipts, in the Transportation Fund; increased benefit payments in the Federal Fund, and increased spending in the Transportation function of the Agency Revenue Fund.

The Commonwealth of Kentucky's outstanding bonded debt decreased by \$104 million to \$3.4 billion, a 2.93 percent decrease during Fiscal Year 2007. The major factor in this decrease was the maturity of bonds outstanding and the issuance of notes for interim financing, rather than bonds. No general obligation bonds were authorized or outstanding at June 30, 2007.

### **Fiscal Year 2008 (Unaudited)**

On January 16, 2008, the CFG revised the official General Fund revenue estimate for Fiscal Year 2008 to \$8,633 million; which is \$132.2 million below the estimated levels upon which the Fiscal Year 2008 budget was enacted. The official forecast reflects a 0.7 percent increase in General Fund receipts for Fiscal Year 2008 when compared to Fiscal Year 2007 actual receipts. The estimate excludes Phase I Tobacco Master Settlement Agreement payments, which are estimated by CFG to be \$117.47 million in Fiscal Year 2008.

Fiscal Year 2008 General Fund actual revenues total \$7,791.4 million through May 2008, an increase of 1.2 percent over the same period in Fiscal Year 2007. General Fund receipts must total \$841.7 million in June 2008, 3.7 percent less than June receipts in 2007, to meet the revised official estimate.

General Fund revenues for May 2008 were \$634.3 million, a decrease of 20.5 percent compared to May 2007. During May 2008, sales and use tax revenues fell by 12.0 percent compared to the previous

year. Individual income tax receipts dropped by 22.6 percent due to timing differences in processing receipts. Corporation income tax receipts were negative \$2.5 million compared to \$64 million one year earlier. Property tax receipts rose 153.9 percent as a result of timing shifts compared to last year. Coal severance tax revenue declined by 9.9 percent, while Lottery receipts were up by 3.3 percent compared to May of last year.

## **Investment Policy**

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

At March 31, 2008, the Commonwealth's operating portfolio was approximately \$4.0 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (14%); securities issued by agencies and instrumentalities of the United States Government (19%); mortgage backed securities and collateralized mortgage obligations (13%); repurchase agreements collateralized by the aforementioned (21%); municipal securities (7%); and corporate and asset backed securities, including money market securities (26%). The portfolio had a current yield of 3.75% and an effective duration of 0.82 years.

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

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its Treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for

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

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200,000,000 notional amount to a net market value approach, the absolute value of which cannot exceed \$50,000,000 for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income.

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

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

## **State Retirement Systems**

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

*Pension Plans.* Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Kentucky Teacher's Retirement System ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth of Kentucky for financial reporting purposes and are included in *The 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 2007, Note 8 beginning on page 76. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at <http://www.kyret.com> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under "Other Post Employment Benefits ("OPEB").



*Pension Funding.* Based upon the assumptions employed in the Pension Plans' June 30, 2007 actuarial valuation reports used in preparing the associated Pension Plans' 2007 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$4,380 million, while KTRS had a UAAL of \$5,970 million. The state supported portion of the Pension Plans for Fiscal Year 2007 had funding percentages of 58.7 percent for the Kentucky Retirement Systems and 71.9 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year 2007 pension benefits was \$214.2 million versus the Actual Contribution of \$107.6 million. The KTRS state supported Annual Required Contribution for Fiscal Year 2007 was \$494.6 million, \$421.6 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 has not yet adopted these standards and is not required to do so until Fiscal Year ending June 30, 2008.

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

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was just completed for the Kentucky Retirement Systems and the next scheduled experience study period will be prepared in January, 2011. KTRS' last five-year experience study was for the period ending June 30, 2005, the next five year experience study will be for the period ending June 30, 2010. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2007 has been estimated to not exceed \$5,151 million for the Kentucky Retirement Systems and \$5,788 million for KTRS. These estimates represent the amount of healthcare benefits under the respective Health Plans, payable for the ensuing 30-year period and allocated by the actuarial cost method, as of June 30, 2007. The actuarial estimates for the Kentucky Retirement Systems OPEB liabilities substantially decreased from the \$8,089.5 million previously reported in the Kentucky Retirement Systems' 2006 CAFR, primarily due to the Board's policy of incrementally increasing employer contributions to the funds in order to reach full entry age normal cost by 2016. The actuarial estimates for KTRS actually increased from \$4,210.3 million due to health care costs escalating at a much faster rate than revenue growth in the Medical Insurance Plan.

