

NEW ISSUE

Ratings: Fitch: F1+
Moody's: MIG1
S&P: SP-1+
See "Ratings" herein

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
\$250,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES A (Fixed Rate)
\$200,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES B (Index Rate)
\$50,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES C (Index Rate)

Dated: Date of Delivery

Due: June 26, 2003

	<u>2002 SERIES A NOTES</u>	<u>2002 SERIES B NOTES</u>	<u>2002 SERIES C NOTES</u>
Interest Rate:	2.75%	Index Rate = 100% of BMA Index plus 0.15%	Index Rate = 90% of LIBOR
Yield/Price:	1.67%	100%	100%

The Kentucky Asset/Liability Commission (the "Commission") is issuing its General Fund Tax and Revenue Anticipation Notes, 2002 Series A (the "2002 Series A Notes"), its General Fund Tax and Revenue Anticipation Notes, 2002 Series B (the "2002 Series B Notes") and its General Fund Tax and Revenue Anticipation Notes, 2002 Series C (the "2002 Series C Notes") (the 2002 Series A Notes, the 2002 Series B Notes and the 2002 Series C 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, 2003 ("Fiscal Year 2003"). 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 Exhibit C – BOOK-ENTRY-ONLY SYSTEM herein.

The 2002 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 2002 Series A Notes is payable at maturity. See "THE NOTES – The 2002 Series A Notes".

The 2002 Series B Notes will bear interest at an Index Rate (as defined herein) equal to 100% of the BMA Index (as defined herein) plus 0.15%, adjusted on Thursday of each week, until maturity. Interest on the 2002 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 2002 Series B Notes is payable at maturity. See "THE NOTES – The 2002 Series B Notes".

The 2002 Series C Notes will bear interest at an Index Rate equal to 90% of LIBOR (as defined herein), adjusted on Thursday of each week, until maturity. Interest on the 2002 Series C Notes will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2002 Series C Notes is payable at maturity. See "THE NOTES – The 2002 Series C 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 Fiscal Year 2003. The Notes are issued pursuant to a Trust Indenture dated as of October 1, 2002 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 2002 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 November 1, 2002.

Salomon Smith Barney

Dated October 17, 2002

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.

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Exhibit A - Commonwealth Debt Management

Exhibit B - Form of Bond Counsel Opinion

Exhibit C – Book-Entry-Only System

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, 2002 Series A (the "2002 Series A Notes"), its General Fund Tax and Revenue Anticipation Notes, 2002 Series B (the "2002 Series B Notes") and its General Fund Tax and Revenue Anticipation Notes, 2002 Series C (the "2002 Series C Notes") (the 2002 Series A Notes, the 2002 Series B Notes and the 2002 Series C 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 September 10, 2002 (the "Resolution"), and the Trust Indenture dated as of October 1, 2002 (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, 2003 ("Fiscal Year 2003") in anticipation of taxes and revenues to be collected during Fiscal Year 2003 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 2002 RESOLUTION AND THE INDENTURE".

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

The Notes

The 2002 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 2002 Series A Notes is payable at maturity. See "THE NOTES – The 2002 Series A Notes".

The 2002 Series B Notes will bear interest at an Index Rate (as defined herein) equal to 100% of the BMA Index (as defined herein) plus 0.15%, adjusted on Thursday of each week, until maturity. Interest on the 2002 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 2002 Series B Notes is payable at maturity. See "THE NOTES – The 2002 Series B Notes".

The 2002 Series C Notes will bear interest at an Index Rate equal to 90% of LIBOR (as defined herein), adjusted on Thursday of each week, until maturity. Interest on the 2002 Series C Notes will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2002 Series C Notes is payable at maturity. See "THE NOTES – The 2002 Series C 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 Exhibit C – BOOK-ENTRY-ONLY SYSTEM.

The Commission is entering into an interest rate exchange agreement (the "Exchange Agreement") with Salomon Brothers Holding Company Inc (the "Counterparty") in relation to the Series B Notes, pursuant to which the Commission will pay the Counterparty a variable payment determined with reference to LIBOR and the Counterparty will pay to the Commission a variable payment determined with reference to BMA Index. Salomon Brothers Holding Company Inc is an affiliate of Salomon Smith Barney. See "THE NOTES – Exchange Agreement" and SECURITY FOR THE NOTES – General".

