FITCH: F1+
MOODY'S: MIG1
STANDARD & POOR'S: SP-1+
(See "Ratings" herein)

<u>**NEW ISSUE**</u>
Book-Entry-Only

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

KENTUCKY ASSET/LIABILITY COMMISSION

$440,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, 2001 SERIES A (Fixed Rate)

$210,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, 2001 SERIES B (Index Rate)

Dated: Date of Delivery **Due:** June 26, 2002

Interest Rate: 2001 Series A: 4.00% **2001 Series B: Index Rate (67% of LIBOR)**
Yield/Price: 2001 Series A: 2.53% **2001 Series B: 100%**

The Kentucky Asset/Liability Commission (the "Commission") is issuing its General Fund Tax and Revenue Anticipation Notes, 2001 Series A (the "2001 Series A Notes") and its General Fund Tax and Revenue Anticipation Notes, 2001 Series B (the "2001 Series B Notes") (the 2001 Series A Notes and the 2001 Series B Notes, collectively, the "Notes") to finance General Fund cash flow requirements of the Commonwealth of Kentucky (the "Commonwealth") for the fiscal year ending June 30, 2002. 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 BNY Trust Company of Missouri, St. Louis, Missouri, 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 "THE NOTES -- Book-Entry-Only System" herein.

The 2001 Series A Notes will bear interest at a fixed rate, as shown above, computed on the basis of a 360-day year and a 30-day month, accrued from the date of issuance. Principal of and interest on the 2001 Series A Notes is payable at maturity. See "THE NOTES – The 2001 Series A Notes".

The 2001 Series B Notes will bear interest at the Index Rate (the "Index Rate"). The Index Rate is a variable per annum interest rate equal to 67% (the "Index Rate Percentage") of LIBOR (defined herein), adjusted weekly, on Thursday of each week, until maturity. Interest on the 2001 Series B Notes will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2001 Series B Notes is payable at maturity. See "THE NOTES – The 2001 Series B Notes".

The Notes are not subject to redemption or tender 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 the Fiscal Year ending June 30, 2002 ("Fiscal Year 2002"). The Notes are issued pursuant to a Trust Indenture dated as of July 1, 2001 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 2001 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 Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their 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 3, 2001.

Salomon Smith Barney

Dated June 29, 2001

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

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

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

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

TABLE OF CONTENTS

KENTUCKY ASSET/LIABILITY COMMISSION

COMMISSION MEMBERS

T. Kevin Flanery, Secretary of the Finance and Administration Cabinet, Chairman
Dana B. Mayton, Secretary of the Revenue Cabinet
A.B. Chandler, III, Attorney General
Jonathan Miller, State Treasurer
Dr. James R. Ramsey, State Budget Director

SECRETARY TO THE COMMISSION

Gordon L. Mullis, Jr., Executive Director of the
Office of Financial Management

TRUSTEE

BNY Trust Company of Missouri,
St. Louis, Missouri

BOND COUNSEL

Peck, Shaffer & Williams LLP
Covington, Kentucky

UNDERWRITERS' COUNSEL

Frost Brown Todd LLC
Louisville, Kentucky

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, 2001 Series A (the "2001 Series A Notes") and its General Fund Tax and Revenue Anticipation Notes, 2001 Series B (the "2001 Series B Notes") (the 2001 Series A Notes and the 2001 Series B Notes, collectively, 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 June 18, 2001 (the "Resolution"), and the Trust Indenture dated as of July 1, 2001 (the "Indenture"), between the Commission and BNY Trust Company of Missouri, St. Louis, Missouri, 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, 2002 ("Fiscal Year 2002") in anticipation of taxes and revenues to be collected during Fiscal Year 2002 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 2001 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.

Features

The 2001 Series A Notes will bear interest at a fixed rate, as shown on the cover page hereof, computed on the basis of a 360-day year and a 30-day month, accrued from the date of issuance. Principal of and interest on the 2001 Series A Notes is payable at maturity. See "THE NOTES – The 2001 Series A Notes".

The 2001 Series B Notes will bear interest at the Index Rate (the "Index Rate"). The Index Rate is a variable per annum interest rate equal to the percentage set forth on the cover page hereof (the "Index Rate Percentage") of LIBOR (defined herein), adjusted weekly, on Thursday of each week, until maturity. Interest on the 2001 Series B Notes will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2001 Series B Notes is payable at maturity. See "THE NOTES – The 2001 Series B Notes".

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 "THE NOTES – Book-Entry-Only System".

Redemption And Tender

The Notes are not subject to redemption or tender 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.

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 described in the Rule material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee.

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

Information Information regarding the Notes is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924, or the Underwriters, Salomon Smith Barney, Short Term Finance Group, 390 Greenwich Street, New York, New York 10013, (212) 723-7082.

OFFICIAL STATEMENT

KENTUCKY ASSET/LIABILITY COMMISSION

$440,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, 2001 SERIES A (Fixed Rate)

$210,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES, 2001 SERIES B (Index Rate)

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 $440,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2001 Series A (the "2001 Series A Notes") and $210,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2001 Series B (the "2001 Series B Notes") (the 2001 Series A Notes and the 2001 Series B Notes, collectively, the "Notes"). The Notes are being issued pursuant to Section 56.860 *et seq*. of the Kentucky Revised Statutes (the "Act"), a Resolution adopted by the Commission on June 18, 2001 (the "2001 Resolution") and the Trust Indenture dated as of July 1, 2001 (the "Indenture"), between the Commission and BNY Trust Company of Missouri, St. Louis, Missouri, 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, 2002 ("Fiscal Year 2002") in anticipation of taxes and revenues to be collected during Fiscal Year 2002 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 261, Frankfort, Kentucky 40601, (502) 564-2924 or, during the initial offering period, at the office of Salomon Smith Barney, 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 2001 Resolution or in the Indenture.

THE NOTES

The 2001 Series A Notes

The 2001 Series A Notes will bear interest at a fixed rate, as shown on the cover page hereof, computed on the basis of a 360-day year and a 30-day month, accrued from the date of issuance. Principal of and interest on the 2001 Series A Notes will be payable at the maturity date shown on the cover hereof.

