

Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that the interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky, and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX MATTERS" herein for a more complete discussion.

\$39,985,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A

Dated: Date of delivery

Due: May 1, as shown below

The Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each November 1 and May 1, commencing on May 1, 2004. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Wachovia Bank of Delaware, National Association, as Trustee and Paying Agent.

Certain of the Bonds are subject to redemption prior to maturity at the times and in the amounts described herein.

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

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
May 1, 2005	\$340,000	2.000%	100.963%	May 1, 2016	\$3,150,000	5.250%	110.645%
May 1, 2006	355,000	2.000	100.928	May 1, 2017	615,000	4.200	99.490
May 1, 2007	360,000	2.250	100.841	May 1, 2017	3,705,000	5.250	110.194
May 1, 2008	365,000	2.750	101.485	May 1, 2018	1,600,000	4.250	98.932
May 1, 2009	375,000	3.000	101.013	May 1, 2018	2,940,000	5.250	109.605
May 1, 2010	385,000	3.000	99.415	May 1, 2019	530,000	4.375	99.166
May 1, 2011	3,310,000	3.375	99.507	May 1, 2019	2,000,000	5.250	108.890
May 1, 2012	3,410,000	4.000	102.318	May 1, 2020	385,000	4.375	98.554
May 1, 2013	3,550,000	5.000	109.915	May 1, 2020	2,280,000	5.250	108.669
May 1, 2014	305,000	3.875	99.530	May 1, 2021	405,000	4.600	99.642
May 1, 2014	3,425,000	5.250	111.269	May 1, 2022	420,000	4.625	99.079
May 1, 2015	915,000	4.000	99.543	May 1, 2023	440,000	4.750	99.371
May 1, 2015	3,000,000	5.250	110.947	May 1, 2024	460,000	4.750	98.709
May 1, 2016	960,000	4.125	99.757				

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky Asset/Liability Commission ("ALCo") pursuant to a Resolution adopted September 12, 2003 to (i) refund a portion of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 66, Series A, (ii) refund the outstanding Kentucky Asset/Liability Commission Project Notes, 2002 Agency Fund Series A, and (iii) pay the costs of issuing the Bonds.

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.



THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM BIENNIAL RENEWABLE LEASE AGREEMENTS WITH THE STATE AGENCIES (DEFINED HEREIN), THE RENT FROM WHICH IS SUBJECT TO AGENCY FUND APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See "SECURITY FOR THE BONDS" herein.

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Peck, Shaffer & Williams LLP, Covington, Kentucky. It is expected that delivery of the Bonds will be made on or about October 30, 2003, in New York, New York, through the facilities of DTC, against payment therefor.

MORGAN STANLEY

J.J.B. HILLARD, W.L. LYONS, INC.

MORGAN KEEGAN & COMPANY, INC.

A.G. EDWARDS & SONS, INC.

ROSS, SINCLAIRE & ASSOCIATES, INC.

FIRST KENTUCKY SECURITIES CORPORATION

BANC ONE CAPITAL MARKETS, INC.

EDWARD D. JONES & CO., L.P.

Dated: October 8, 2003.

**COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION**

Members

PAUL E. PATTON
Governor
(Chairman of the Commission)

STEPHEN L. HENRY
Lieutenant Governor

A. B. CHANDLER III
Attorney General

GORDON C. DUKE
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

MARVIN E. STRONG, JR.
Secretary of the
Cabinet for Economic Development

DANA B. MAYTON
Secretary
Revenue Cabinet

GEORGE R. BURGESS, JR.
Executive Director
Office of Financial Management
(Secretary to the Commission)

This Official Statement does not constitute an offer to sell the Bonds to any person, or the solicitation of an offer from any person to buy the Bonds, in any jurisdiction where such offer or such solicitation of an offer to buy would be unlawful. The information set forth herein is provided by the Commonwealth of Kentucky from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the Underwriters. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Commonwealth of Kentucky or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Bonds 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 Bonds 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 Bonds unless the entire Official Statement is delivered in connection therewith.

The Commission The State Property and Buildings Commission (the "Commission") is an independent agency of the Commonwealth of Kentucky (the "Commonwealth"). See "THE STATE PROPERTY AND BUILDINGS COMMISSION".

The Offering The Commission is offering its \$39,985,000 Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission authorizing the issuance of the Bonds pursuant to Financing/Lease Agreements (the "Leases") between the Commission, as lessor, certain State Agencies (defined herein), as lessees, the Kentucky Asset/Liability Commission ("ALCo") and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet").

Use of Proceeds The Bonds are being issued to provide funds with which to (i) refund a portion of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 66, Series A, (ii) refund the outstanding Kentucky Asset/Liability Commission Project Notes, 2002 Agency Fund Series A, and (iii) pay the costs of issuing the Bonds.

Security The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the State Agencies to the Commission under the Leases. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Leases".

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM BIENNIAL RENEWABLE LEASE AGREEMENTS WITH THE STATE AGENCIES, THE RENT FROM WHICH IS SUBJECT TO AGENCY FUND APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Bond Insurance	The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under a financial guarantee insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" herein.
Features of Bonds	<p>The Bonds are being offered in the authorized denominations of \$5,000 or any integral multiple thereof, at the interest rates and purchase prices set forth on the cover hereof. The Bonds, 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 Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each November 1 and May 1, commencing on May 1, 2004. Principal of, redemption premium, if any, and interest on the Bonds will be paid directly to DTC by Wachovia Bank of Delaware, National Association, as Trustee and Paying Agent (the "Trustee").</p> <p>Except for the Premium Bonds, the Bonds maturing on and after May 1, 2014 may be redeemed at the option of the Commission on any date on or after May 1, 2013, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium. The Premium Bonds are not subject to redemption prior to maturity. "Premium Bonds" means Bonds having a purchase price in excess of 100%, as shown on the cover page hereto. See "THE BONDS - Redemption Provisions". It is expected that delivery of the Bonds will be made on or about October 30, 2003, in New York, New York, against payment therefor.</p>
Tax Status	Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Chapman and Cutler LLP, Bond Counsel, under present law, interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that the interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky, and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. See "TAX MATTERS" herein for a more complete discussion, and EXHIBIT F.
Continuing Disclosure	The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). 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, if 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 Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601, Telephone: (502) 564-2924; or, during the initial offering period, by contacting the Underwriter, Morgan Stanley & Co. Incorporated, 1221 Avenue of the Americas, 30th Floor, New York, New York 10020, (212) 762-8183.

OFFICIAL STATEMENT
Relating to
\$39,985,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A

INTRODUCTION

This Official Statement, including the cover page and the exhibits attached hereto, provides information in connection with the issuance and sale by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), of its \$39,985,000 Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund a portion of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 66, Series A, (ii) refund the outstanding Kentucky Asset/Liability Commission Project Notes, 2002 Agency Fund Series A, and (iii) pay the costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE" and in EXHIBIT D.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Resolution (the "Resolution") authorizing the issuance of the Bonds.