**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 – Form of Bond Counsel Opinion.

**Continuing
Disclosure**

The Notes are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934 (the "Rule"), as amended. In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually certain information, including audited financial information, and notice of various events 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

**\$250,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES A (Fixed Rate)**

**\$200,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES B (Index Rate)**

**\$50,000,000 GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES,
2002 SERIES C (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 \$250,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2002 Series A (the "2002 Series A Notes"), \$200,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2002 Series B (the "2002 Series B Notes") and \$50,000,000 aggregate principal amount of its General Fund Tax and Revenue Anticipation Notes, 2002 Series C (the "2002 Series C Notes") (the 2002 Series A Notes, the 2002 Series B Notes and the 2002 Series C 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 September 10, 2002 (the "2002 Resolution") and the Trust Indenture dated as of October 1, 2002 (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, 2003 ("Fiscal Year 2003") in anticipation of taxes and revenues to be collected during Fiscal Year 2003 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 2002 Resolution or in the Indenture.

THE NOTES

The 2002 Series A Notes

The 2002 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 2002 Series A Notes will be payable at the maturity date shown on the cover hereof.

The 2002 Series B Notes

The 2002 Series B Notes will bear interest at an Index Rate (as defined herein) equal to 100% of the BMA Index plus 0.15%, adjusted on Thursday of each week, until maturity. Interest on the 2002 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 2002 Series B Notes will be payable at the maturity date shown on the cover hereof.

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

On each Interest Rate Determination Date (as defined herein) with respect to the 2002 Series B Notes, 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.

The 2002 Series C Notes

The 2002 Series C Notes will bear interest at an Index Rate equal to 90% of LIBOR, adjusted on Thursday of each week, until maturity. Interest on the 2002 Series C Notes will be computed on the basis of a 365-day year, accrued from the date of issuance. Principal of and interest on the 2002 Series C Notes will be payable at the maturity date shown on the cover hereof.

"LIBOR" means:

(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 with respect to the 2002 Series C Notes, 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 not subject to redemption prior to their maturity.

Tender

The Notes are not 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 Exhibit C – BOOK-ENTRY-ONLY SYSTEM.

Authorization

The Notes are being issued pursuant to the Act. The Commission held a meeting on September 10, 2002 and at that meeting adopted the 2002 Resolution, which (i) authorized the Indenture and (ii) authorized and approved the issuance of up to Eight Hundred Fifty Million Dollars (\$850,000,000) in outstanding principal amount of Notes, subject to approval by a representative of OFM acting as authorized officer of the Commission (the "Authorized Officer").

Book-Entry-Only System

The Notes will be issued as fully registered notes, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. So long as DTC or its nominee is the registered owner of the Notes, payments of the principal of and interest due on the Notes will be made directly to DTC. For a description of the book-entry-only system, see Exhibit C hereto.

Exchange Agreement

The Commission has entered into an interest rate exchange agreement (the "Exchange Agreement") with Salomon Brothers Holding Company Inc (the "Counterparty") in connection with the Series B Notes. Pursuant to the Exchange Agreement, the Commission will pay the Counterparty a variable amount based on one month LIBOR and the Counterparty will pay to the Commission a variable amount based on the BMA Index, in each case on a notional amount equal to the principal amount of the Series B Notes. Salomon Brothers Holding Company Inc is an affiliate of Salomon Smith Barney, the underwriter of the Notes. Certain provisions of the Exchange Agreement are summarized below:

(i) The obligation of the Counterparty to pay certain amounts to the Commission under the Exchange Agreement will not affect the Commission's obligation to pay the principal

and interest on the Notes. Neither the owners of the Notes, nor any person other than the Commission shall have any rights under the Exchange Agreement or against the Counterparty.

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

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

SECURITY FOR THE NOTES

General

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

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

The Notes are also secured by certain other funds and accounts pledged therefor and described herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE 2002 RESOLUTION AND THE INDENTURE" herein for a description of such funds and accounts.

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

Limited Obligations of the Commission

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

Estimated Taxes and Revenues for Fiscal Year 2003

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 Group has not revised the most recent official estimate established in December 2001 of \$6,937.9 million for Fiscal Year 2003. The Group is expected to meet in November, 2002, to review and possibly revise the official revenue estimates for Fiscal Years 2003 and 2004.

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

Given the absence of a revised official revenue estimate and the failure of the General Assembly to pass an Executive and Judicial Branch Budget, the Office of Financial Management ("OFM") has made certain assumptions in preparing the projected cashflows in Table 2 for Fiscal Year 2003. OFM based its Fiscal Year 2003 revenue projection using actual fiscal year-to-date results for July 2002 through September 2002 and monthly receipts for the fiscal year ending June 30, 2002 ("Fiscal Year 2002") as the basis for the remaining months of Fiscal Year 2003 (October 2002 through June 2003). Fiscal Year 2003 expenditures are based upon the Governor's Fiscal Year 2003 Spending Plan authorized by Executive Order. The Plan calls for total expenditures of \$6,909 million, which will be greater than OFM projected revenues of \$6,639 million plus the beginning balance of \$130 million. If revenues do not rise above OFM projected levels then it is likely that the Governor would have to take action to address the shortfall. OFM has assumed that Spending Plan reductions of approximately \$140 million or 2.0% would be necessary to achieve a zero ending balance prior to June 30, 2003. The assumptions are reflected in Table 2. OFM projections are based upon assumptions made solely by OFM staff. Staff believes that these assumptions are conservative in light of current circumstances. However, there is no assurance that the assumptions or the results in Table 2 will be achieved.