The 2001 Series B Notes

The 2001 Series B Notes will bear interest at the Index Rate (defined below). Interest will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2001 Series B Notes will be payable at the maturity date shown on the cover hereof.

The Index Rate (the "Index Rate") is a variable per annum interest rate equal to the percentage set forth on the cover hereof (the "Index Rate Percentage") of LIBOR (defined below), adjusted on Thursday of each week (each Thursday being an Interest Rate Adjustment Date and an Interest Rate Determination Date), until maturity.

"LIBOR" shall mean:

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

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

On each Interest Rate Determination Date, the Trustee is required to make the interest rate available (i) after 5:00 P.M. on the Interest Rate Determination Date by telephone to any Holder, the Commission, the Trustee and/or the Paying Agent requesting such rate and (ii) by Electronic Means to the Paying Agent not later than 5:00 p.m. on the Interest Rate Determination Date.

Redemption

The Notes are <u>not</u> subject to redemption prior to their maturity.

Tender

The Notes are <u>not</u> subject to tender prior to their maturity.

General Provisions

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 "THE NOTES - Book-Entry-Only System."

Authorization

The Notes are being issued pursuant to the Act. The Commission held a meeting on June 18, 2001 and at that meeting adopted the 2001 Resolution, which (i) authorized the Indenture and (ii) authorized and approved the issuance of up to Six Hundred Fifty Million Dollars ($650,000,000) 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

General. The Notes, when issued, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Notes. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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 and Exchange Act of 1934, as amended.

DTC holds securities and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants (the "DTC Participants"), thereby eliminating the need for physical movement of certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of which (and/or their representatives) own DTC. Access to the DTC system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC Participants will be credited in the records of DTC with the amount of such DTC Participants' interests in the Notes. Beneficial ownership interests in the Notes in the amount of $100,000 or any integral multiple of $5,000 in excess thereof may be purchased by or through DTC Participants. A purchaser of such an interest (a "Beneficial Owner") will not receive a certificate representing his beneficial ownership interest. The ownership interest of each Beneficial Owner will be recorded through the records of the DTC Participant from which he purchased his Notes. Transfers of ownership interests in the Notes will be accomplished by book entries made by DTC and, in turn, by DTC Participants acting on behalf of Beneficial Owners. It is anticipated that each Beneficial Owner will receive a written confirmation of the ownership interest acquired by him in the Notes from a DTC Participant.

So long as Cede & Co. is registered owner of the Notes, as nominee of DTC, all references herein to the "Holder" or "Holders" of the Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the Notes. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of redemption or other communications to DTC, which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant.

Payments of principal of and interest on the Notes will be paid by the Commission directly to DTC or its nominee, Cede & Co. DTC will remit such payments to DTC Participants and such payments will thereafter be paid by DTC Participants to the Beneficial Owners. No assurance can be given by the Commission that DTC and DTC Participants will make prompt transfer of payments to Beneficial Owners. The Commission is not responsible or liable for payment by DTC or DTC Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

For every transfer and exchange of the Notes, the Holders may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the Commission and discharging its responsibilities with respect thereto under applicable law, or the Commission may terminate its participation in the system of transfers through DTC at any time.

The information in this section 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.

Discontinuation of Book-Entry-Only System; Delivery of Replacement Notes and Payment

In the event that the book-entry-only system is discontinued, the Commission will execute and make available for delivery replacement Notes in the form of bearer certificates in denominations of $100,000 each or any integral multiple thereof. In such event, the principal on the Notes will be payable in lawful money of the United States of America at the principal office of the Paying Agent upon presentation and surrender thereof. Interest on the Notes will be paid by check or draft mailed on each Interest Payment Date to the Holder as of the Record Date, at such address as shall be shown by the registration records of the Registrar or at such other address as is furnished to the Paying Agent in writing by such Holder. Notwithstanding the foregoing, payment of interest on the Notes, at the option of a Holder of at least $1,000,000 in principal amount of Notes, may be by wire transfer to such Holder upon the written request of such Holder delivered to the Paying Agent at least three Business Days prior to the Record Date (as defined herein), to the bank account number specified by such Holder.

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.

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 2001 RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

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 2002

The Commonwealth utilizes a consensus forecasting process as prescribed by KRS Chapter 48.115 to develop Estimated Revenues as defined in the Act (the "Estimated Revenues") for the General Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The Group is comprised of six individuals, four nominated by the Executive Branch and two appointed by 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 regular session of the General Assembly. The State Budget Director can convene the Group as the need arises to review and revise the forecast.

The most recent revision of the forecast was made on June 14, 2001. The Fiscal Year 2002 forecast was reduced by $295.8 million, from the May 2000 forecast of $7,182.7 million to the current forecast of $6,887 million. This follows a $159.4 million reduction in the forecast for Fiscal Year 2001, from the May 2000 estimate of $6,813.1 million to the current estimate of $6,653.7 million. Kentucky, like a number of states in the southeast and midwest, has experienced a slowing in key components of its economy. For example, the sales and use tax, which comprises 34% of the estimated General Fund receipts for Fiscal Year 2002, is now expected to grow 4.4% over Fiscal Year 2001. Individual income tax, 42% of General Fund receipts, is expected to grow by 4.3% over Fiscal Year 2001. Both rates are significantly below the respective 6.9% and 5.8% levels of growth predicted for Fiscal Year 2002 in May 2000. The official forecast, when combined with the estimated beginning General Fund balance of $335.9 million, less the restricted portion of the projected Budget Reserve Trust Fund balance of $128.6 million, plus estimated tobacco settlement funds of $126.9 million and estimated operating transfers in of $125.2 million, generates total resources of $7,346.4 million.

The Governor's Office for Economic Analysis ("GOEA") provides staff to the Group and 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 three quarters into the future. This information is distributed to executive, judicial and legislative branches of state government and others.