The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year 2007 healthcare benefits was \$146.3 million versus the Actual Contribution of \$101.2 million. The KTRS state supported Annual Required Contribution for Fiscal Year 2007 was \$231.5 million, \$123.6 million was contributed. Previously, the state legislature directed transfers of \$62.3 million and \$29.1 million in Fiscal Year 2005 and Fiscal Year 2006 respectively, from the KTRS Guarantee Fund to the Medical Insurance Stabilization Fund. This amount is to be repaid from the State General Fund over a 10-year period. The state supported portion of the Health Plans for Fiscal Year 2007 had funding percentages of 16.1 percent for the Kentucky Retirement Systems and 2.4 percent for KTRS.

The Commonwealth's 2008-2010 biennial budget increased employer contribution rates by 37 percent for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 18 percent.

*Proposed Legislation Regarding State Retirement Systems.* During the 2008 Regular Session, the Governor presented a proposal to address the long-term financial issues faced by the Commonwealth's pension systems. The proposal was titled the Kentucky Public Pension Protection and Modernization Act, and proposed a significant restructuring of retirement benefits for future beneficiaries that included reforms that would have established better oversight, addressed the funding challenges, and modernized the pension systems for the next generation. The proposal also incorporated many of the recommendations of a Blue Ribbon Task Force that presented a final report in early January 2008. The proposed legislation did not include any recommendation to issue pension obligation bonds or OPEB bonds to address the estimated \$21.3 billion of unfunded liabilities. While there was significant discussion and debate between both the House and the Senate resulting in different versions of the pension legislation being considered, the General Assembly failed to reach an agreement and the 2008 Regular Session concluded on April 15, 2008 without the passage of the pension reform legislation.

On May 29<sup>th</sup>, 2008, Governor Beshear created the Kentucky Public Pension Working Group, composed of senior executive branch officials, pension fund directors, employee representatives, and private sector investment experts. The Working Group will be conducting an operational and governance review of the state retirement systems and recommending new investment benchmarks and strategies for better investment performance. The Working Group will also provide recommendations to reach the actuarially required contribution (ARC) by 2020, using benchmarks suggested in legislation adopted by the Senate, but not enacted by the full General Assembly. In addition, the Working Group will also study the issues in dispute during the 2008 legislative session that had not been recommended by the prior administration's Blue Ribbon Commission, to determine their viability and cost. The Working Group will offer to provide testimony to the Interim State Government Committee, allowing the General Assembly to address these issues in the 2009 Regular Session.

Governor Beshear has asked the General Assembly to come to agreement on a series of issues to reduce the future cost increases to the retirement systems. He has called a legislative special session on pension reform to begin June 23, 2008.

## **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 current members of the Commission are as follows:

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

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

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

### **Financings of the Commission**

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

The holders of the Notes do not have a claim against the moneys pledged under a trust indenture related to any other project notes issued as General Fund Series, Agency Fund Series, Road Fund Series or Federal Highway Trust Fund Series. The indentures for each particular type of notes issued by the Commission generally allow the issuance of additional notes on parity with the outstanding notes of the same type. The Commission's outstanding obligations as of May 31, 2008 are described below.

**General Fund Tax and Revenue Anticipation Notes.** Since 1997, with the exception of 2003, the Commission has issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. The TRANs are payable from taxes and certain revenues collected by the Commonwealth in the Fiscal Year in which they are issued. The 2007 TRAN Series was issued on July 3, 2007 in the amount of \$350,000,000 and will mature on June 26, 2008.