Table 1 displays General Fund Total Receipts since Fiscal Year 1991-92. OFM has projected the maximum cumulative cashflow deficit for the General Fund for Fiscal Year 2003 to occur in December, 2002 and to be negative \$833 million. The cumulative cashflow deficit

calculation is based upon nine years of historical daily General Fund cash balance data. 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

<u>Fiscal Year</u>	<u>Total Receipts*</u>	<u>Percent Change</u>
2002-03	\$6,639,004,254**	1.2%
2001-02	\$6,560,216,551	(1.4%)
2000-01	\$6,653,897,653	2.7%
1999-00	\$6,478,385,032	4.5%
1998-99	\$6,198,387,525	3.1%
1997-98	\$6,011,806,561	6.1%
1996-97	\$5,663,553,289	6.1%
1995-96	\$5,336,883,824	3.5%
1994-95	\$5,154,077,980	10.9%
1993-94	\$4,647,078,322	3.0%
1992-93	\$4,511,721,822	3.5%
1991-92	\$4,360,835,365	1.1%

*Total Receipts excludes tobacco settlement funds and operating transfers in.

**OFM Projected Total Receipts.

Table 2 displays the projected General Fund revenue sources and uses on a monthly basis for Fiscal Year 2003 as previously described.

TABLE 2

FY2003 PROJECTED GENERAL FUND REVENUES & EXPENDITURES

Beginning Balance	130,682,000													
Available Balance	130,682,000	(126,783,400)	(305,826,000)	(95,002,900)	(594,259,600)	(20,025,000)	256,159,100	117,350,200	71,035,000	115,983,600	95,624,600	162,646,600	130,682,000	
Revenue Source	July	August	September	October	November	December	January	February	March	April	May	June	Total	
Sales Tax	209,801,000	240,729,000	230,734,000	216,005,400	198,358,900	202,309,300	244,954,700	180,010,900	198,470,500	207,649,100	219,132,100	211,558,300	2,559,713,000	
Individual Income Tax	187,614,500	203,923,900	279,012,200	215,762,100	208,763,800	235,411,400	225,731,100	212,586,200	117,639,000	376,272,600	155,395,800	271,897,600	2,690,010,000	
Corporate Income Tax	4,236,200	(1,930,300)	80,407,100	9,387,100	286,400	38,493,600	(6,817,100)	(21,964,000)	14,672,000	18,936,200	(1,024,000)	82,853,600	217,536,800	
Coal Severance Tax	11,504,100	11,905,900	12,809,800	12,728,800	14,958,900	13,560,600	12,833,300	13,878,000	12,602,800	12,700,200	12,322,800	12,509,700	154,314,800	
Property Tax	5,829,200	11,396,900	29,878,400	32,332,500	86,876,000	108,059,300	67,376,400	26,431,800	16,165,000	19,647,800	20,055,000	17,269,300	441,317,600	
Lottery	13,000,000	13,000,000	14,000,000	13,000,000	23,000,000	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000	16,000,000	170,000,000	
Other (includes operating transfers in)	24,656,000	29,722,600	27,798,600	27,911,300	22,047,200	22,347,600	15,974,100	29,659,800	79,939,700	68,513,600	30,896,700	26,644,800	406,112,100	
Total Revenues	456,640,900	508,748,200	674,639,900	527,127,200	554,291,200	633,181,800	573,052,500	453,602,600	452,489,000	716,719,400	449,778,300	638,733,300	6,639,004,300	
TRAN Proceeds					501,172,800								501,172,800	
TRAN Investment Income												7,802,900	7,802,900	
Revenues and Other Financing Sources	456,640,900	508,748,200	674,639,900	527,127,200	1,055,464,000	633,181,800	573,052,500	453,602,600	452,489,000	716,719,400	449,778,300	646,536,200	7,147,979,900	
Total Resources	587,322,800	381,964,700	368,813,900	432,124,300	461,204,400	613,156,800	829,211,600	570,952,900	523,524,000	832,703,100	545,402,900	809,182,700	7,278,661,900	
Uses/Transfers Out	July	August	September	October	November	December	January	February	March	April	May	June	Total	
Education	306,545,000	253,867,600	184,989,400	279,369,100	225,881,100	216,151,000	278,188,700	226,123,500	209,936,800	364,163,400	191,029,300	164,053,500	2,900,298,200	
Postsecondary Education	125,613,200	97,440,400	63,476,300	176,902,900	56,954,300	37,338,400	146,280,400	84,105,900	36,763,600	129,613,000	74,162,800	29,856,800	1,058,508,000	
Families and Children	33,229,900	42,370,000	6,692,600	40,093,500	25,781,100	11,224,700	43,736,300	26,830,000	21,855,200	42,431,400	2,770,300	4,111,900	301,126,900	
Health Services	110,536,400	128,833,300	108,395,400	180,410,300	102,419,100	57,024,800	112,507,400	98,040,900	69,173,900	39,593,400	28,978,700	37,443,300	1,073,357,000	
Other Government	138,181,800	165,279,500	100,263,200	349,608,200	70,193,900	35,258,700	131,148,600	64,817,600	69,810,800	161,277,200	85,815,200	64,741,400	1,436,396,100	
Total Expenditures	714,106,300	687,790,700	463,816,800	1,026,384,000	481,229,400	356,997,700	711,861,400	499,917,900	407,540,400	737,078,500	382,756,300	300,207,000	6,769,686,200	
TRAN Principal Repayment												500,000,000	500,000,000	
TRAN Interest Repayment												8,975,700	8,975,700	
Total Uses	714,106,300	687,790,700	463,816,800	1,026,384,000	481,229,400	356,997,700	711,861,400	499,917,900	407,540,400	737,078,500	382,756,300	809,182,700	7,278,661,900	
Undesignated Ending Balance	(126,783,400)	(305,826,000)	(95,002,900)	(594,259,600)	(20,025,000)	256,159,100	117,350,200	71,035,000	115,983,600	95,624,600	162,646,600	0	0	
Ending Balance														0