Table 1 displays General Fund Total Receipts since Fiscal Year 1990-91. OFM has projected the maximum cumulative cashflow deficit for the General Fund for Fiscal Year 2002 to occur in December and to be negative $725 million. The cumulative cashflow deficit calculation is based upon eight years of historical daily General Fund cash balance data and excludes $128,580,082 of the projected $257,160,163 Budget Reserve Trust Fund (see "Budget Reserve Trust Fund" below). The Commission has sized the issue of Notes with the expectation that the requirements of the Code and the Treasury Regulations promulgated thereunder will be achieved.

Table 1
General Fund Total Receipts

Fiscal Year	Total Receipts*	Percent Change
2000-01	$6,653,700,000**	2.6%
1999-00	$6,478,385,032	4.3%
1998-99	$6,198,387,525	3.1%
1997-98	$6,011,806,561	6.1%
1996-97	$5,663,553,289	6.1%
1995-96	$5,336,883,824	3.5%
1994-95	$5,154,077,980	10.9%
1993-94	$4,467,078,322	3.0%
1992-93	$4,511,721,822	3.5%
1991-92	$4,360,835,365	1.1%
1990-91	$4,311,675,984	21.1%

*Total Receipts excludes tobacco settlement funds and operating transfers in.
**Actual through May 2001 plus the June 2001 estimate.

Table 2 displays the projected General Fund revenue sources and uses on a monthly basis for Fiscal Year 2002. While the Official Estimate is prepared on an annual basis and reviewed quarterly, the data in Table 2 has been converted to a monthly basis to reflect the seasonality of anticipated cashflows based upon historical General Fund collections.

TABLE 2
FY2002 PROJECTED GENERAL FUND REVENUES & EXPENDITURES*

Beginning Balance	335,916,700						
less restricted BRTF	(128,580,100)						
Available Balance	207,336,600	797,082,100	308,543,200	381,977,400	221,418,500	177,475,700	396,350,900
Revenue Source	July	August	September	October	November	December	January
Sales Tax	197,027,400	187,182,300	204,412,800	184,048,800	198,370,300	187,034,700	221,652,200
Individual Income Tax	194,549,600	214,363,900	267,722,500	205,405,500	237,116,100	244,745,900	242,964,900
Corporate Income Tax	18,468,200	(11,658,700)	99,435,300	17,640,200	4,013,100	99,003,300	738,500
Coal Severance Tax	12,086,800	11,827,200	13,430,200	12,198,000	12,706,000	12,010,500	11,435,300
Property Tax	9,928,600	9,405,300	13,300,900	21,876,700	84,120,900	113,495,700	59,519,300
Lottery	11,977,000	12,476,000	14,771,600	12,476,000	12,476,000	12,476,000	11,477,900
Other (includes operating transfers in)	50,447,500	41,919,200	35,013,900	56,429,000	36,358,400	37,460,800	37,741,200
Total Revenues	494,485,100	465,515,200	648,087,200	510,074,200	585,160,900	706,227,000	585,529,400
TRAN Proceeds	655,492,200						
TRAN Investment Income							
Revenues and Other Financing Sources	1,149,977,300	465,515,200	648,087,200	510,074,200	585,160,900	706,227,000	585,529,400
Total Resources	1,357,313,900	1,262,597,300	956,630,400	892,051,600	806,579,400	883,702,600	981,880,300
Uses/Transfers Out	July	August	September	October	November	December	January
Education	290,761,700	214,679,600	199,903,200	245,292,400	246,902,800	194,772,200	244,910,200
Postsecondary Education	128,158,600	108,752,400	84,371,200	164,327,000	95,795,600	75,871,200	117,676,600
Families and Children	20,941,000	30,460,600	27,225,100	26,220,500	43,584,100	31,591,500	17,404,600
Health Services	24,440,700	181,137,100	112,182,400	106,303,700	115,428,700	64,646,400	101,795,800
Other Government	95,929,800	419,024,500	150,971,200	128,489,500	127,392,600	120,470,400	135,640,400
Total Expenditures	560,231,800	954,054,100	574,653,000	670,633,100	629,103,800	487,351,700	617,427,700
TRAN Principal Repayment							
TRAN Interest Repayment							
Total Uses	560,231,800	954,054,100	574,653,000	670,633,100	629,103,800	487,351,700	617,427,700
Undesignated Ending Balance	797,082,100	308,543,200	381,977,400	221,418,500	177,475,700	396,350,900	364,452,600
add restricted BRTF							
Ending Balance							

Beginning Balance							
less restricted BRTF							
Available Balance	364,452,600	310,527,700	358,708,200	581,519,700	521,213,200	207,336,600	
Revenue Source	February	March	April	May	June	Total	
Sales Tax	175,643,400	195,495,600	189,692,200	211,228,200	192,012,000	2,343,800,000	
Individual Income Tax	236,688,100	136,440,900	380,286,500	257,627,800	283,088,300	2,901,000,000	
Corporate Income Tax	1,718,300	45,128,100	61,429,900	6,575,900	120,007,900	462,500,000	
Coal Severance Tax	10,854,700	12,407,000	12,325,000	12,094,800	12,324,600	145,700,000	
Property Tax	33,743,400	19,129,400	25,468,900	18,542,000	(2,031,200)	406,500,000	
Lottery	12,476,000	12,476,000	12,476,000	12,476,000	17,965,500	156,000,000	
Other (includes operating transfers in)	42,985,300	162,295,100	119,062,700	29,361,900	74,525,900	723,601,000	
Total Revenues	514,109,200	583,372,000	800,741,200	547,906,700	697,893,000	7,139,101,000	
TRAN Proceeds						655,492,200	
TRAN Investment Income					19,510,100	19,510,100	
Revenues and Other Financing Sources	514,109,200	583,372,000	800,741,200	547,906,700	717,403,100	7,814,103,300	
Total Resources	878,561,800	893,899,700	1,159,449,400	1,129,426,400	1,238,616,300	8,021,440,000	
Uses/Transfers Out	February	March	April	May	June	Total	
Education	227,100,000	218,875,000	250,263,900	281,453,200	246,283,300	2,861,197,500	
Postsecondary Education	90,657,800	80,843,100	96,194,700	98,898,400	25,554,300	1,167,100,800	
Families and Children	17,232,000	32,885,100	24,929,100	23,216,400	25,692,700	321,382,600	
Health Services	96,436,900	74,505,200	75,625,700	87,506,300	43,104,100	1,083,113,000	
Other Government	136,607,400	128,083,000	130,916,300	117,138,900	136,543,000	1,827,207,100	
Total Expenditures	568,034,100	535,191,500	577,929,700	608,213,200	477,177,300	7,260,001,000	
TRAN Principal Repayment					650,000,000	650,000,000	
TRAN Interest Repayment					25,002,300	25,002,300	
Total Uses	568,034,100	535,191,500	577,929,700	608,213,200	1,152,179,700	7,935,003,300	
Undesignated Ending Balance	310,527,700	358,708,200	581,519,700	521,213,200	86,436,700	86,436,700	
add restricted BRTF						128,580,100	
Ending Balance						215,016,700	