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission pursuant to Financing/Lease Agreements entered into (the "Leases") among the Commission, the Kentucky Asset/Liability Commission ("ALCo"), the Cabinet and the state agencies that are party to the Leases. The participating state agencies are the University of Kentucky, Eastern Kentucky University and the Kentucky Higher Education Assistance Authority (the "State Agencies"). The Kentucky General Assembly has approved budgets for the State Agencies having amounts projected to be sufficient to pay required Rent (hereinafter defined) under their respective Leases. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2004.

Under the provisions of the Constitution of the Commonwealth, the State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the State Agencies are submitted to the General Assembly of the Commonwealth every two years and are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that each State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agencies to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Leases will be automatically renewed unless written notice of the election by the State Agencies to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The appropriations of the State Agencies, from which payment of the principal of and interest on the Bonds are derived, are "Agency Fund" appropriations and not "General Fund" appropriations. See "THE STATE AGENCIES – Agency Fund Appropriations" for a discussion of the difference between Agency Fund appropriations and General Fund appropriations.

The scheduled payment of the principal of and interest on the Bonds, when due, will be guaranteed under a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE" herein.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCIES NOR IS ANY STATE AGENCY UNDER ANY OBLIGATION TO RENEW ITS LEASE. THE BONDS ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASES AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING PROJECT NO. 80, SERIES A OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commission, the State Agencies, the Resolution, the Bonds, the Leases, the Project, the Cabinet and ALCo are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated the date of their delivery, and will bear interest payable on each November 1 and May 1, commencing May 1, 2004, at the interest rates set forth on the cover page of this Official Statement. Wachovia Bank of Delaware, National Association is the trustee for the Bonds (the "Trustee").

Book Entry Only System

The Bonds initially will be issued solely in book-entry form to be held in the book-entry only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners of Beneficial Ownership Interests, each as hereinafter defined, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution and Series Resolution. For additional information about DTC and the book-entry only system see "EXHIBIT E - Book Entry Only System."

Redemption Provisions

Optional Redemption. Except for the Premium Bonds, the Bonds maturing on and after May 1, 2014 may be redeemed at the option of the Commission on any date on or after May 1, 2013, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium. The Premium Bonds are not subject to redemption prior to maturity. "Premium Bonds" means Bonds having a purchase price in excess of 100%, as shown on the cover page hereto.

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular

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

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to DTC, and at least two (2) national information services that disseminate notices of redemption of obligations such as the Bonds; *provided however*, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds.

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

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

SECURITY FOR THE BONDS

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission pursuant to the Leases. The Kentucky General Assembly has approved budgets for the State Agencies having amounts projected to be sufficient to pay required Rent under their respective Leases. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2004.

Under the provisions of the Constitution of the Commonwealth, the State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the State Agencies are submitted to the General Assembly of the Commonwealth every two years and are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that each State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agencies to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Leases will be automatically renewed unless written notice of the election by the State Agencies to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

The appropriations of the State Agencies, from which payment of the principal of and interest on the Bonds are derived, are "Agency Fund" appropriations and not "General Fund" appropriations. See "THE STATE AGENCIES – Agency Fund Appropriations" for a discussion of the difference between Agency Fund appropriations and General Fund appropriations.

The Bonds are also secured by certain other funds and accounts pledged therefor and described in the Resolution.

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

The scheduled payment of principal of and interest on the Bonds, when due, will be guaranteed under an insurance policy on the Bonds to be issued concurrently with the delivery of the Bonds by the Bond Insurer. See "BOND INSURANCE" and EXHIBIT G.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Bond Insurer") for use in this Official Statement. Reference is made to EXHIBIT G for a specimen of the Bond Insurer's policy.

The Bond Insurance Policy

The Bond Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Bond Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Bond Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon

presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefore.

The Bond Insurer

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Bond Insurer set forth under the heading "Bond Insurance" and "EXHIBIT G - FORM OF FINANCIAL GUARANTY INSURANCE POLICY." Additionally, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Information Regarding the Bond Insurer

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002.
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, the Bond Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2003 the Bond Insurer had admitted assets of \$9.5 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Bond Insurer

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. rates the financial strength of the Bond Insurer "AAA."

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. the Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the Cabinet to (i) refund a portion of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 66, Series A (the "Prior Bonds"), (ii) refund the outstanding Kentucky Asset/Liability Commission Project Notes, 2002 Agency Fund Series A (the "Prior Notes"), and (iii) pay the costs of issuing the Bonds. The Prior Bonds and Prior Notes are further described in EXHIBIT D hereto.

The proceeds of the Bonds required to refund the Prior Bonds will be deposited in a separate and distinct escrow fund to be held by Bank One, National Association, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of October 1, 2003, by and between the Commission and the Escrow Agent. The Escrow Agent is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the principal of and interest on the Prior Bonds as same become due and to redeem the remaining outstanding Prior Bonds on May 1, 2010.

See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Agent, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the resolution under which the Prior Bonds were issued.

The proceeds of the Bonds required to refund the Prior Notes will be deposited in the note payment fund created by the trust indenture for the Prior Notes and will be used to pay the principal of the Prior Notes at their maturity on November 1, 2003. Upon the making of the foregoing deposit to the note payment fund for the Prior Notes, the Prior Notes will no longer be deemed to be outstanding for the purposes of the trust indenture under which the Prior Notes were issued.

As of October 1, 2003, the Commission had outstanding bonds in the aggregate principal amount of \$1,927,579,490.55, of which \$65,965,000 is Agency Restricted Fund supported. On October 9, 2003, the Commission will deliver its Taxable Revenue Bonds, Project No. 78 in the amount of \$151,225,000 and Revenue Bonds, Project No. 79 in the amount of \$145,290,000. Upon the issuance of the Bonds, the Commission will have a total of \$2,231,384,490.55 in aggregate principal amount of bonds outstanding, excluding the Prior Bonds, of which \$73,255,000 is Agency Restricted Fund supported.

SOURCES AND USES OF FUNDS FOR THE BONDS

The following tables set forth the application of the proceeds of the Bonds.

SOURCES OF FUNDS:

Par Amount of Bonds	\$39,985,000.00
Net Original Issue Premium	<u>2,464,305.65</u>
TOTAL SOURCES	\$42,449,305.65

USES OF FUNDS:

Escrow Fund Deposit	\$35,627,124.00
Note Payment Fund Deposit	6,360,000.00
Costs of Issuance*	<u>462,181.65</u>
TOTAL USES	\$42,449,305.65

* Includes bond insurance premium, underwriters' discount and fees of the trustee and counsel and other costs of issuance.

THE PROJECT

The State Agencies will continue to lease all of the facilities, renovations and improvements originally financed with the proceeds of the Prior Bonds and Prior Notes from the Commission under the Leases (collectively, the "Project"). A description of the projects being financed or refinanced for each State Agency is included in EXHIBIT C.