**Project Notes, General Fund Series.** The Commission from time to time issues separate series of project notes, the proceeds of which are used to fund capital projects (the "General Fund Project Notes") authorized by the General Assembly. All General Fund Project Notes are payable from payments

to be received by the Commission under separate financing/lease agreements and, as to bond anticipation notes, the issuance of bonds by the State Property and Buildings Commission ("SPBC"). These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. The Commission has authorized the issuance of an aggregate principal amount not to exceed \$1,400,000,000 of Project Notes, 2005 General Fund Second Series. 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        | \$52,985,000              |
| 2005 General Fund First Series  | 81,850,000           | 73,330,000                |
| 2005 General Fund Second Series | 400,000,000          | 200,000,000               |
| 2007 General Fund FRN Series A  | 100,835,000          | 96,325,000                |
| 2007 General Fund FRN Series B  | <u>142,245,000</u>   | <u>141,210,000</u>        |
| TOTAL                           | \$896,190,000        | \$563,850,000             |

**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 of the Commonwealth. The Commission has authorized the issuance of an aggregate principal amount not to exceed \$250,000,000 of Project Notes, 2005 Agency Fund Second Series. 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         | \$10,890,000              |
| 2005 Agency Fund Second Series A-5    | 14,025,000           | 14,025,000                |
| 2005 UK General Receipts Series A     | 107,540,000          | 107,540,000               |
| 2006 UK General Receipts Series A     | 66,305,000           | 65,630,000                |
| 2007 UK General Receipts Series A     | 77,905,000           | 77,905,000                |
| 2007 UK General Receipts Series B     | <u>80,245,000</u>    | <u>80,245,000</u>         |
| TOTAL                                 | \$357,295,000        | \$356,235,000             |

**Project Notes, Road Fund Series.** The Commission from time to time also issues separate series of project notes (the "Road Fund Project Notes"), which are payable from payments to be received by the Commission under financing/lease agreements with the Commonwealth of Kentucky Transportation Cabinet ("KYTC") and from proceeds of bonds to be issued by the Turnpike Authority of Kentucky. The payments used to pay Road Fund Project Notes are ultimately dependent upon Road Fund appropriations by the General Assembly of the Commonwealth. The Commission has authorized the issuance of an aggregate principal amount not to exceed \$350,000,000 of Project Notes, 2007 Road Fund First Series. The Commission has the following Road Fund Project Notes outstanding:

| <u>Project Notes</u>          | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|-------------------------------|----------------------|---------------------------|
| 2007 Road Fund First Series A | \$200,000,000        | \$200,000,000             |

**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        | \$118,755,000             |
| 2007 First Series    | <u>277,910,000</u>   | <u>277,910,000</u>        |
| TOTAL                | \$417,545,000        | \$396,665,000             |

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

The 2006 General Assembly adopted a State Budget for the biennium ending June 30, 2008 which authorized an additional \$2.3 billion of capital projects to be funded with bonds. The General Fund authorization is \$1,392.9 million; the Agency Fund authorizations total \$267.5 million; while the Road Fund and Federal Highway Trust Fund authorizations are \$350 million and \$290 million, respectively. The Federal Highway Trust Fund and a significant portion of the Agency Fund and General Fund projects have been permanently funded. The Road Fund projects are being funded by the 2007 Road Fund First Series Notes.

In the Second Extraordinary Session of 2007, the General Assembly authorized a \$100 million Energy Projects Economic Development Bond Pool to be funded with General Fund supported debt.

The 2008 General Assembly adopted a State Budget for the biennium ending June 30, 2010 which authorized an additional \$1.66 billion of capital projects to be funded with bonds. The General Fund authorization is \$650.3 million; the Agency Fund authorizations total \$643.2 million; while the Road Fund and Federal Highway Trust Fund authorizations are \$135 million and \$231 million, respectively.

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

The timing of permanent funding for the remaining various obligations, which may result in the retirement of certain outstanding Commission notes, is uncertain.

In August of 2007, the Commission entered into two interest rate swap transactions to hedge the future issuance of approximately \$300 million of future SPBC Revenue Bonds expected to fund a portion of the remaining authorized, but un-issued bonds for General Fund projects. The interest rate swaps were executed in anticipation of approximately \$150 million of SPBC bonds being sold in each of November 2008 and November 2009 and allowed the Commonwealth to reduce its budgeted General Fund debt service for Fiscal Years 2008-10. In April 2008, SPBC Project No. 89 bonds were sold to permanently finance various General Fund projects authorized by the 2005 and 2006 General Assemblies. The November 2008 swap was terminated as part of the transaction and a net payment was paid to the counterparty from the proceeds of the bonds issued.