Budget Reserve Trust Fund (BRTF)		
Unrestricted (50%)	128,580,100	**
Restricted (50%)	128,580,100	
Total	257,160,200	

*Amounts are rounded to nearest one hundred.
**The Governor may access up to 50% of the Budget Reserve Trust Fund for necessary governmental expenses without the approval of the Legislature.
The remaining amount may only be accessed with the approval of the General Assembly in a regular or special session.

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 Chairmen of the Legislative Research Commission shall 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 shall be consistent with the provisions of branch budget bills.

In the event of a revenue shortfall under the provisions of KRS 48.130, General Fund Budget reduction actions shall be implemented in the following sequence:

1. The Local Government Economic Assistance and the Local Government Economic Development Funds shall 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 shall 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 shall be determined and applied by the heads of the executive, legislative and judicial departments of state government for their respective branches. The branch heads shall certify the available amounts which shall be applied to budget units within the respective branches and shall 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 shall execute the certified actions as transmitted by the branch heads.

   Branch government heads shall 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 shall be applied in an amount not to exceed fifty percent (50%) of the trust fund balance in Fiscal Year 2002.

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. The Trust Fund had a balance of $278,620,936, upon the certification of the surplus for the fiscal year ended June 30, 2000, which included a $39,337,500 deposit. The Commonwealth Budget Act (House Bill 502) for Fiscal 2001 permits the Governor to access up to twenty-five percent (25%) of the Trust Fund for necessary governmental expenses without the approval of the General Assembly in a regular or special session. The Governor has already withdrawn $21,460,773 (7.7%) of the available $69.65 million (25%), leaving a balance of $257,160,163. The transfer from the Trust Fund is the first withdrawal from the fund since it became a statutory fund in November 1995.

The Budget Act for Fiscal Year 2002 contains provisions which permit the Governor to access up to fifty percent (50%) of the Trust Fund for necessary governmental expenses without the approval of the General Assembly in a regular or special session. Based upon the June 14, 2001 Consensus Forecasting Group's Revised Official Estimate of Fiscal Year 2002 revenues, it is anticipated that fifty percent (50%) may be needed to balance the Fiscal Year 2002 budget. Amounts needed above fifty percent (50%) of the Fiscal Year 2001 ending Trust Fund balance may only be accessed with the approval of the Legislature. Pursuant to House Bill 502, additional amounts may be added to the Trust Fund if sufficient amounts are available.

Table 3 below displays Budget Reserve Trust Fund Year End Balances since Fiscal Year 1993.

Table 3
Budget Reserve Trust Fund Year End Balances

Fiscal Year	Year End Balance
2001	$257,160,163*
2000	239,283,400
1999	230,533,000
1998	200,000,000
1997	200,000,000
1996	200,000,000
1995	100,000,000
1994	90,000,000
1993	28,500,000

* Projected.

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

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources

Par Amount of 2001 Series A Notes	$440,000,000.00
Par Amount of 2001 Series B Notes	$210,000,000.00
Net Premium on the Notes	6,186,400.00
Total Sources	$656,186,400.00

Uses

Deposit to Proceeds Fund	$655,492,240.00
Deposit to Cost of Issuance Account	335,000.00
Underwriters' Discount	359,160.00
Total Uses	$656,186,400.00

THE COMMONWEALTH

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

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

Financial Information Regarding the Commonwealth

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

A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1998, 1999 and 2000 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1998, 1999 and 2000 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, General Fund Condition-Budgetary Basis, General Governmental Functions-GAAP Basis, Debt Administration, Cash Management, Risk Management and Funds. In addition, the Notes to Combined 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 employers.

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2000 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

(i) Bloomberg Municipal Repositories
P.O. Box 840
Princeton, New Jersey 08542-0840
Internet: 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
Tel: (201) 346-0701
Fax: (201) 947-0107

(iii) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Internet: http://www.bluelist.com
Tel: (212) 438-4595
Fax: (212) 438-3975

(iv) Interactive Data
Attn: Repository
100 Williams Street
New York, NY 10038
Internet: NRMSIR@interactivedata.com
Tel: (212) 771-6899
Fax: (212) 771-7390
Website: http://www.InteractiveData.com

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2000 may be found on the Internet at:

http://www.state.ky.us/agencies/finance/manuals/tax/cafr.htm

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

Fiscal Year 1998

General Fund revenue on a budgetary basis for 1998 was $6.15 billion, an increase of 8.2% over 1997. This amount includes $6.01 billion in tax and non-tax receipts, and $138.42 million of Operating Transfers In. Taxes represented 92.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1998 totaled $5.96 billion, including Operating Transfers Out of $341.04 million. During 1998, expenditures increased by 8.0% and transfers decreased by 23.8% compared to 1997. The general government function includes $767.68 million of expenditures and $7.15 million of transfers for the eight State supported universities, which together amount to 13.0% of the General Fund total.

The General Fund had a 1998 budgetary undesignated fund balance of $356,015,465. This is an increase of $71,898,839 over the 1997 year-end budgetary undesignated fund balance of $284,116,626.