*Given the absence of a revised official revenue estimate and the failure of the General Assembly to pass an Executive and Judicial Branch Budget, the Office of Financial Management ("OFM") has made certain assumptions in preparing the projected cashflows in Table 2 for Fiscal Year 2003: Revenues and Expenditures are based on actual fiscal year to date results for July through September 2002. Revenue projections for the remaining months are based on FY2002 monthly receipts. Expenditure projections are based on the Governor's Fiscal Year 2003 Spending Plan authorized by Executive Order with a reduction to achieve a zero ending balance prior to June 30, 2003. Table 2 is based on assumptions made solely by OFM. There is no assurance that results in Table 2 will be achieved.

General Fund Budget Reduction Plan

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

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

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

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

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

4. If actions contained in one (1) through three (3) 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 ("Fiscal Year 2000"). The Governor withdrew \$38,789,073 from the Trust Fund in Fiscal Year 2001 and the remaining balance in Fiscal Year 2002 to address the shortfall in each of those years.

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

Table 3
Budget Reserve Trust Fund Year End Balances

<u>Fiscal Year</u>	<u>Year End Balance</u>
2002	\$ 0
2001	240,014,383
2000	278,620,936
1999	239,283,400
1998	230,533,000
1997	200,000,000
1996	200,000,000
1995	100,000,000
1994	90,000,000
1993	28,500,000

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

SOURCES AND USES OF FUNDS

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

Sources

Par Amount of 2002 Series A Notes	\$250,000,000
Par Amount of 2002 Series B Notes	200,000,000
Par Amount of 2002 Series C Notes	50,000,000
Net Premium on the Notes	<u>1,742,500</u>
Total Sources	\$501,742,500

Uses

Deposit to Proceeds Fund	\$501,172,790
Deposit to Cost of Issuance Account	275,850
Underwriters' Discount	<u>293,860</u>
Total Uses	\$501,742,500

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 – COMMONWEALTH DEBT MANAGEMENT hereto.

A discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1999, 2000 and 2001 is set forth below. The information presented in the discussion of historical General Fund revenues and expenditures for each of Fiscal Years 1999, 2000 and 2001 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 2001 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2001 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c-12:

- (i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Tel: (609) 279-3225
Fax: (609) 279-5962
Website: http://www.bloomberg.com/markets/muni_contactinfo.html
Email: munis@bloomberg.com

- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Tel: (201) 346-0701
Fax: (201) 947-0107
Website: <http://www.dpcdata.com>
Email: nrmsir@dpcdata.com

- (iii) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Tel: (212) 438-4595
Fax: (212) 438-3975
Website: www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_depository@sandp.com

- (iv) FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Tel: (212) 771-6899
Fax: (212) 771-7390
Website: <http://www.interactivedata.com>
Email: NRMSIR@FTID.com

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2001 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 2001 may be found on the Internet at:

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

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

The Commission will enter into a Continuing Disclosure Agreement in order to enable the purchaser of the 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 1999

General Fund revenue on a budgetary basis for Fiscal Year 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 Fiscal Year 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

General Fund revenue on a budgetary basis for Fiscal Year 2001 was \$6.84 billion, an increase of 1.8% over 2000. This amount includes \$6.76 billion in tax and non-tax receipts, and \$82.07 million of operating Transfers In. Taxes represented 93.5% of all General Fund revenue collected during the period.