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

## **DEFINITIONS**

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the 2008 Resolution, which are not otherwise defined herein. Reference is hereby made to the Indenture and the 2008 Resolution for a complete recital of the terms defined therein.

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

"Additional Notes" shall mean Notes issued from time to time in accordance with the Indenture and ranking on a parity as to security and source of payment with the Notes.

"Authorized Denominations" shall mean \$100,000 and integral multiples of \$5,000 in excess thereof.

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

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

"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.

"Certificate of Award" shall mean the certificate of an Authorized Officer establishing certain terms of the applicable Series of Notes and authorized in the Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

"Expenditure Demands" shall mean amounts required to be paid from the General Fund during the Fiscal Year.

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

"Fiscal Year" shall mean the period which begins on July 1, 2008 and ends on June 30, 2009.

"Fitch" shall mean Fitch Ratings.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Fund and Rebate Fund and any account within such funds established by the Indenture.

"General Fund" shall mean the General Fund of the Commonwealth described in Section 47.010 of the Kentucky Revised Statutes.

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

"Indenture" or "Trust Indenture" shall mean the Trust Indenture, dated as of July 1, 2008, 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 Fund established under the Indenture.

"Interest Payment Date" shall mean the maturity date of the Notes, as shown on the cover of this Official Statement.

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

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

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

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

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

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

"Pledged Assets" shall mean (i) the proceeds of sale of the Notes, (ii) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including moneys and securities therein.

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

"Proceeds Fund" shall mean the Proceeds Fund created by the 2008 Resolution.

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

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

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

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

"Series" shall mean any series of Notes issued in accordance with the Indenture, and shall mean and include Additional Notes.



"2008 Resolution" shall mean Resolution of the Commission authorizing the Indenture and the issuance of the Notes.

"Underwriter" shall mean Citigroup Global Markets Inc.

### **SUMMARY OF CERTAIN PROVISIONS OF THE 2008 RESOLUTION AND THE INDENTURE**

Summarized below are certain provisions of the 2008 Resolution and the Indenture. This summary does not purport to be complete, and is qualified by reference to the 2008 Resolution and the Indenture.

#### **Delivery of the Notes and Additional Notes**

The Indenture authorizes the issuance of Notes, in one or more Series, in an aggregate principal amount not to exceed \$600,000,000. The Notes are to be issued in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund. Each Series of Notes is to be authorized pursuant to a Certificate of Award. The Commission has authorized the Executive Director of the Office of Financial Management (its "Authorized Officer") to provide final authorization for the Notes by issuing a Certificate of Award. Every Certificate of Award is required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes shall be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the optional redemption provisions relating to such Series of Notes; (vii) the optional and mandatory tender provisions relating to such Series of Notes, if any; (viii) the price at which such Series of Notes shall be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; (x) if applicable, the amount that may be drawn on the Credit Facility or Liquidity Facility; and (xi) a determination that an IRS 8038G Form will be timely filed; (xii) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Indenture. An opinion of Bond Counsel in substantially the form of the opinion set forth in Exhibit B hereto must be delivered upon the issuance of any Series of Notes.

All Notes shall rank on a parity and equality with one another, without regard to Series designation or Issue Date and shall be entitled to the benefit of the continuing pledge and lien created by the Act, which constitutes a portion of the trust estate created by the Indenture, to secure the full and final payment of principal of and interest on all Notes.

#### **Security and Pledge of Revenues**

The Notes, together with any Additional Notes issued under the Indenture, are special limited obligations of the Commission, payable only from taxes or revenues specifically pledged under the Act for the payment of principal of and interest on the Notes and any Exchange Agreements entered into with respect to the Notes. There have been pledged for payment of the principal of and interest on the Notes and all obligations under any Exchange Agreements: (i) the proceeds of sale of the Notes, (ii) all taxes and revenues required to be deposited in the General Fund (the "Revenues") and (iii) all Funds and Accounts created and established pursuant to the Indenture (except the Rebate Fund), including moneys and securities therein.

## **Establishment Of Funds**

The 2008 Resolution establishes the Proceeds Fund. The Indenture establishes the following special funds: (i) the Cost of Issuance Fund; (ii) the Note Fund; and (iii) the Rebate Fund. Each of these Funds is discussed below.