Revenue for general governmental functions totaled $11.60 billion for 1998, an increase of 6.1% over the amount recognized during 1997.

1998 Governmental Funds Revenue was $662.7 million over 1997. Higher Tax and Intergovernmental receipts account for 85.9% of the increase. Seven of eight tax sources, primarily in the General Fund, went up $420.1 million but were offset by a $35.4 million decline in Property Tax receipts. Intergovernmental revenue rose $184.4 million on the strength of $198.2 million more in Federal Fund receipts from the United States government. Interest and Investment income improved 23.2% almost entirely due to a $33.4 million increase in earnings deposited in the General Fund. Revenue from Fines and Forfeits fell by 2.6% because collections dropped $1.6 million in the Agency Revenue Fund and $1.0 million in the Other Special Revenue Fund while raising $1.4 million in the General Fund.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $10.64 billion for 1998, an increase of 4.9% compared to 1997.

1998 Governmental Funds Expenditures were $496.7 million over 1997. Education and

Humanities function costs rose $110.9 million, due primarily to $70.7 million more in General Fund grants and subsidies awarded by the Department of Education. Capital Outlay was up 35.5%, based primarily on $30.6 million more in Capital Projects Fund expenditures in the Commerce Function. Debt Service rose by $105.9 million due almost totally to $50.1 million in additional scheduled principal retirement and $60.0 million more in interest offset by a $4.1 million drop in other expenditures, all in the Debt Service Fund.

Ending fund balances for all governmental fund types increased 21.2% from $2.25 billion as restated for 1997, to $2.73 billion in 1998. Of these totals, unreserved fund balances increased 29.9%, from $1.17 billion as restated at June 30, 1997, to $1.52 billion at June 30, 1998.

During 1998, Kentucky issued revenue bonds totaling $211,335,121 for general governmental functions which are supported by governmental fund appropriations. $184,720,414 defeased existing debt and funded related reserve accounts. The remaining $26,614,707 funded new projects. All issues sold during 1998 received a rating of "A" or higher by the major rating services. At June 30, 1998, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,833,433,371.

Fiscal Year 1999

General Fund revenue on a budgetary basis for 1999 was $6.23 billion, an increase of 1.3% over 1998. This amount includes $6.20 billion in tax and non-tax receipts, and $31.75 million of Operating Transfers In. Taxes represented 94.9% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 1999 totaled $6.54 billion, including Operating Transfers Out of $727.99 million. During 1999, expenditures increased by 3.5% and transfers decreased by 113.5% compared to 1998. The general government function includes $857.47 million of expenditures and $2.62 million of transfers for the eight state supported universities, which together amount to 13.2% of the General Fund total expenditures.

The General Fund had a 1999 budgetary undesignated fund balance of $64,193,087. This is a decrease of $291,822,378 from the 1998 year-end budgetary undesignated fund balance of $356,015,465.

Revenue for general governmental functions totaled $11.77 billion for 1999, an increase of 1.5% over the amount recognized during 1998.

1999 Governmental Funds Revenue was up $168.3 million over 1998. Tax income rose $203.6 million, based largely on $148.1 million in improved General Fund Individual Income Tax collections. Earnings from Interest and Investments fell 26.9 % as adjusted to Fair Market Value in accordance with GASB 31. These offsetting amounts account for all except $14.6 million of the net increase. Other Revenues also dropped, primarily in the General Fund, by

15.1%, but were countered by moderate growth in other sources, especially License, Fee, and Permits income, which rose $17.9 million, mainly in the Transportation and Agency Revenue Funds.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $11.10 billion for 1999, an increase of 4.2% compared to 1998.

1999 Governmental Funds Expenditures were $450.9 million over 1998. Transportation costs went up $221.2 million. About half this amount, or $124.1 million, is for higher Transportation Fund expenditures by the Department of Highways. Related Federal government match accounts for the $49.5 million rise in Federal Fund expenditures of the Transportation Function. General Government costs went down $96.1 million, due mostly to a $154.1 million drop in Agency Revenue Fund expenditures, offset by $48.1 million more spending in the General Fund. Capital Outlay increased $131.1 million based primarily on $82.7 million more in the General Government Function. Debt Service Fund payments fell $80.3 million due to a $16.1 million drop in the principal amount of bonds maturing during the year and $64.8 million less in interest payments on principal outstanding. And, Human Resources expenditures rose by $243.0 million in the General Fund and $46.3 million in the Federal Fund, but were offset by a $173.7 million drop in the Agency Revenue Fund.

Ending fund balances for all governmental fund types decreased 3.8%, from $2.75 billion as restated for 1998, to $2.64 billion in 1999. Of these totals, unreserved fund balances decreased 21.3%, from $1.52 billion at June 30, 1998, to $1.19 billion at June 30, 1999.

During 1999, Kentucky issued revenue notes and bonds totaling $106,185,000 for general governmental functions which are supported by governmental fund appropriations. $31,550,000 of those bonds defeased existing debt and funded related reserve accounts. The remaining $74,635,000 of bonds funded new projects. All issues sold during 1999 received a rating of "A" or higher by the major rating services. At June 30, 1999, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,178,683,319.

Fiscal Year 2000

General Fund revenue on a budgetary basis for 2000 was $6.72 billion, an increase of 7.8% over 1999. This amount includes $6.48 billion in tax and non-tax receipts, and $239.85 million of Operating Transfers In. Taxes represented 92.2% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 2000 totaled $6.55 billion, including Operating Transfers Out of $596.17 million. During 2000, expenditures increased by 2.4% and transfers decreased by 18.1% compared to 1999. The general government function includes $880.57 million of expenditures and transfers for the state supported universities, which together amount to 13.4% of the General Fund total.

The General Fund had a 2000 budgetary undesignated fund balance of $176,353,716. This is an increase of $112,160,629 over the 1999 year-end budgetary undesignated fund balance of $64,193,087.

Revenue for general governmental functions totaled $12.99 billion for 2000, an increase of 10.4% over the amount recognized during 1999.