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development and the Secretary of the Revenue Cabinet. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission and the Executive Director of the OFM serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the

Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

KRS 56.450(4) authorizes the Commission, on application of any state agency of the Commonwealth, to issue revenue bonds in the Commission's name in accordance with the provisions of KRS Chapters 56 and 58, secured by and payable solely from all or any part of the revenues derived from the leasing of the project financed to such state agency. The Commission is authorized to execute lease agreements with those state agencies requesting the Commission to issue revenue bonds, which leases provide for the payment of lease rentals to the Commission in order to make principal and interest payments on the revenue bonds issued in the name of the Commission. The Cabinet has applied to the Commission to issue the Bonds secured by revenues from the Leases. The Resolution was adopted by the Commission on September 12, 2003, authorizing the issuance of the Bonds.

Future Financings

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in the budget for the current biennium or in future budgets. The 2003 Kentucky General Assembly authorized debt financing totaling \$835,188,380 to support various capital initiatives of the Commonwealth. Of the total authorization, \$628,188,380 is General Fund supported and \$207,000,000 is Agency Restricted Fund supported. This authorization is in addition to the authority to issue refunding bonds to refund outstanding issues. The Commission does not expect to issue any additional bonds during the current biennium that are General Fund supported, other than potentially issuing refunding bonds to refund outstanding issues. Upon delivery of the Bonds, the Commission does not expect to issue any additional bonds during the current biennium that are Agency Fund supported, other than potentially issuing refunding bonds to refund outstanding issues.

THE STATE AGENCIES

Agency Fund Appropriations

Each State Agency is required to develop and submit a balanced budget for consideration by the General Assembly during its regular session, which begins in January of each even-numbered year. These budgets are required to include all fund sources, which include General Funds, Road Funds, Federal Funds and Agency Funds. Agency Funds are defined as any fund except General, Road or Federal Funds. Examples of Agency Funds would include, but are not limited to, tuition, student fees, insurance premium receipts and certain other revenues associated with the day to day operation of the applicable State Agency.

Each State Agency has agreed to include an amount for Rent in each request. While State Agencies have a variety of fund sources, Rent payments for the Bonds associated with each respective State Agency may only be made from Agency Funds available to that State Agency.

The Kentucky General Assembly has approved individual budgets for the State Agencies having amounts projected to be sufficient to enable the State Agencies to pay required Rents under their respective Leases through June 30, 2004. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2004.

Under the provisions of the Constitution of the Commonwealth, the State Agencies are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the State Agencies are submitted to the General Assembly of the Commonwealth every two years and are subject to the discretion and approval of each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that each State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will

approve appropriations in amounts sufficient to enable the State Agencies to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations. Notwithstanding the foregoing, the Leases will be automatically renewed unless written notice of the election by the State Agencies to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

Financial Information Regarding the State Agencies

Financial information with respect to the State Agencies is presented in *The Kentucky Comprehensive Annual Financial Report* ("CAFR") published annually by the Commonwealth. A copy of the CAFR for Fiscal Year 2002 and certain other fiscal years 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 CAFR for Fiscal Year 2002 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 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 CAFR for the Fiscal Year ended June 30, 2002 contains the following information with respect to Major Component Units, including the University of Kentucky: (i) Statement of Net Assets, pages 50 and 51 and (ii) Statement of Activities, page 52. Copies of the foregoing pages from the CAFR are set forth in EXHIBIT A to this Official Statement, in the sections of such Exhibit marked "University of Kentucky".

The CAFR for the Fiscal Year ended June 30, 2002 contains the following information with respect to Non-Major Component Units – Universities and Colleges, including Eastern Kentucky University: (i) Statement of Net Assets, page 182 and (ii) Statement of Activities, page 184. Copies of the foregoing pages from the CAFR are set forth in EXHIBIT A to this Official Statement, in the sections of such Exhibit marked "Eastern Kentucky University".

The CAFR for the Fiscal Year ended June 30, 2002 contains the following information with respect to Non-Major Component Units – Authorities, including KHEAA: (i) Statement of Net Assets, pages 176 and 177 and (ii) Statement of Activities, page 178. Copies of the foregoing pages from the CAFR are set forth in EXHIBIT A to this Official Statement, in the section of such Exhibit marked "Kentucky Higher Education Assistance Authority".

Additional information on revenues, expenses and changes in net assets for Fiscal Year 2002 has been excerpted from the individual financial statements of each of the University of Kentucky, Eastern Kentucky University and KHEAA and is included in EXHIBIT A to this Official Statement. Copies of the complete financial statements for each State Agency for the Fiscal Year ended June 30, 2002 may be obtained from the Office of Financial Management at the above address.

The outstanding revenue obligations of the University of Kentucky, Eastern Kentucky University and KHEAA as of June 30, 2002 (pages 408 and 409 of *Supplementary Information to The Kentucky Comprehensive Annual Financial Report* for the Fiscal Year ended June 30, 2002) are set forth in a table identified as "Debt of the State and Its Agencies - Table II," which is included as the last two pages of EXHIBIT B to this Official Statement. Further information on the outstanding revenue obligations of the State Agencies as well as more detailed financial information on such State Agencies may be obtained from the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601 (502) 564-2924.

General Information on the State Agencies

University of Kentucky. The University of Kentucky was established in 1865 and is located in Lexington. The University of Kentucky University System serves as the principal graduate degree granting institution in the Commonwealth's system of higher education for statewide instruction, research and public service programs in all fields without geographic limitation.

These primary functions, (1) instruction - the dissemination of knowledge, (2) research - the creation of knowledge, (3) public service - the application of knowledge, and the scope of programs conducted in each functional area are defined by statute. KRS 164.125 authorizes the University of Kentucky to offer baccalaureate, professional, master's, specialist, doctoral and postdoctoral programs and to conduct joint doctoral programs in cooperation with other institutions. It designates the University of Kentucky as the Commonwealth's principal institution to conduct statewide research and service programs.

As one of the Commonwealth's land-grant institutions, the University is recognized for its federal and state charge as a public service agency for agriculture. There are innumerable other components in the public service program, many of which are mandated by Kentucky's statutory provisions or otherwise supported directly by the Commonwealth. Through its public service programs, the University disseminates new knowledge for the welfare and benefit of the citizens of the Commonwealth.

The University of Kentucky is organized into sixteen colleges and graduate schools plus extension programs, and also operates the Lexington Community College.

Eastern Kentucky University. Eastern Kentucky University located in Richmond, Kentucky was established by the 1906 General Assembly. The university's three primary responsibilities are: (1) to provide instruction in the arts and sciences, business, professional education, and technical subjects; (2) to provide service to the community and region through the faculty serving as consultants in their fields of specialization and engaging in research dealing with problems of society; and (3) to engage in research to advance knowledge in the subject matter areas with which the various colleges of the university are concerned. These purposes of the university are accomplished by the College of Arts and Sciences, College of Business and Technology, College of Education, College of Health Sciences, College of Justice and Safety, and Office of Graduate Studies.

In keeping with its statutory mandates, its Council on Postsecondary Education Mission Statement, and in harmony with the Strategic Plan for Higher Education in Kentucky, the Eastern Kentucky University Board of Regents has adopted a Strategic Plan that clearly defines the institutional mission, goals and strategic directions for the future.