### **Cost of Issuance Fund**

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

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

The Trustee is required from time to time to pay out, or to permit the withdrawal of, moneys from the applicable Cost of Issuance Account to pay any Costs of Issuance, free and clear of any lien or pledge or assignment in trust created by the Indenture, for the purpose of paying in the manner herein authorized any Costs of Issuance of the Notes for which such Account was established, upon receipt by said Trustee of a written requisition of the Commission signed by an Authorized Officer stating with respect to each payment to be made, for Costs of Issuance to be so paid and identifying the Account from which such requisition is to be paid.

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

### **Proceeds Fund**

The 2008 Resolution establishes a Proceeds Fund. The Proceeds Fund is to be held by the Finance and Administration Cabinet. The proceeds of the Notes that remain after (i) deposit of accrued interest to the Interest Account of the Note Fund and (ii) deposit of cost of issuance moneys to the Cost of Issuance Fund are required to be deposited to the Proceeds Fund.

Moneys in the Proceeds Fund are to be used by the Commonwealth for meeting Expenditure Demands on the General Fund of the Commonwealth and, to the extent needed, as set forth below, to pay interest and principal of the Notes.

To the extent that there are not already sufficient moneys on deposit in the Note Fund, the Commission, on each Interest Payment Date, is required to cause the Finance and Administration Cabinet (i) to transfer the amount needed to pay interest on the Notes on such Interest Payment Date from the Proceeds Fund to the Trustee for deposit to the Interest Account of the Note Fund and (ii) to transfer the amount needed to pay the principal of and premium, if any, on the Notes on such dates from the Proceeds Fund to the Trustee for deposit to the Principal Account of the Note Fund.

### **Note Fund**

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

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

(A) An Interest Account, into which shall be deposited all amounts (i) received as accrued interest upon the sale and delivery of any Notes; (ii) transferred from the Proceeds Fund for the payment of interest on the Notes; (iii) received as proceeds of Notes to pay interest on Notes when due; or (iv) received as Counterparty Exchange Payments.

(B) A Principal Account, into which shall be deposited all amounts (i) transferred from the Proceeds Fund to pay principal of and premium, if any, on the Notes due at maturity, on a Redemption Date or upon acceleration; and (ii) representing payments of principal of and premium, if any, on the Notes to pay such amounts at maturity, on a Redemption Date, or upon acceleration.

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

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

(A) amounts in the Interest Account shall be used to pay interest on the Notes and Exchange Payments.

(B) amounts in the Principal Account shall be used to pay principal of the Notes.

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

### **Rebate Fund**

The Indenture establishes a fund separate from any other fund established and maintained thereunder or under any laws governing the creation and use of funds by the Commission designated as the "Rebate Fund," which fund is required to be held by the Trustee as a trust fund. There is to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Memorandum of Instructions. Subject to certain transfer provisions, all moneys at any time deposited in the Rebate Fund are required to be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Memorandum of Instructions), for payment to the federal government of the United States of America, and neither the Commission, any Governmental Agency nor the owner of any Notes shall have any rights in or claim to such moneys.

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

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

### **Investment of Funds**

Except as otherwise described herein, amounts on deposit in any Fund or Account are required to be invested in Eligible Investments. The Trustee is required to sell at the best price reasonably obtainable, or present for redemption or exchange, any Eligible Investment purchased by it as an investment pursuant to the Indenture whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account from which such investment was made. The Trustee is required to advise the Commission in writing, on or before the last business day of each calendar month, of the details of all Eligible Investments held for the credit of each Fund or Account in its custody under the provisions of the Indenture as of the end of the preceding month.

The Trustee is required to keep the Commission fully advised as to the details of all such investments and is required to comply with any directions of the Commission with respect to investments in Eligible Investments. Except as otherwise provided in the Indenture, earnings and losses on Eligible Investments are required to be credited to the Fund or Account with respect to which such investments were made (or pro-rated thereto) and such earnings or losses become a part thereof for all purposes.