2000 Governmental Funds Revenue rose $1.23 billion over 1999. Intergovernmental Income was up almost $777 million, due primarily to almost $754 million more in Federal Fund receipts from the United States Government. Tax Revenue improved by nearly $310 million, including over $263 million more in the General Fund where Individual Income Tax collections climbed over $162 million and Sales and Gross Receipts Taxes jumped an additional $84 million. Sales and Gross Receipts Taxes also rose more than $144 million in the Transportation Fund. These four specifically described gains account for 93.2% of revenue growth since last year.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled $12.07 billion for 2000, an increase of 8.8% compared to 1999.

2000 Governmental Funds Expenditures grew $971.5 million over 1999. The cost of Human Resources services rose nearly $741 million, both in the Federal Fund, where spending went up almost $496 million, and in the Agency Revenue Fund where payments climbed close to $240 million. Transportation costs jumped about $146 million, based on $143 million more spent in the Federal Fund, offset by $10 million less spent in the Agency Revenue Fund. And, nearly $87 million more in General Fund grants and subsidies was the major contributor to the $101 million growth in Education and Humanities expenditures. These increases were partially offset by nearly $41 million less spending for Capital Outlay and Debt Service Fund payments of almost $55 million less than last year. The combined effect of these differences account for 88.6% of the net growth in expenditures this year.

Ending fund balances for all governmental fund types increased 8.0%, from $2.68 billion as restated for 1999, to $2.90 billion in 2000. Of these totals, unreserved fund balances increased 17.7%, from $1.23 billion as restated at July 1, 1999, to $1.45 billion at June 30, 2000.

During 2000, Kentucky issued revenue bonds totaling $308,490,000 for general governmental functions which are supported by governmental fund appropriations. No bonds were defeased during the period and this entire amount funded new projects. At June 30, 2000, total principal outstanding for revenue bonds paid from governmental fund appropriations was $2,315,533,850.

Fiscal Year 2001 (unaudited)

The Commonwealth has completed eleven months of operations through the end of May 2001. Total receipts for that period were $6.01 billion, which represents 2.4% growth over the same period last fiscal year. The major sources of revenue are personal income and sales and use taxes which represent 42% and 34% of current year General Fund receipts, respectively. Individual income grew by 2.6% to $2.5 billion and sales and use grew by 3.2% to $2.06 billion. Current growth rates are below the levels needed to reach the May 2000 Official Estimate of $6.81 billion for Fiscal Year 2001. As a result, the Consensus Forecasting Group (the "CFG") was convened to review the receipts and the assumptions underlying the forecast. On March 8, 2001, the CFG recommended the reduction of the estimate to $6.72 billion, a reduction of $90.8 million. On June 14, 2000, the CFG reduced the estimate by an additional $68.6 million to $6.65 billion, for a total reduction of $159.4. The Secretary of the Finance and Administration Cabinet and the State Budget Director are reviewing a variety of alternatives to ensure that the General Fund budget will be in balance at June 30, 2001. These alternatives include a review of agency budgets, timing of major purchases, and lapse of unneeded funds. A transfer of $21,460,773 from the Budget Reserve Trust Fund (the "Trust Fund") has been made and additional transfers of up to 25% of the Trust Fund are available if needed to balance the budget. See "SECURITY FOR THE NOTES – The Budget Reserve Trust Fund."

Investment Policy

The Commonwealth of Kentucky'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 Community Independent Banker's Association and 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 April 30, 2001, the Commonwealth's operating portfolio was approximately $4.1 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (15%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (38%); repurchase agreements collateralized by the aforementioned (27%); municipal securities (4%); and corporate and asset backed securities, including money market securities (16%). The portfolio had a current yield of 4.79% and a modified duration of 1.15 years. Investment income distributed through April 30, 2001 was $180 million versus $160 million the previous fiscal year.

The Commonwealth's investments are categorized into four investment pools: Short-term, Intermediate-term, Long-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments, state held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Long-term Pool invests the Budget Reserve Trust Fund and other funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds

Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The state 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. Currently, the Commonwealth receives a guaranteed rate of 10 basis points of the average market value of securities in the program.

On September 28, 1995 the State Investment Commission adopted Resolution 95-03, which re-authorized interest rate swap transactions in a notional amount not to exceed $200 million outstanding, using the International Swap Dealers Association, Inc. Master Agreement and applicable appendices. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. Currently, the Commonwealth has no asset-based swap transactions outstanding.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five (5) years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and Asset Backed Securities must not exceed 25% of any investment pool. Asset Backed Securities must have a weighted-average-life of not more than four (4) years at the time of purchase. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of twenty-five percent (25%) of any investment portfolio. MBS must have a stated final maturity of ten (10) years or less and a weighted-average-life of not more than four (4) years at time of purchase. CMO must have a weighted-average-life of four (4) years or less at time of purchase.

THE KENTUCKY ASSET/LIABILITY COMMISSION

General Information

The Act created the Kentucky Asset/Liability Commission, which is composed of five members, each serving in an ex officio capacity. The members are as follows: the Secretary of the Finance and Administration Cabinet, who acts as Chairman; the Attorney General; the State Treasurer; the Secretary of the Revenue Cabinet and the State Budget Director. The Secretary to the Commission is the Executive Director of OFM.

The current members of the Commission are as follows:

T. Kevin Flanery	Secretary of the Finance and Administration Cabinet, Chairman
Dana B. Mayton	Secretary of the Revenue Cabinet
A.B. Chandler, III	Attorney General
Jonathan Miller	State Treasurer
Dr. James R. Ramsey	State Budget Director

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

Other Personnel of the Commission

Gordon L. Mullis, Jr. is the Secretary of the Commission. Mr. Mullis is also the Executive Director of OFM. From October 1991 to August 1993 Mr. Mullis served as the Deputy Executive Director of Kentucky Educational Television ("KET"). Mr. Mullis was responsible for the administration and support, budgeting, personnel and operations and technology at KET. Mr. Mullis has 25 years of experience in state government. Prior to joining KET, Mr. Mullis was the Deputy Executive Director of OFM. Mr. Mullis has a Masters of Business Administration and a Bachelor of Psychology from the University of Kentucky.