Each college, department and support units of the University have developed unit goals and objectives that support the institutional aims and has translated these goals and objectives into operational plans. In the final analysis, these plans have a direct relationship to the primary purposes of the institution.

Kentucky Higher Education Assistance Authority. The Kentucky Higher Education Assistance Authority ("KHEAA") is a public corporation and governmental agency and instrumentality of the Commonwealth of Kentucky established in 1966 to serve the public purpose of improving opportunities for higher education.

KHEAA accomplishes its public purpose by administering the Federal Family Education Loan Programs in Kentucky and Alabama. In addition to its student loan guarantee and origination functions, KHEAA administers student aid programs including the need-based College Access Program and Kentucky Tuition Grant program, the Teacher Scholarship program, the Kentucky Educational

Excellence Scholarship (state merit-based scholarship program), the Osteopathic Medicine Scholarship program and the KHEAA work-study program. Such programs are substantially funded by the Commonwealth of Kentucky and supplemented by Federal Funds. In addition, KHEAA has oversight responsibilities for the Kentucky Educational Savings Plan Trust, which offers opportunities for families to save for future college costs. KHEAA also develops and broadly distributes multiple publications containing college cost and financial aid information and performs outreach functions throughout Kentucky. KHEAA also provides various fee-based services related to guaranteed student activities to private lenders of such loans as well as the Kentucky Higher Education Student Loan Corporation.

KHEAA is governed by its Board of Directors which may officially act by a majority of its voting members. The Board of Directors of KHEAA consists of seven voting members appointed by the Governor of the Commonwealth for terms of four years each and the Executive Director of the Council on Postsecondary Education of the Commonwealth and the Secretary of the Finance and Administration Cabinet of the Commonwealth, each of whom serve as non-voting, ex officio members.

THE FINANCE AND ADMINISTRATION CABINET

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

The functions of the Cabinet include, among other things, (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) the construction, maintenance and operation of public buildings, except those provided for the exclusive use of one agency; (5) the provision of administrative services of a financial nature to other agencies of Commonwealth government; (6) the investment and management of all Commonwealth funds other than pension funds; and (7) the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

THE KENTUCKY ASSET/LIABILITY COMMISSION

The Kentucky Asset/Liability 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. ALCo 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 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.

ALCo 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 Chairperson; 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 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 B hereto.

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

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

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2002 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 with the following Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") in accordance with SEC Rule 15c2-12:

- (i) Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Internet: munis@bloomberg.com
Tel: (609) 279-3225
Fax: (609) 279-5962
- (ii) DPC Data Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Internet: nrmsir@dpcdata.com
Tel: (201) 346-0701
Fax: (201) 947-0107

- (iii) Standard & Poor's J.J. Kenny Repository
55 Water Street, 45th Floor
New York, New York 10041
Internet: nrmsir_repository@sandp.com
Tel: (212) 770-4595
Fax: (212) 770-7994

- (iv) FT Interactive Data
Attn: NRMSIR
100 Williams Street
New York, New York 10038
Internet: nrmsir@ftid.com
Tel: (212) 771-6899
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
Website: <http://www.InteractiveData.com>

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2002 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 2002 and certain other fiscal years 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 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" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with the NRMSIRs as required under Rule 15c2-12.

Fiscal Year 2002

During Fiscal Year 2002, the Commonwealth of Kentucky implemented several new accounting standards issued by the Governmental Accounting Standards Board, including Statement No. 33, No. 34, No. 35, No. 36, No. 37, and No. 38. The provisions of these standards have been incorporated into the Commonwealth's financial statements and notes. Since the Commonwealth implemented new reporting standards for this Fiscal Year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Commonwealth's financial position and results of operations.

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

As of the end of the Fiscal Year, the Commonwealth's governmental funds reported combined ending fund balances of \$2.4 billion, a decrease of \$186.5 million in comparison with the prior year. Just

over one-half (\$1.2 billion or 51 percent) of this total amount constituted an unreserved fund balance, which was available for spending in the following Fiscal Year. The remainder of the fund balance was reserved to indicate that it was not available for new spending. The reserves were established: (1) to fund statutory obligations (\$835.5 million), (2) for inventory on hand at year end (\$66.9 million), (3) to fund capital outlay (\$260.1 million), or (4) for other restricted purposes (\$25.8 million).

During Fiscal Year 2002 the unreserved fund balance in the governmental funds decreased to \$1.2 billion, which is approximately 8.3 percent of total governmental fund expenditures for the year. The unreserved fund balance is comprised of \$1.2 billion in the Special Revenue Fund, \$316.6 million in the Debt Service Fund, negative \$265.5 million in the Capital Projects Fund and negative \$36.0 million in the General Fund.

The General Fund is the chief operating fund of the Commonwealth. The fund balance of the Commonwealth's General Fund decreased by \$311.4 million during the Fiscal Year. This is a 78.66 percent decrease from the prior year. At the end of the Fiscal Year, unreserved fund balance of the General Fund was a negative \$36.0 million, while the total fund balance reached \$87.5 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.54 percent of total General Fund expenditures, while total fund balance represents 1.32 percent of that same amount.

Due to the downturn in the economy, the General Fund experienced an increased number of interfund transfers out, leading to a decline in the General Fund's fund balance. In Fiscal Year 2002, the General Fund increased the amount of transfers out from \$303.0 million in Fiscal Year 2001 to \$468.0 million in Fiscal Year 2002. This is an increase of about \$165.0 million or a 54.45 percent rise from the previous year.

The Commonwealth's long-term debt increased by \$502.0 million, a 9.2 percent increase during the Fiscal Year. No general obligation bonds were authorized or outstanding at June 30, 2002. The key factor in this increase was the issuance of \$976.0 million in Revenue Bonds (a 15.6 percent increase).

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 and the Road Fund. The Biennial Budget of the Commonwealth is based upon the Official Estimate as determined by the Consensus Forecasting Group (the "Group"). The forecast is provided on a preliminary basis by October 15 of each odd numbered year and in final form by the fifteenth legislative day of each even year regular session of the General Assembly. The State Budget Director can convene the Group as the need arises to review and revise the forecast.

At the beginning of Fiscal Year 2002, the Group declared an estimated revenue shortfall of \$295.7 million in the General Fund and \$85.4 million in the Road Fund. Further budget cutbacks contained in a second Budget Reduction Order resulted in additional reductions of \$200.1 million in the General Fund and \$37.9 million in the Road Fund. A third and fourth Budget Reduction Order totaling \$179.2 million for the General Fund were each executed in the final days of the Fiscal Year to conform total spending to actual receipts for Fiscal Year 2002.

Fiscal Year 2003 (Unaudited)

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

these measures, all parties to a legal action filed by the State Treasurer seeking a determination of the validity of the Executive Order that established the Executive Spending Plan agreed to dismissal of the case as moot.