### **Defeasance**

If the Commission shall pay or cause to be paid, or there shall otherwise be paid, to Holders of the Notes, such amounts as will, taking into account the investment earnings therefrom, fully provide for all of the principal and interest to become due on any particular Notes, at the times and the manner stipulated therein and in the Indenture and all amounts due under any Exchange Agreement shall have been satisfied and terminated in accordance with its terms, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission thereunder shall be satisfied and discharged for those particular Notes, and in such event, the Trustee shall, upon the request of the Commission, execute and deliver to the Commission all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Commission all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption for those particular Notes.

Notes or interest installments of particular Notes for the payment or redemption of which moneys shall have been set aside and shall be held in trust by Fiduciaries shall, at the maturity or date of redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph. Particular Notes shall, prior to the maturity or redemption thereof, be deemed to have been paid within the meaning and with the effect expressed in the preceding paragraph if (a) in case any of said Notes are to be redeemed on any date prior to their maturity, the Commission shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice of redemption in the manner herein prescribed, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations, hereinafter defined, 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, shall be sufficient, as verified in a report of a firm of certified public accountants (or other evidence of sufficiency as may be acceptable to each Rating Service), to pay when due the principal and interest due and to become due on said Notes on and prior to the Redemption or maturity date thereof, as the case may be, and (c) in the event said Notes are not subject to redemption within the next 60 days, the Commission shall have given the Trustee in form satisfactory to it irrevocable

instructions to notify the Holders of such Notes of such redemption in the manner herein provided for giving notice of redemption and (d) a Counsel's Opinion that the defeasance will not adversely affect the exclusion from gross income for federal income tax purposes of interest thereon. Neither Defeasance obligations or moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Notes. Notice of any discharge of Notes pursuant to this paragraph shall be given to each Rating Service, accompanied by the verification required by clause (a) above.

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, shall (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 shall thereupon be released and discharged.

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

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

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

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

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

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

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

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

if the redemption date for the Notes to be discharged by the deposit of Defeasance Obligations is no later than ninety (90) days from the date of such deposit, "Defeasance Obligations" shall also include direct and general non-callable obligations of any Federally sponsored enterprise, including Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association,

Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Land Banks, Federal Home Loan Banks, Bank for Cooperatives, Tennessee Valley Authority and any other similar institution.

### **Events of Default**

Each of the following events is an "Event of Default" under the Indenture:

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

(2) payment of any installment of interest on any Note or any Exchange Payment 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.

Upon the occurrence of an Event of Default as specified in paragraph (1) or (2) above, the Trustee shall 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. Subject to the following provisions, upon the occurrence of any other Event of Default as specified in paragraph (3) above, the Trustee may, or at the direction of the Holders of not less than twenty-five percent (25%) of the Notes Outstanding shall, 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 shall be by notice in writing to the Commission and any Exchange Counterparty, and, upon said declaration, principal and interest on all Notes shall become and be immediately due and payable. The Trustee immediately upon such declaration shall give notice thereof in the same manner as provided 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 shall 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.

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

### **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 shall be 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, after making provision (i) for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of any Exchange Counterparty and 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 Indenture, shall be applied as follows:

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 (or Related Exchange Payments) then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installments, then to the payment thereof ratably, accordingly to the amounts due on such installments, to the persons entitled thereto, 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.

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 (or Related Exchange Payments) then due and unpaid upon the Notes without preference or priority of principal over interest (or Related Exchange Payments) or of interest (or Related Exchange Payments) over principal, or of any installment of interest (or Related Exchange Payments) over any other installment of interest (or Related Exchange Payments), 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 pursuant to these provisions, such moneys shall 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 shall 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 Indenture as may be applicable at the time of

application by the Trustee. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date, as described herein (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 shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment to the Holder of any unpaid Note unless such Note shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

### **Direction of Proceedings**

Anything in the Indenture to the contrary notwithstanding, the Holders of the majority in principal amount of Notes then Outstanding shall have the right by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction (i) which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction or (ii) there has not been offered to the Trustee reasonable security and indemnity against the cost, expenses (including reasonable legal expenses) and liabilities to be incurred with respect thereto. In the event of a conflict between directions from an Exchange Counterparty and such Holders, directions shall be followed in priority order as follows: (i) the Holders and (ii) an Exchange Counterparty, so long as such Exchange Counterparty is not in default of its obligations under its Exchange Agreement.