F. Thomas Howard is the Deputy Executive Director of OFM and has served in that capacity since April 1993. Previously, Mr. Howard served for over two years as the state's investment portfolio manager. Since 1983, Mr. Howard has had extensive experience in money management for individuals and institutions, both public and private. Mr. Howard holds a Bachelor of Business Administration with a concentration in Finance from the University of Kentucky.

Terri Fugate is a financial analyst for OFM. Ms. Fugate, a certified public accountant, was OFM's debt accountant from 1993 to 1999. Prior to that she was with the Auditor of Public Accounts and has 16 years experience in state government. Ms. Fugate holds a Bachelor of Arts degree from Western Kentucky University.

Jason Hamilton is a financial analyst for OFM. Previously, Mr. Hamilton had worked for over two years in the private sector in finance. Mr. Hamilton holds a Bachelor of Business Administration with a concentration in Finance from the University of Kentucky.

Prior and Current Financings of the Commission

General. The Commission has outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes are issued as General Fund Series, Agency Fund Series and Road Fund Series depending upon the appropriation fund source that is being used to fund the payments under a 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 another trust indenture.

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

General Fund Tax and Revenue Anticipation Notes. The Commission has issued General Fund Tax and Revenue Anticipation Notes ("TRANs") on an annual basis corresponding with its fiscal year. The TRANs are payable from taxes and certain revenues collected by the Commonwealth in the Fiscal Year in which they are issued. There are currently no outstanding TRANs.

Project Notes, General Fund Series. The Commission has issued seven separate series of project notes, the proceeds of which were used to fund capital projects (the "General Fund Project Notes") authorized by the General Assembly. All General Fund Project Notes are payable from payments to be received by the Commission under separate financing/lease agreements and, as to bond anticipation notes, the issuance of bonds by the State Property and Buildings Commission. These payments are ultimately dependent upon General Fund appropriations by the General Assembly of the Commonwealth. Currently, there are two series of project notes outstanding as of June 1, 2001.

Project Notes	Amount Authorized	Amount Outstanding as of June 1, 2001
1999 General Fund First Series A	$ 49,195,000	$ 36,425,000
2001 General Fund First Series A	37,450,000	37,450,000
Total	$ 86,645,000	$ 73,875,000

DEFINITIONS

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the 2001 Resolution, which are not otherwise defined herein. Reference is hereby made to the Indenture and the 2001 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.

"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.

"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, 2001 and ends on June 30, 2002.

"Fitch" shall mean Fitch, Inc.

"Funds and Accounts" shall mean the Cost of Issuance Fund, Note Fund and Rebate Fund 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, 2001, 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.

"Interest Rate Adjustment Date" shall mean Thursday of each week occurring from the Closing Date through and until the maturity date of the Notes.

"Interest Rate Determination Date" shall mean each Interest Rate Adjustment Date.

"Index Rate Period" shall mean the period beginning on, and including, the Issue Date for any Series of Notes bearing interest at the Index Rate and ending on, and including, the day immediately preceding the next Interest Rate Adjustment Date, and thereafter the period commencing on the Interest Rate Adjustment Date and ending on and including the day preceding the next Interest Rate Adjustment Date.

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

"LIBOR" shall mean:

(a) The per annum rate for deposits in United States dollars for one month which appears on the Bloomberg British Bankers' Association Official BBA LIBOR Fixings page ("BBA LIBOR Fixings Page" as defined below) as of 11:00 A.M. London, England time, on each Interest Rate Adjustment Date for Notes bearing interest at the

Index Rate. LIBOR shall be rounded upwards, if necessary, to the nearest 0.01 percent. If such rate does not appear on the BBA LIBOR Fixings Page or if fewer than two offered rates appear, LIBOR will be determined on such date as described in (b) below. "BBA LIBOR Fixings Page" means the display designated as page "Official BBA LIBOR Fixings" on the Bloomberg Financial Markets Commodities News Service (or such other page as may replace the BBA LIBOR Fixings Page on that service for the purpose of displaying London interbank offered rates of major banks).

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

"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 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 monies 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 2001 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 Credit Market Services.

"Series" shall mean any series of Notes issued in accordance with the Indenture, and shall mean and include Additional Notes as defined in the 2001 Resolution.

"2001 Resolution" shall mean Resolution of the Commission authorizing the Indenture and the issuance of the Notes.

"Underwriter" shall mean Salomon Smith Barney, Inc. as representative of the underwriters identified in the Note Purchase Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE 2001 RESOLUTION AND THE INDENTURE

Summarized below are certain provisions of the 2001 Resolution and the Indenture. This summary does not purport to be complete, and is qualified by reference to the 2001 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 $650,000,000. 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. There have been pledged for payment of the principal of and interest on the Notes: (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 monies and securities therein.

Establishment of Funds

The 2001 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 monies 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, monies 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 monies 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 2001 Resolution establishes a Proceeds Fund. The Proceeds Fund is to be held by the Finance and Administration Cabinet as an account of the General Fund. 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 monies to the Cost of Issuance Fund are required to be deposited to the Proceeds Fund.

Monies 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 monies 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; or (iii) received as proceeds of Notes to pay interest on Notes when due.

(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 monies 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.

Monies 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.

(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 monies 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 monies 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 monies 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 hereunder 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 shall 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 monies 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 monies.

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 monies into or transfer monies 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 monies 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, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission hereunder shall be satisfied and discharged for those particular Notes, 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 monies 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 monies 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 monies in an amount which shall be sufficient, or Defeasance Obligations, hereinafter defined, the principal of and the interest on which when due will provide monies which, together with the monies, 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 monies 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 monies 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 monies were held by the Fiduciary at such date, or for six (6) years after the date of deposit of such monies 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 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, 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 monies adjudged or decreed to be payable.