The Commonwealth reported General Fund revenue for the Fiscal Year 2003 of \$6,783.5 million versus \$6,560.2 million for Fiscal Year 2002, an increase of 3.4 percent. General Fund revenues were boosted in the early part of Fiscal Year 2003 by one-time events not reflective of overall economic activity. Of the \$223.3 million in additional revenue received in Fiscal Year 2003 versus Fiscal Year 2002, approximately \$192.5 million is estimated to have resulted from these events, which include the impact of tax amnesty as well as several large unanticipated payments in the sales, individual income, and inheritance taxes.

Sales and Use and Individual Income tax receipts increased 2.8 percent and 1.6 percent, respectively, for the Fiscal Year. Corporate income tax collections increased approximately \$70.7 million or 34.1 percent for the year. The second half of Fiscal Year 2003 saw revenue declines below the previous year.

Total General Fund resources for Fiscal Year 2003 were \$7,443.4 million, which included \$130.8 million of Tobacco Settlement Revenues and \$68.7 million for the Federal Jobs Growth Tax Relief Reconciliation Act of 2003. Expenditures and Fund Transfers Out totaled \$7,178.8 million leaving a balance of \$264.6 million of which \$102.1 million was reserved for continuing appropriations and \$162.5 million was unallocated. The \$162.5 million undesignated Fiscal Year-end balance was \$23.8 million higher than the original amount budgeted of \$138.7 million.

Fiscal Year 2004 (Unaudited)

State General Fund receipts for July, excluding tobacco receipts, totaled \$495.1 million. This represents an increase of 8.4 percent over July 2002. The official revenue estimate prepared by the Group in January 2003 projected growth of 4.6 percent for Fiscal Year 2004 to \$7,096.5 million. Preliminary planning numbers for the remainder of Fiscal Year 2004 and the next biennium being considered by the Group indicate a reduced growth rate of approximately 0.5 percent for Fiscal Year 2004 to \$6,816.6 million, or \$279.9 million less than previously forecast. The preliminary forecast reflects a lower base resulting from a \$75.7 million shortfall in Fiscal Year 2003 and reduced expectations for growth in personal income, which is reflected in the individual income and sales tax projections for Fiscal Year 2004. The Group is required to reconvene in October to prepare a preliminary official estimate for the Fiscal Year 2004-2006 biennium.

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 June 30, 2003, the Commonwealth's operating portfolio was approximately \$2.73 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (19%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (42%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (5%); and corporate and asset backed securities, including money market securities (21%). The portfolio had a current yield of 1.71% and an effective duration of 1.55 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 Commonwealth. The Long-term Pool invests funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

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

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

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. As of June 30, 2003, the Commonwealth had 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 supranational governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

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

(MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of 25% of any investment portfolio. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

The following statements are brief summaries of certain provisions of the Resolution and the Leases. Such statements do not purport to be complete and reference is made to the Resolution and the Leases, copies of which are available for examination at the Office of Financial Management, 702 Capitol Avenue, Suite 261, Frankfort, Kentucky 40601.

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. In addition to the deposit in the Escrow Fund described under "PLAN OF FINANCE" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into such Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Bond Resolution at or before their maturity. Accrued interest on the Bonds will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any November 1, May 1 or other date set for the redemption of the Bonds (each a "Payment Date") with the Trustee all amounts required for the payment of the principal of, premium, if any, and interest on the Bonds due on such Payment Date.

No further payments are required to be made to the Bond Fund when, and so long as, the aggregate amount therein is sufficient to retire all of the Bonds that are then outstanding and payable plus interest due or to become due and redemption premium, if any.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the Issuer at the time of delivery of the Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Bonds. On payment of all duly authorized expenses incident to the issuance of such Bonds, any remaining balance in the Cost of Issuance Account will be transferred to the Bond Fund.

3. Construction Fund. The Resolution creates a Construction Fund, to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund shall constitute a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the Project consisting of the acquisition, construction or undertaking of new property in connection with buildings, real estate or economic development projects, including costs of materials, construction work, installation of utilities, services, installation of equipment, facilities and furnishings of a permanent nature for buildings, appurtenances thereto, plans, specifications, blueprints, architectural and engineering fees and other expenses authorized to be incurred under the terms of KRS Chapters 56 and 58. Any moneys remaining in the Construction Fund after the Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Fund.

Federal Tax Covenants of the Commission. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludable from the gross income of the Holders for the purposes of federal income taxation and not permit the Bonds to be or become "arbitrage bonds" as defined in the Code.

Investment of Funds. Moneys in any Fund or Account established under the Resolution will be invested in obligations permitted by Kentucky law as specified in the Resolution.

Events of Default. The Resolution defines "Events of Default" as follows:

- (a) Default in the due and punctual payment of the interest on any Bond;
- (b) Default in the due and punctual payment of the principal of or premium, if any, on any Bond at maturity or upon redemption prior to maturity; or
- (c) Default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Commission in the Resolution or in the Bonds contained, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or by the Holders of not less than 25% in aggregate principal amount of Bonds outstanding, to the Commission and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission within such period and diligently pursued until the event of default no longer exists.

Upon the happening and continuance of any event of default described in clause (a) or (b) above, unless the principal of all the Bonds has already become due and payable, either the Trustee (by notice in writing to the Commission) or the Holders of not less than 25% of the principal amount of Bonds outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% of the principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory to the Trustee is made for such payment, then and in every such case any such default and its consequences will ipso facto be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky Revised Statutes and under the Resolution forthwith by such suits, actions, or by 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 Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

In the enforcement of any right or remedy under the Resolution or under the law, the Trustee is entitled to sue for, enforce payment on, and receive any or all amounts then or during the continuance of any event of default becoming, and at any time remaining, due from the Commission, for principal, interest or otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee

or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders of the Bonds, provided that such request will not be otherwise than in accordance with the provisions of law and of the Resolution and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

Individual Holder Action Restricted. No Holder of Bonds has any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Resolution or for the execution of any trust thereof or for the appointment of a receiver or the enforcement of any other right under the Kentucky Revised Statutes, unless such Holder has given to the Trustee written notice of the event of default or breach of trust or duty on account of which such suit, action, or proceeding is to be taken and unless the Holders of not less than 25% in aggregate principal amount of Bonds outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

Amendments to the Resolution. If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of 66 2/3% of the principal amount of Bonds outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the

Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the Commission may, in its sole discretion, change, substitute or otherwise modify components of the Project, including economic development projects and community development projects, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of Bondholders.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable at the times and in the manner stipulated therein and in the Bond Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond Service Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Service Fund or such escrow fund, shall be sufficient, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed in accordance with the Bond Resolution or the maturity date or dates thereof, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond Resolution, and the Trustee will and is irrevocably instructed by the Resolution to publish notice thereof.