General Fund expenditures on a budgetary basis for 2001 totaled \$7.04 billion, including Operating Transfers Out of \$782.20 million. During 2001, expenditures increased by 7.5% and transfers increased by 23.78% compared to 2000. The general government function includes \$931.38 million of expenditures and transfers for the state supported universities, which together amount to 13.2% of the General Fund total.

The General Fund had a 2001 budgetary undesignated fund balance of \$197,844,140. This is an increase of \$21,490,424 compared to the 2000 year-end budgetary undesignated fund balance of \$176,353,716.

Revenue for general governmental functions totaled \$13.27 billion for 2001, an increase of 2.12% over the amount recognized during 2000.

2001 Governmental Funds Revenue rose \$276.14 million compared to 2000. Other Revenues increased by nearly \$386.04 million, including an increase of \$116.7 million in the General Fund. In addition, Tax Revenue climbed over \$148.82 million, with the Sales and Gross Receipts increasing \$79.30 million and the Capital Projects Fund adding \$60.6 million. Interest and Investments was up \$68.21 million, with the major contributor being the General Fund with an increase over 2000 of \$36.06 million. These three specifically described gains, offset by declines, account for 90.0% of revenue growth since last year.

Expenditures, excluding transfers, for general governmental functions on a GAAP basis totaled \$12.61 billion for 2001, an increase of 4.5% compared to 2000.

2001 Governmental Funds Expenditures grew \$539.24 million compared to 2000. General Government expenditures increased spending by \$131.6 million due to the additional expenditure of almost \$66 million in the General Fund and \$54 million in the Special Revenue Funds. Debt Service cost rose about \$107 million, based on \$132.54 million more spent in the Debt Service Fund, for the retirement of principal debt. Education and Humanities jumped \$91.32 million, based on \$89 million more spent in the General Fund. The increases are also partially offset by \$6.63 million less spent in the Public Protection and Regulation Fund. The combined effect of these differences accounts for 62.5% of the net growth in expenditures this year.

Ending fund balances for all governmental fund types decreased 16.45%, from \$2.92 billion as restated for 2000, to \$2.44 billion in 2001. Of these totals, unreserved fund balances decreased 8.64%, from \$1.13 billion as restated at July 1, 2000, to \$1.04 billion at June 30, 2001.

During 2001, Kentucky issued revenue bonds totaling \$762,945,000 for general governmental functions which are supported by governmental fund appropriations. At June 30, 2001, total principal outstanding for revenue bonds paid from governmental fund appropriations was \$2,944,838,570.

Fiscal Year 2002 (Unaudited)

The Commonwealth reported General Fund revenue for Fiscal Year 2002, excluding Tobacco Settlement revenues, of \$6,560,216,551 versus \$6,653,897,653 for the prior fiscal year. Fiscal year 2002 receipts were \$155.3 million below the revised October 2001 Consensus Forecasting Group Estimate and \$93,681,102 (1.4%) below fiscal year 2001 receipts.

The 1.4% decline in total General Fund receipts represents the first such decline since a 1% decline in Fiscal Year 1994. Tobacco Settlement Revenues were \$132,777,390 during Fiscal Year 2002. Income tax collections fell \$159 million or 5.2% for the year. The Individual tax component decreased \$76 million or 2.7%, while Corporate tax collections fell \$82 million or 28.5% versus the previous fiscal year. Sales and Use receipts increased \$51.5 million or 2.3% and Property tax collections also grew by \$26 million or 6.3%.

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. The Governor must take action to balance the budget to eliminate any deficit prior to the end of a fiscal year. During Fiscal Year 2002 there were four such orders issued that made spending reductions and transfers beginning in September 2001. The total amount of the reductions and other actions taken through these orders total \$687 million. Included in these

actions was the capture of the entire \$240 million balance in the Budget Reserve Trust Fund and approximately \$76 million in excess debt service appropriations. The General Fund ended Fiscal Year 2002 with a balance of \$130.7 million of which \$107.2 million was reserved for continuing appropriations.

Fiscal Year 2003 (Unaudited)

Total General Fund receipts, excluding Tobacco Settlement receipts, for the fiscal year-to-date period ending September 30, 2002 were \$1,639,906,089, which represents a 5.0% increase over the same reporting period last fiscal year. Sales and use collections increased 9.8% or \$56.4 million over the same period last year. The large increase is due to one-time collections of approximately \$30 million during the month of August and \$10 million from the state's tax amnesty program, which concluded September 30, 2002. Personal income tax collections fell \$12.5 million or 1.8% versus the same quarter last year, while corporate income tax collections increased \$10.2 million or 14.0% primarily due to tax amnesty collections. Combined individual and corporate income tax collections for the first quarter of Fiscal Year 2003 are down 0.3% or \$2.3 million below last fiscal year-to-date. The Consensus Forecasting Group has not met or revised the December 2001 official revenue estimate, excluding Tobacco Settlement receipts, for Fiscal Year 2003 of \$6,937.9 million. However, the Group is expected to meet in November, 2002, to review and possibly revise the official revenue estimates for Fiscal Years 2003 and 2004.