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 66 2/3% 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

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 (the "Code") for purposes of the Federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Notes is of the opinion that interest on the Notes is exempt from income taxation by the Commonwealth and the Notes are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Notes is set forth in <u>Exhibit B</u>, attached hereto.

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

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

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

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

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

Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series A Notes are being initially offered and sold to the public at an Acquisition Premium. The Notes are not callable prior to their maturity date. For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the holder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining the holder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Series A Notes that must be amortized during any period will be based on the "constant yield" method, using the original holder's basis in the Series A Notes and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of the Series A Notes should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

ABSENCE OF MATERIAL LITIGATION

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

APPROVAL OF LEGALITY

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

RATINGS

The following rating agencies (each a "Rating Agency") have given the Notes the following respective ratings: Fitch, Inc. "F1+"; Moody's Investor's Service, "MIG1" and Standard & Poor's Credit Market Services, "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, Inc., One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investor's Service, 99 Church Street, New York, New York 10007, (212) 583-0300; and Standard & Poor's Credit Market Services, 55 Water Street, New York, New York 10041, (212) 438-1000. 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

Salomon Smith Barney Inc., as representative of the Underwriters, has agreed to purchase (i) the 2001 Series A Notes from the Commission at a purchase price equal to $445,964,599.38, which represents the aggregate principal amount of the 2001 Series A Notes plus net premium of $6,186,400.00 less the Underwriters' discount of $221,800.62 and (ii) the 2001 Series B Notes from the Commission at a purchase price equal to $209,862,640.62, which represents the aggregate principal amount of the 2001 Series B Notes less the Underwriters' discount of $137,359.38. The Underwriters are committed to purchase all of the Notes if any are purchased.

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

MISCELLANEOUS

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

KENTUCKY ASSET/LIABILITY
COMMISSION

By /s/T. Kevin Flanery
T. Kevin Flanery
Chairman

By /s/ Gordon L. Mullis, Jr.
Gordon L. Mullis, Jr.
Secretary

EXHIBIT A

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 attached hereto lists state agencies which currently have debt outstanding. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. The Office serves as primary staff to the State Property and Buildings Commission, the Kentucky Asset/Liability Commission and the Kentucky Local Correctional Facilities Construction Authority.

Structure

The Commonwealth's indebtedness is classified as either appropriation supported debt or non-appropriation supported debt as displayed in Table II *in the Supplemental Information to the Kentucky Comprehensive Annual Financial Report*.

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

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

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

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

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	**KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA-/AA-
Kentucky Asset/Liability Commission	**KRS 56** Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	**KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/AA-/AA-
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of project and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	**KRS 198A** Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to $2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to $60 and $125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/AA-/AA-
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to $950 million of debt outstanding.	Aaa/AA-
School Facilities Construction Commission	**KRS 157.800-157.895** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3/A+/A
Kentucky Economic Development Finance Authority	**KRS 154** Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	**KRS 441.605-441.695** Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	AAA
Kentucky Agricultural Finance Corporation	**KRS 247.940** Provide low interest loans to Kentucky farmers for the purpose of stimulating existing agricultural enterprises and the promotion of new agricultural ventures.	Limited to $500 million of debt outstanding.	NA

*Ratings, where applicable, include Moody's, Standard & Poor's and Fitch. Fitch, on August 17, 2000, upgraded ratings to AA- from A+ for the State Property and Buildings Commission and certain General Fund lease obligations of the Kentucky Asset/Liability Commission and the Kentucky Infrastructure Authority. As of November 16, 2000, Moody's, Standard & Poor's and Fitch upgraded the ratings of the Turnpike Authority of Kentucky Revenue Bonds to Aa3, AA- and AA-, respectively, from A1, A+ and A+, respectively. The bonds of the Kentucky Local Correctional Facilities Construction Authority are insured.

EXHIBIT B

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Kentucky Asset/Liability Commission
Frankfort, Kentucky

Re: $440,000,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2001 Series A and
$210,000,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2001 Series B

We have examined a certified copy of the transcript of proceedings of the Kentucky Asset/Liability Commission, an independent agency and constituted authority of the Commonwealth of Kentucky (the "Issuer") relating to the authorization, sale and issuance of its (i) General Fund Tax and Revenue Anticipation Notes, 2001 Series A, in the aggregate principal amount of $440,000,000 (the "2001 Series A Notes") and (ii) General Fund Tax and Revenue Anticipation Notes, 2001 Series B, in the aggregate principal amount of $210,000,000 (the "2001 Series B Notes") (the 2001 Series A Notes and the 2001 Series B Notes, collectively, the "Notes"), dated July 3, 2001.

The Notes have been authorized and issued 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 (the "Act"), a Resolution adopted by the Issuer on June 18, 2001 (the "2001 Resolution") and a Trust Indenture dated as of July 1, 2001 between the Issuer and BNY Trust Company of Missouri, St. Louis, Missouri, as trustee (the "Trustee") (the "Indenture").

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

We have also examined records and the transcript of proceedings relating to the authorization and issuance of the Notes, including a specimen 2001 Series A Note and 2001 Series B Note, and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinion, and relied upon certificates of officials of the Commonwealth and the Issuer as to certain factual matters.

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

1. The Issuer is an independent agency and constituted authority of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth and has the legal right and authority to issue the Notes.

2. The Indenture and the 2001 Resolution have been duly authorized, executed and delivered by the Issuer and are valid and binding obligations of the Issuer enforceable in accordance with their respective terms.

3. The Notes have been duly authorized and issued by the Issuer and are valid and binding limited and special obligations of the Issuer enforceable in accordance with their terms.

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 Act, the funds and accounts established by the Indenture (other than the Rebate Fund as defined therein) and the proceeds of the Notes.

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

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

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

Our opinion set forth above is subject to the qualification that the enforceability of the Indenture, the 2001 Resolution, the Notes and agreements relating thereto may be limited by bankruptcy, reorganization, moratorium, insolvency, or other similar laws relating to or affecting the enforcement of creditors' rights, and to the exercise of judicial discretion in accordance with general equitable principles.

Very truly yours,

PECK, SHAFFER & WILLIAMS LLP

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