As used herein, "Defeasance Obligations" means:

- (a) Cash;
- (b) U.S. Treasury certificates, notes and bonds;
- (c) Direct obligations of the United States Treasury (the "Treasury") which have been stripped by the Treasury itself (not including "CATS," "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") with respect thereto);

(d) The interest component of Resolution Funding Corp. ("REFCORP") strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

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

(f) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

(i) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership;

(ii) Farmers Home Administration certificates of beneficial ownership;

(iii) Federal Financing Bank;

(iv) General Services Administration participation certificates;

(v) U.S. Maritime Administration Title XI financing; and

(vi) Project notes, local authority bonds, New Communities Debentures and U.S. Public Housing Notes and Bonds issued by the U.S. Department of Housing and Urban Development.

The Leases

The Commission, ALCo, the Cabinet and the State Agencies (as "Lessees") have entered into the Leases whereby the Lessees will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds sufficient to pay the amounts due on the Bonds (the "Rent").

The Leases are for a current term ending June 30, 2004. The Commission has granted the Lessees the exclusive option to renew the Leases for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. Under the provisions of the Constitution of the Commonwealth, the Commission and the Lessees are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Leases provide that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the Lessees to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the Lessees are bound for the entire amount of the Rent becoming due during such term payable from, but not limited to, revenues, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

The Lessees have covenanted and agreed in the Leases that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth they will cause to be included in the budgets proposed for that biennial period for the Lessees, sufficient amounts (over and above all other requirements of the Lessees) to enable the Lessees

to pay Rent under the Leases and thereby produce income and revenues to the Commission to permit timely payment of the Bonds as the same become due during such period.

The ability of the Lessees to pay Rent is subject to their appropriations of Rent and approval thereof by the General Assembly. There can be no assurance that such appropriations will be forthcoming at any time after June 30, 2004. The failure of the Lessees or General Assembly to approve and enact such appropriations will have a material adverse effect on the ability of the Commission to pay the Bonds. In addition, there can be no assurance that in the performance of his or her obligations to balance the Commonwealth budget annually, the Governor will not reduce or eliminate any appropriations which are made.

If the Leases are renewed, then on the first day of the biennial renewal term the Lessees are firmly bound for the entire amount of Rent payments coming due during such renewal term.

In the Resolution, the Commission has covenanted that it will receive and apply the Rent payments from the Lessees to pay the Bonds when due, and will carry out each and every duty imposed on it by the Kentucky Revised Statutes in respect thereto.

Events of default under the Leases include a default in the due and punctual payment of any Rent or a default in the performance of any covenants therein not remedied within 30 days (or in the process of being remedied).

If an event of default occurs, the Commission, in addition to all other remedies given to the Commission at law or in equity, may terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Lessees' default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of Rent and all other sums due from the Lessee under such Lease upon delivery of an opinion of counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in the gross income of the holders of the Bonds. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Bonds the ratings of "Aaa", "AAA" and "AAA", respectively, each with the understanding that upon delivery of the Bonds, the Bond Insurance Policy will be issued by the Bond Insurer. The underlying ratings for the Bonds are "Aa3", "A+" and "AA-" from Moody's, S&P and Fitch, respectively.

Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the ratings given by Moody's may be obtained from Moody's Investors Service, Inc. at 99 Church Street, New York, New York 10007, (212) 553-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the Rating Service, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT F.

LITIGATION

Except as described herein, there is no litigation pending or, to the knowledge of the Commission or the Cabinet, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or which would adversely affect the application of the revenues of the Commission to the payment of the Bonds.

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds 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 Bonds or due existence or powers of the Commission.

TAX MATTERS

General

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Commission, the Cabinet and the State Agencies, respectively, have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds.

Subject to the compliance by the Commission, the Cabinet, the State Agencies and others with the above-referenced covenants, under present law, in the opinion of Chapman and Cutler LLP, Bond Counsel, interest on the Bonds is not includible in the gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Commission and the Cabinet with respect to certain material facts solely within the knowledge of the Commission, the Cabinet and the State Agencies relating to the application of the proceeds of the Bonds. In rendering its opinion, Bond Counsel will also rely upon the mathematical computation of the yield on the Bonds and the yield on certain investments contained in the Verification Report of McGladrey & Pullen, LLP. The opinion of Bond Counsel represents its legal judgment based on its review of the law and facts that it deems relevant to render such opinion, and is not a guarantee of result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the alternative minimum taxable income of the corporation ("AMTI"), which is the taxable income of the corporation with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICS and FASITs) is an amount equal to 75% of the excess of the "adjusted current earnings" of such corporation over an amount equal to its AMTI

(before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Under the provisions of Section 884 of the Code, a branch profits tax is levied on the "effectively connected earnings and profits" of certain foreign corporations, which include tax-exempt interest such as interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the stated redemption price of the Bond at maturity or, in the case of a Bond issued with original issue discount, its Revised Issue Price (as discussed below), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the election of the purchaser, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

There are or may be pending in the Congress of the United States of America legislative proposals, including some that may carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or local tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that the interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky, and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

Premium

An investor may purchase a Bond at a price in excess of its stated principal amount (a "Premium Bond"). Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Premium Bond in a manner that takes into account potential call dates and call prices. An investor in a Premium Bond cannot deduct amortized bond premium relating to such Premium Bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Premium Bond. Investors who purchase a Premium Bond should consult their own tax advisors regarding the amortization of bond premium and its affect on the Premium Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Premium Bond.

Original Issue Discount

The initial offering price of certain Bonds is less than the principal amount payable at maturity. The difference between the Issue Price (defined below) of each such maturity of the Bonds and the amount payable at maturity is original issue discount. The issue price (the "Issue Price") for each such maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of each such maturity of the Bonds is expected to be the amount set forth on the cover, but is subject to change based on actual sales.

For an investor who purchases a Bond in the initial public offering at the Issue Price for any such maturity and who holds such Bond to its stated maturity, subject to the condition that the Commission, the Cabinet and others comply with the covenants discussed under "TAX MATTERS" above, (a) the full amount of original issue discount with respect to such Bond constitutes interest which is not includible in the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year.

If a Bond issued with original issue discount is purchased at any time for a price that is less than the Issue Price of such Bond plus accreted original issue discount (the "Revised Issue Price"), the purchaser will be treated as having purchased such Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Such treatment would apply to any purchaser who purchases such Bond for a price that is less than its Revised Issue Price.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors. Owners of Bonds issued with original issue discount should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Concurrently with the delivery of the Bonds, McGladrey & Pullen, LLP, independent certified public accountants (the "Verifier"), will deliver a verification report stating that they have verified the mathematical accuracy of certain computations relating to the sufficiency of the principal of and interest on certain United States Treasury Obligations to provide for the timely payment of the principal or respective redemption prices of and interest on the Prior Bonds as they become due as described above under the caption "PLAN OF FINANCE". Such computations will be based solely on assumptions and information supplied by the Underwriters on behalf of the Commonwealth. The Verifier will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information on which the computations are based and, accordingly, not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the anticipated outcome.