Currently, the Commonwealth does not have a Legislatively enacted budget and is operating under the Governor's 2003 Spending Plan authorized by Executive Order. The Spending Plan provides for \$6,909 million of General Fund expenditure authorization for Fiscal Year 2003. See "Fiscal Years 2003-2004 Biennial Budget".

Fiscal Years 2003-2004 Biennial Budget

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial state budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective for a two-year period, commencing on the following July 1. The Governor submitted a proposed State Budget for the two-year period that began July 1, 2002, during the regularly scheduled legislative session that began in January 2002. The regular legislative session of the General Assembly adjourned on April 15, 2002 without adoption of a State Budget by the General Assembly. Upon conclusion of the regular session, the Governor called a special session for the sole purpose of adopting a State Budget. This special legislative session also adjourned without adoption of a State Budget. As such, the General Assembly failed to enact a State Budget by July 1, 2002.

Based upon advice received from the Attorney General of Kentucky, the Governor has authorized expenditures for Fiscal Year 2003 by executive order. The executive order includes funding for continued payment of debt service. Kentucky courts have previously held that the executive branch has certain authority to expend funds where a legislative budget appropriation is inadequate. However, the nature and extent of a governor's power to authorize expenditures in lieu of an enacted State Budget has not been addressed. Litigation has been filed in Franklin Circuit Court to seek a judicial determination on these questions. To date, all parties to the proceedings agree that the Governor has some power to authorize expenditures in the absence of a legislatively enacted State Budget. The litigation does not involve the question of the Commonwealth's ability to collect revenue. Repayment of the Notes is not subject to appropriation of funds by the General Assembly, but solely from the taxes and revenues pledged thereto. See "SECURITY FOR THE NOTES".

Investment Policy

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

At September 30, 2002 the Commonwealth's operating portfolio was approximately \$2.9 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (21%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (46%); repurchase agreements collateralized by the aforementioned (16%); municipal securities (5%); and corporate and asset backed securities, including money market securities (12%). The portfolio had a current yield of 2.22% and a modified duration of 1.4 years.

The Commonwealth's investments are categorized into four investment pools: Short-term, Intermediate-term, Long-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments, state-held component unit funds and fiduciary fund accounts held for the benefit of others by the state. The Long-term Pool invests funds where liquidity is not an overriding concern, such as a portion of the Road Fund moneys. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

The Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize

yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include the securities lending program, over-the-counter treasury options, interest rate swaps and more recently the purchase of mortgage-backed securities and collateralized mortgage obligations.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than 10% of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasury and agency securities, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of income to the Commonwealth in the amount of 14 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 reauthorized 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 \$25 million per issuer and a stated final maturity of five years or less. Money market securities rated "A1-P1" or higher are limited to 20% of any investment pool and when combined with

corporate and Asset Backed Securities must not exceed 25% of any investment pool. Asset backed securities must have a weighted average life of not more than four years at the time of purchase. United States agency mortgage backed securities ("MBSs") and collateralized mortgage obligations ("CMOs") are also limited to a maximum of 25% of any investment portfolio. MBSs must have a stated final maturity of 10 years or less and a weighted average life of not more than four years at time of purchase. CMOs must have a weighted average life of four 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 27 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 18 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 had outstanding obligations in several different forms, including tax and revenue anticipation notes and project notes. Project notes are issued as General Fund Series, Agency Fund Series 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.

Project Notes, General Fund Series. The Commission from time to time issues 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. As of October 1, 2002, the Commission had three series of General Fund Project Notes outstanding.

<u>Project Notes</u>	<u>Amount Authorized</u>	<u>Amount Outstanding as of October 1, 2002</u>
1999 General Fund First Series A	\$49,195,000	\$29,690,000
2001 General Fund First Series A	37,450,000	32,710,000
2002 General Fund Series A	<u>12,775,000</u>	<u>12,775,000</u>
Total	\$99,420,000	\$75,175,000

Project Notes, Agency Fund Series. The Commission from time to time also issues separate series of project notes (the "Agency Fund Project Notes"), which are payable from payments to be received by the Commission under financing/lease agreements with various state agencies and from proceeds of bonds to be issued by the State Property and Buildings Commission or a state agency. The payments used to pay Agency Fund Project Notes are ultimately dependent upon Agency Fund appropriations by the General Assembly of the Commonwealth. As of October 1, 2002, the Commission had outstanding its 2002 Agency Fund Project Notes Series A, in the outstanding principal amount of \$6,360,000.