### **Supplemental Indentures**

The Indenture provides procedures whereby the Commission may amend the Indenture by adoption of a Supplemental Indenture, subject to the consent of the Trustee. Amendments that may be made without the consent of the Noteholders must be for purposes of further securing the Notes, imposing further limitations on, surrendering rights of the Commission, curing ambiguities or for any other purpose that does not materially adversely affect the rights of the Noteholders affected thereby.

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

### **The Trustee**

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



taken or omitted to be taken by it in good faith or be responsible other than for its own negligence or willful neglect.

## **TAX TREATMENT**

### **Generally**

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the Notes. Failure to comply with such covenants could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The Commission has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Notes. In Bond Counsel's further opinion, under the existing laws of the Commonwealth, interest on the Notes is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Notes are exempt from ad valorem taxes by the Commonwealth and all political subdivisions thereof.

Notwithstanding Bond Counsel's opinion that interest on the Notes is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

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

The amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's election under Internal Revenue Service (the "Service") Notice 94-84, 1994-2 C.B. 559. Notice 94-84 states that the Service is studying whether the amount of the payment at maturity on debt obligations such as the Notes that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the Notes and the aggregate amount to be paid at maturity of the Notes (the "original issue discount"). For this purpose, the issue price of the Notes is the first price at which a substantial amount of the Notes is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the Service provides further guidance, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt debt obligations with a term that is not more than one year from the date of issue in a

consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of Notes if the taxpayer elects original issue discount treatment.

### **Tax Treatment of Original Issue Premium**

The following disclosure relates to purchasers of the Notes who, under Notice 94-84 discussed above, treat the stated interest payable at the maturity of the Notes as the amount excluded from gross income for federal income tax purposes. An amount equal to the excess of the issue price of a Note over its stated redemption price at maturity constitutes original issue premium on such Note. An initial purchaser of a Note must amortize any original issue premium in accordance with the provisions of Section 171 of the Internal Revenue Code of 1986, as amended. Purchasers of a Note with original issue premium should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning Notes with original issue premium.

### **Changes in Federal 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 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 moneys or security provided for the payment of the Notes or due existence or powers of the Commission.

### **APPROVAL OF LEGALITY**

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

### **RATINGS**

The following rating agencies (each a "Rating Agency") have given the Notes the following respective ratings: Fitch Ratings "F1+," Moody's Investor's Service, Inc. "MIG 1" and Standard & Poor's

Ratings Services, a division of The McGraw Hill Companies, Inc. "SP-1+." Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Fitch Ratings, One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investor's Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 553-0300; and Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc., 55 Water Street, New York, New York 10041, (212) 438-2124. No rating is a recommendation to buy, sell or hold the Notes, and there is no assurance that any rating will be maintained for any given period of time by a Rating Agency or that it will not be revised or withdrawn entirely by such Rating Agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of a rating may have an adverse affect on the market price of the Notes.

### **CONTINUING DISCLOSURE**

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

### **UNDERWRITING**

Citigroup Global Markets Inc., as Underwriter, has agreed to purchase the Notes from the Commission at a purchase price equal to \$404,531,600.00 which represents the aggregate principal amount of the Notes plus net original issue premium of \$4,716,000.00, less the Underwriter's discount of \$184,400.00. The Underwriter is committed to purchase all of the Notes if any are purchased.

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

**MISCELLANEOUS**

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

KENTUCKY ASSET/LIABILITY  
COMMISSION

By /s/ Jonathan Miller  
Jonathan Miller, Chairman

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

## **EXHIBIT A**

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

#### **COMMONWEALTH DEBT MANAGEMENT**

##### **Management**

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

##### **Structure**

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

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

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

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

Moral obligation debt carries the name of the Commonwealth for the benefit and convenience of agencies or municipal corporations within the State. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and do not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate General Funds to fulfill the financial obligations represented by these types of indebtedness. In most circumstances, in the event of a shortfall the issuer covenants to request from the Governor and the General Assembly sufficient amounts to pay debt service. The Kentucky Infrastructure Authority Governmental Agencies Program and certain Kentucky Higher Education Student Loan Corporation bond issues no longer represent moral obligation debt of the Commonwealth.