UNDERWRITING

The Bonds are to be purchased by a syndicate managed by Morgan Stanley & Co. Incorporated, as representative of the managing underwriters identified on the cover hereof and on behalf of itself (the "Managers") (the Managers and the other syndicate members collectively, the "Underwriters"). The

Underwriters have agreed, subject to certain conditions, to purchase the Bonds at an aggregate purchase price of \$42,216,834.30 (which is equal to the principal amount of the Bonds plus net original issue premium of \$2,464,305.65 and less underwriting discount of \$232,471.35). The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters have advised the Commission that they intend to make a public offering of the Bonds at the initial public offering prices set forth on the cover page hereof, provided, however, that the Underwriters have reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriters shall deem necessary in connection with the marketing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). 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, if material. In order to enable the Underwriters to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee. Specifically, the Commission will covenant to provide notice in a timely manner to each nationally recognized municipal securities depository or the Municipal Securities Rulemaking Board, and the appropriate state information depository, if any, of any of the following types of events with respect to the Bonds, 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.

OTHER MATTERS

This Official Statement has been prepared under the direction of the Executive Director of the Office of Financial Management.

The information set forth herein has been obtained from sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. The summaries of the documents herein contained do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to official documents in all respects.

This Official Statement has been approved, and its execution and delivery have been authorized, by the Commission.

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: /s/ George R. Burgess, Jr.
Executive Director
Office of Financial Management
(Secretary to the Commission)

EXHIBIT A

FINANCIAL INFORMATION ON UNIVERSITY OF KENTUCKY EASTERN KENTUCKY UNIVERSITY and KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY

University of Kentucky

Initially presented herein are excerpts from The Kentucky Comprehensive Annual Financial Report ("CAFR") for Fiscal Year 2002 with respect to Major Component Units, including the University of Kentucky: (i) Statement of Net Assets, pages 50 and 51 and (ii) Statement of Activities, page 52. A copy of the CAFR for Fiscal Year 2002 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 CAFR for Fiscal Year 2002 may be found on the Internet at:

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

Subsequently presented herein is a Statement of Revenues, Expenses and Changes in Net Assets from the University of Kentucky 2002 Annual Report, showing results for the year ended June 30, 2002, page 10. A copy of the University of Kentucky 2002 Annual Report may be obtained from the Office of Financial Management.

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2002
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	Non-Major Component Units Authorities
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 50,630	\$ 37,659	\$ 194,435
Restricted cash (Note 5)			3,603
Investments, net of amortization (Note 5)	148,296	43,511	66,537
Accounts receivable, net	36,637	754	45,428
Interest receivable		19,919	4,125
Due from component units			62
Inventories			579
Prepaid expenses		171	903
Other current assets			9,287
Total Current Assets	235,563	102,014	324,959
Noncurrent assets:			
Restricted cash (Note 5)		68,332	9,129
Long-term investments (Note 5)	179,312		175,047
Long-term receivables, net	1,079,690	716,069	390,814
Deferred charges	16,848	11,525	3,381
Capital assets (Note 6):			
Land	942		14,719
Improvements other than buildings			83
Buildings	4,409		282,054
Machinery and equipment	6,164	4,521	67,858
Other fixed assets			12,880
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(5,956)	(3,011)	(153,448)
Construction in progress	364		9,271
Total Capital Assets	5,923	1,510	233,417
Other assets			4,657
Total Noncurrent Assets, Net	1,281,773	797,436	816,445
Total Assets	1,517,336	899,450	1,141,404
Liabilities			
Current liabilities:			
Accounts payable	30,912	3,825	19,211
Accrued liabilities			3,925
Current portion of long-term debt:			
Notes payable (Note 15)	2,525		99
Bonds payable (Note 15)	27,060	30,540	64,294
Capital lease obligations (Note 10)			
Compensated absences (Note 17)		269	1,709
Claims liability			5,531
Deferred revenues	8,794		6,453
Payable from restricted assets			
Other current liabilities	22,368		2,695
Total Current Liabilities	91,659	34,634	103,917
Noncurrent liabilities:			
Notes payable (Note 15)			
Bonds payable (Note 15)	1,160,713	758,230	801,398
Capital lease obligations (Note 10)			
Compensated absences (Note 17)			109
Other long-term liabilities	1,359	27,986	
Total Noncurrent Liabilities	1,162,072	786,216	801,507
Total Liabilities	1,253,731	820,850	905,424
Net Assets			
Invested in capital assets, net of related debt	5,923	1,510	231,483
Restricted for:			
Debt service	200,248	64,520	
Other purposes (Note 1)	23,723		67,323
Unrestricted	33,711	12,570	(62,826)
Total Net Assets	\$ 263,605	\$ 78,600	\$ 235,980

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

UNIVERSITIES and COLLEGES

University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units Universities	All Component Units Total June 30, 2002
\$ 245,567	\$ 31,772	\$ 54,936	\$ 126,235	\$ 741,234
	64,615	26	4,305	7,908
124,485	42,723	18,787	27,325	350,310
10,299			41,738	310,552
			2,406	36,749
14,689	1,659	3,718	5,987	62
			1,852	26,632
	16,551		1,959	2,926
395,040	157,320	77,467	211,807	27,797
				1,504,170
110,776	45,318	105,307	110,070	448,932
615,881	29,035	26,178	69,085	1,094,538
25,143	23,309	6,486	14,207	2,255,718
	4,687			36,441
30,936	37,052	16,358	29,029	129,036
45,552	6,863	12,911	34,706	100,115
902,384	482,934	285,541	802,105	2,759,427
437,604	209,091	68,661	199,486	993,385
			30,684	43,564
	500	5,777		6,277
(721,622)	(304,266)	(182,842)	(625,858)	(1,997,003)
140,750	29,739	80,206	114,108	374,438
835,604	461,913	286,612	584,260	2,409,239
	6,998		81,438	93,093
1,587,404	571,260	424,583	859,060	6,337,961
1,982,444	728,580	502,050	1,070,867	7,842,131
95,210	35,539	6,154	32,450	223,301
				3,925
	229		1,278	4,131
17,515	10,926	8,020	19,055	177,410
5,940	1,535	1,410	3,266	12,151
380	1,161	7,087	9,742	20,348
			2,052	7,583
42,624	27,959	15,115	30,320	131,265
			2,465	2,465
12,433		7,728	4,368	49,592
174,102	77,349	45,514	104,996	632,171
1,425	8,329		4,723	14,477
193,751	119,264	59,675	157,092	3,250,123
42,866	1,464		40,082	84,412
1,870	8,613		415	11,007
61,004	19,579	3,164	51,275	164,367
300,916	157,249	62,839	253,587	3,524,386
475,018	234,598	108,353	358,583	4,156,557
607,663	328,326	217,507	372,922	1,765,334
14,132	21,811	2,409	15,644	318,764
498,747	68,389	144,656	247,546	1,050,384
386,884	75,456	29,125	76,172	551,092
\$ 1,507,426	\$ 493,982	\$ 393,697	\$ 712,284	\$ 3,685,574