DEFINITIONS

Set forth below are the definitions of some of the terms used in this Official Statement, the Indenture and the 2002 Resolution, which are not otherwise defined herein. Reference is hereby made to the Indenture and the 2002 Resolution for a complete recital of the terms defined therein.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Fiscal Year" shall mean the period which begins on July 1, 2002 and ends on June 30, 2003.

"Fitch" shall mean Fitch, Inc.

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

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

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

"Indenture" or "Trust Indenture" shall mean the Trust Indenture, dated as of October 1, 2002, and entered into between the Commission and the Trustee, as amended or supplemented from time to time.

"Index Rate" shall mean (i) in the case of the 2002 Series B Notes, a per annum rate calculated as 100% of the BMA Index plus 0.15% and (ii) in the case of the 2002 Series C Notes, a per annum rate calculated as 90% of LIBOR. The Index Rate for the 2002 Series B Notes and

the Index Rate for the 2002 Series C Notes is required to be calculated by the Trustee on each Interest Rate Adjustment Date for such Notes.

"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.

"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.

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

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

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

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

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

"Paying Agent" shall mean 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 2002 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, a division of the McGraw-Hill Companies, Inc.

"Series" shall mean any series of Notes issued in accordance with the Indenture, and shall mean and include Additional Notes as defined in the 2002 Resolution.

"2002 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 2002 RESOLUTION AND THE INDENTURE

Summarized below are certain provisions of the 2002 Resolution and the Indenture. This summary does not purport to be complete, and is qualified by reference to the 2002 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 \$850,000,000. The Notes are to be issued in anticipation of the receipt of taxes and revenues required to be deposited in the General Fund. Each Series of Notes is to be authorized pursuant to a Certificate of Award. The Commission has authorized the Executive Director of the Office of Financial Management (its "Authorized Officer") to provide final authorization for the Notes by issuing a Certificate of Award. Every Certificate of Award is

required to contain: (i) the authorized principal amount of said Notes, by applicable Series; (ii) the Issue Date of such Series of Notes; (iii) whether such Series of Notes shall be issued as Book-Entry-Only Notes; (iv) the initial Interest Rate Mode for such Series of Notes; (v) whether such Series of Notes are to be secured by a Liquidity Facility or Credit Facility; (vi) the optional redemption provisions relating to such Series of Notes; (vii) the optional and mandatory tender provisions relating to such Series of Notes, if any; (viii) the price at which such Series of Notes shall be sold to the Underwriter; (ix) the allocation of the proceeds of such Series of Notes; (x) if applicable, the amount that may be drawn on the Credit Facility or Liquidity Facility; and (xi) a determination that an IRS 8038G Form will be timely filed; (xii) any other provisions deemed advisable by the Commission, not in conflict with or in substitution for the provisions of the Indenture. An opinion of Bond Counsel in substantially the form of the opinion set forth in Exhibit B hereto must be delivered upon the issuance of any Series of Notes.

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

Security and Pledge of Revenues

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

Establishment of Funds

The 2002 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 2002 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; (iii) received as proceeds of Notes to pay interest on Notes when due; or (iv) received as Counterparty Exchange Payments.

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

As discussed above under "Proceeds Fund," the Commission is required to cause the Finance and Administration Cabinet to transfer 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 and Exchange Payments.

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

The Trustee shall transmit to any Paying Agent, as appropriate, from 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 and all amounts due under any Exchange Agreement shall have been satisfied and terminated in accordance with its terms, then and in that event as to those particular Notes the Indenture shall cease, determine, and become null and void, and the covenants, agreements and other obligations of the Commission 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 or any Exchange Payment shall not be made when and as the same shall become due; or

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

Upon the occurrence of an Event of Default as specified in paragraph (1) or (2) above, the Trustee shall declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately. Subject to the following provisions, upon the occurrence of any other Event of Default as specified in paragraph (3) above, the Trustee may, or at the direction of the Holders of not less than twenty-five percent (25%) of the Notes Outstanding shall, declare, by a notice in writing delivered to the Commission, the principal of all Notes then outstanding (if not then due and payable), together with interest accrued thereon, to be due and payable immediately.

Any such declaration shall be by notice in writing to the Commission and any Exchange Counterparty, and, upon said declaration, principal and interest on all Notes shall become and be immediately due and payable. The Trustee immediately upon such declaration shall give notice thereof in the same manner as provided with respect to the redemption of the Notes without regard to the times stated for notice of redemption that the payment of principal and interest shall be tendered immediately to the Holders of the Notes and that interest has ceased to accrue as of the date of such declaration of acceleration.