##### **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/<br>PURPOSE                                                                                                                                                                                                                                                            | DEBT<br>LIMITATIONS                                                                                                                                                                                     | RATING <sup>(1)</sup>   |
|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| State Property and Buildings Commission                                          | <b>KRS 56.450</b> Provide financing for capital construction projects and financing programs approved by the General Assembly.                                                                                                                                                             | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.                                                                                             | Aa3/A+/AA-              |
| Kentucky Asset/Liability Commission                                              | <b>KRS 56.863</b> Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.                                                                                                                                                               | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.                                     | Varies                  |
| Turnpike Authority of Kentucky                                                   | <b>KRS 175.410-175.990</b> Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads                                                                                                                                              | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.                                                                                             | Aa3/AA+/AA-             |
| The State Universities (consisting of nine)                                      | <b>KRS 56.495</b> Construct educational buildings and housing and dining facilities.                                                                                                                                                                                                       | Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.                                                                                             | Varies                  |
| Kentucky Housing Corporation                                                     | <b>KRS 198A</b> Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents of the State.                                                                                                                              | Limitation of \$2.5 billion of debt outstanding; effective July 15, 2008, limit becomes \$5.0 billion                                                                                                   | Aaa/AAA/NR              |
| Kentucky Infrastructure Authority                                                | <b>KRS 224A</b> Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.                                                                    | Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million. | Aa3/A+/AA-              |
| Kentucky Higher Education Student Loan (Sr. Series) Corporation (Subord. Series) | <b>KRS 164A</b> Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.                                                                                               | Limited to \$5.0 billion of debt outstanding.                                                                                                                                                           | NR/AAA/AAA<br>NR/A/A    |
| School Facilities Construction Commission                                        | <b>KRS 157.611-157.665</b> Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.                                                                                                             | Cannot incur debt without appropriation of debt service by General Assembly.                                                                                                                            | Aa3                     |
| Kentucky Economic Development Finance Authority                                  | <b>KRS 154</b> Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state. | None.                                                                                                                                                                                                   | Varies                  |
| Kentucky Local Correctional Facilities Construction Authority                    | <b>KRS 441.605-441.695</b> Provide an alternative method of constructing, improving, repairing and financing local jails.                                                                                                                                                                  | Limited to the level of debt service supported by court fees pledged as repayment for the bonds.                                                                                                        | Aaa/AAA/NR<br>(Insured) |

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

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

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

**EXHIBIT B**

**FORM OF BOND COUNSEL OPINION**

July \_\_, 2008

Commonwealth of Kentucky  
Kentucky Asset/Liability Commission  
Frankfort, Kentucky

\$400,000,000  
Commonwealth of Kentucky  
Kentucky Asset/Liability Commission  
General Fund Tax and Revenue Anticipation Notes,  
2008 Series A

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 \$400,000,000 aggregate principal amount of General Fund Tax and Revenue Anticipation Notes, 2008 Series A (the "Notes"). The Notes are issuable only as fully registered Notes without coupons dated as of their date of delivery in the denomination of \$100,000 or any integral multiple of \$5,000 in excess thereof. The Notes are not subject to redemption prior to their maturity.

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 May 12, 2008 (the "Resolution"), and a Trust Indenture, dated as of July 1, 2008 (the "Indenture"), between the Commission and U.S. Bank National Association, Louisville, Kentucky, as trustee (the "Trustee").

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

We have examined the laws of the Commonwealth, the Act, a certified copy of the Indenture, 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 Commission is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Notes.

2. 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.

3. Interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion in the preceding sentence assumes the accuracy of certain representations and compliance by the Commission with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the Notes. Failure to comply with such covenants could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of 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 Revenues, as defined in the Indenture, the funds and accounts established by the Indenture (except the Rebate Fund as defined therein) and the proceeds of the Notes.

5. The Notes are special and limited obligations of the Commission payable solely and only as provided for by the Act and the Indenture.

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 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.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. Our engagement as Bond Counsel with respect to the transaction referred to herein terminates upon the date of this letter. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason. No one other than the addressees hereof shall be entitled to rely upon this opinion without our prior written consent.

Very truly yours,

[To be signed and delivered at closing  
by Kutak Rock LLP]



## EXHIBIT C

### BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Notes. The Notes 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 securities 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 3.5 million issues of U.S. and non-U.S. equity issues, 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://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 system for the Notes is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI 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.

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

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

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.