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

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Commission for principal, interest or otherwise, under any provision of the Indenture or of the Notes, with interest on

overdue payments at the rate or rates of interest specified in such Notes, together with any and all costs and expenses of collection and of all proceedings hereunder and under the Notes, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce a judgment or decree against the Commission, but solely as provided in the Indenture and in the Notes for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect in any manner provided by law, the monies adjudged or decreed to be payable.

Priority of Payments After Default

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

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

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

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

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

or preference except as to any difference in the respective rates of interest specified in the Notes.

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

Direction of Proceedings

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

Supplemental Indentures

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

Amendments of the respective rights and obligations of the Commission and the Noteholders may be made with the written consent of the Holders of not less than 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 Exhibit B, attached hereto.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Notes. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Notes will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Notes being includable in 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. Certain litigation is discussed herein under "THE COMMONWEALTH – Fiscal Years 2003-2004 Biennial Budget".

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, Inc. "MIG 1" and Standard & Poor's Credit Market Services, a division of the McGraw Hill Companies, Inc. "SP-1+". Each rating reflects only the views of the respective Rating Agency. Explanations of the significance of the ratings may be obtained from each Rating Agency as follows: Fitch, Inc., One State Street Plaza, New York, New York 10004 (212) 908-0500; Moody's Investor's Service, Inc., 99 Church Street, New York, New York 10007, (212) 583-0300; and Standard &

Poor's Credit Market Services, a division of the McGraw Hill Companies, Inc., 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 2002 Series A Notes from the Commission at a purchase price equal to \$251,614,320, which represents the aggregate principal amount of the 2002 Series A Notes plus net premium of \$1,742,500 less the Underwriters' discount of \$128,180; (ii) the 2002 Series B Notes from the Commission at a purchase price equal to \$199,867,456, which represents the aggregate principal amount of the 2002 Series B Notes less the Underwriters' discount of \$132,544; and (iii) the 2002 Series C Notes from the Commission at a purchase price equal to \$49,966,864, which represents the aggregate principal amount of the 2002 Series C Notes less the Underwriters' discount of \$33,136. 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

LOUIMDMS/198425.3

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY - COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

ENTITY	STATUTORY AUTHORITY/ PURPOSE	DEBT LIMITATIONS	RATING*
State Property and Buildings Commission	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
Kentucky Asset/Liability Commission	KRS 56.860 Provide for short-term financing of capital projects and the management of cash borrowings.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Turnpike Authority of Kentucky	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A+/AA-
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low and moderate income residents in the State.	Limited to \$2.5 billion of debt outstanding	Aaa/AAA
Kentucky Infrastructure Authority	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs limited to \$60 and \$125 million of debt outstanding, for maturities under and over 3 years, respectively.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend post-secondary institutions and to make loans to students attending post-secondary schools within the state.	Limited to \$950 million of debt outstanding.	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 (S&P) and Fitch. The bonds of Kentucky Local Correctional Facilities Construction Authority are insured. S&P on October 9, 2002 lowered the Commonwealth's issuer credit rating from AA to AA- and the rating on the Commonwealth's appropriation-backed debt from AA- to A+.

EXHIBIT B

FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Kentucky Asset/Liability Commission
Frankfort, Kentucky

Re: \$250,000,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2002 Series A
\$200,000,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2002 Series B
\$50,000,000 Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2002 Series C

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, 2002 Series A, in the aggregate principal amount of \$250,000,000 (the "2002 Series A Notes"), (ii) General Fund Tax and Revenue Anticipation Notes, 2002 Series B, in the aggregate principal amount of \$200,000,000 (the "2002 Series B Notes") and (iii) General Fund Tax and Revenue Anticipation Notes, 2002 Series C, in the aggregate principal amount of \$50,000,000 (the "2002 Series C Notes") (the 2002 Series A Notes, the 2002 Series B Notes and the 2002 Series C Notes, collectively, the "Notes"), dated November 1, 2002.

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 September 10, 2002 (the "2002 Resolution") and a Trust Indenture dated as of October 1, 2002 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 2002 Series A Note, 2002 Series B Note and 2002 Series C 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 2002 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 2002 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

EXHIBIT C

BOOK-ENTRY-ONLY SYSTEM

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

DTC and DTC's Book-Entry-Only System

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

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

Purchase of the Notes under the DTC system must be made by or through Direct Participants, which will receive credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct Participants and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Neither the Commission nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person not shown on the registration books of the Trustee as being a holder with respect to: (1) the Notes; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the purchase price of tendered Notes or the principal or interest on the Notes; (4) the delivery by any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture or the 2002

Resolution to be given to holders; or (5) any consent given or other action taken by DTC as holder.

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

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

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

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

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.