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Authorities					
Kentucky Housing Corporation	\$ 226,426	\$ 98,394	\$ 136,962	\$	\$ 8,930
Kentucky Higher Education Student Loan Corporation	43,721	56,101			12,380
Other authorities	291,656	175,407	171,193	3,375	58,319
Universities and Colleges					
University of Kentucky	1,181,743	538,954	309,153	12,628	(321,008)
University of Louisville	489,511	244,945	86,348	2,514	(155,704)
Kentucky Community and Technical College System	355,864	36,657	147,367		(171,840)
Other universities and colleges	697,154	232,229	129,640	23,647	(311,638)
Total Component Units	<u>\$ 3,286,075</u>	<u>\$ 1,382,687</u>	<u>\$ 980,663</u>	<u>\$ 42,164</u>	<u>(880,561)</u>
General Revenues:					
Unrestricted grants and contributions					171,629
Unrestricted investment earnings					1,747
Gain on sale of capital assets					3,080
Miscellaneous general					900,021
Special items					178,668
Extraordinary items					(1,194)
Transfers					1,929
Total General Revenues and Transfers					<u>1,255,880</u>
Change in Net Assets					<u>375,319</u>
Net Assets at July 1, as Restated					<u>3,310,255</u>
Net Assets at June 30					<u>\$ 3,685,574</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

UNIVERSITY OF KENTUCKY AND AFFILIATED CORPORATIONS

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2002

OPERATING REVENUES

Student tuition and fees	\$ 133,915,941
Less: Scholarship allowances	(30,145,793)
Net tuition and fees	103,770,148
Federal grants and contracts	106,302,165
State and local grants and contracts	49,643,203
Nongovernmental grants and contracts	99,751,921
Indirect cost recoveries	30,406,284
Sales and services	45,139,948
Federal appropriations	14,400,994
County appropriations	8,649,815
Hospital services	316,344,568
Auxiliary enterprises:	
Housing and dining	32,191,800
Less: Scholarship allowances	(4,495,648)
Net housing and dining	27,696,152
Athletics	35,635,768
Other auxiliaries	9,857,368
Other operating revenues	509,829
Total operating revenues	848,108,163

OPERATING EXPENSES

Educational and general:	
Instruction	236,449,207
Research	170,113,907
Public service	157,736,901
Libraries	12,852,395
Academic support	47,071,284
Student services	18,690,589
Institutional support	47,372,665
Operations and maintenance of plant	46,219,286
Student financial aid	25,057,009
Depreciation	45,426,274
Total educational and general	806,989,517
Hospital and clinics (including depreciation of \$15,011,754)	298,667,864
Auxiliary enterprises:	
Housing and dining (including depreciation of \$1,799,542)	31,642,219
Athletics (including depreciation of \$2,450,217)	35,912,791
Other auxiliaries	8,055,833
Other operating expenses	474,990
Total operating expenses	1,181,743,214
Net loss from operations	(333,635,051)

NONOPERATING REVENUES (EXPENSES)

State appropriations	303,639,256
Gifts and grants	30,240,861
Investment income (loss)	(10,237,648)
Endowment income	12,624,975
Interest on capital asset-related debt	(12,574,751)
Other nonoperating revenues and expenses, net	(111,463)
Net nonoperating revenues (expenses)	323,581,230
Net loss before other revenues, expenses, gains, or losses	(10,053,821)
Capital appropriations	49,002,114
Capital grants and gifts	12,626,433
Additions to permanent endowments, including Research Challenge	
Trust Funds of \$8,586,454	29,106,731
Other, net	11,362,157
Total other revenues (expenses)	102,097,435
Increase in net assets	92,043,614

NET ASSETS, beginning of year as restated

1,415,381,957

NET ASSETS, end of year

\$1,507,425,571

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Eastern Kentucky University

Initially presented herein are excerpts from the CAFR for Fiscal Year 2002 with respect to Non-Major Component Units – Universities and Colleges, including Eastern Kentucky University: (i) Statement of Net Assets, page 182 and (ii) Statement of Activities, page 184. A copy of the CAFR for Fiscal Year 2002 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 CAFR for Fiscal Year 2002 may be found on the Internet at:

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

Subsequently presented herein is a Statement of Revenues, Expenses and Changes in Net Assets from the Eastern Kentucky University Financial Report for the year ended June 30, 2002, pages 4 and 5. A copy of the Eastern Kentucky University Financial report for the year ended June 30, 2002 may be obtained from the Office of Financial Management.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
JUNE 30, 2002
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	\$ 40,049	\$ 17,334	\$ 19,905
Restricted cash		3,244	
Investments, net of amortization	18,936		479
Accounts receivable, net	14,839	11,267	5,226
Interest receivable	493	353	
Inventories	455	1,332	1,831
Prepaid expenses	13	653	
Other current assets		154	1,037
Total Current Assets	<u>74,785</u>	<u>34,337</u>	<u>28,478</u>
Noncurrent assets:			
Restricted cash		64,184	
Long-term investments, net	1,977	12,295	29,671
Long-term receivables	4,696		3,280
Land	4,995	4,401	9,137
Improvements other than buildings	9,833	10,370	
Buildings	153,108	112,099	142,742
Machinery and equipment	60,426	48,274	32,443
Other fixed assets	30,684		
Less: Accumulated depreciation and amortization	(145,234)	(101,748)	(100,667)
Construction in progress	51,867	27,011	6,240
Total Capital Assets	<u>165,679</u>	<u>100,407</u>	<u>89,895</u>
Other assets	<u>378</u>	<u>5,312</u>	<u>14,341</u>
Total Noncurrent Assets, Net	<u>172,730</u>	<u>182,198</u>	<u>137,187</u>
Total Assets	<u>247,515</u>	<u>216,535</u>	<u>165,665</u>
Liabilities			
Current liabilities:			
Accounts payable and accruals	7,521	3,627	5,991
Current portion of long-term debt:			
Notes payable		286	110
Bonds payable	5,925	2,495	2,305
Capital lease obligations	910	539	689
Compensated absences	2,284	2,109	
Claims liability		916	
Deferred revenues	7,360	7,213	2,407
Payable from restricted assets		1,404	
Other current liabilities	784	1,117	613
Total Current Liabilities	<u>24,784</u>	<u>19,706</u>	<u>12,115</u>
Noncurrent liabilities:			
Notes payable		1,984	570
Bonds payable	41,485	18,210	31,235
Capital lease obligations	24,980	1,161	1,200
Compensated absences			
Other long-term liabilities	5,993	31,621	4,826
Total Noncurrent Liabilities	<u>72,458</u>	<u>52,976</u>	<u>37,831</u>
Total Liabilities	<u>97,242</u>	<u>72,682</u>	<u>49,946</u>
Net Assets			
Invested in capital assets, net of related debt	92,757	46,895	68,128
Restricted for:			
Debt service	8,016	3,982	
Other purposes	37,791	76,921	30,981
Unrestricted	11,709	16,055	16,610
Total Net Assets	<u>\$ 150,273</u>	<u>\$ 143,853</u>	<u>\$ 115,719</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Universities and Colleges					
Eastern Kentucky University	\$ 170,411	\$ 41,392	\$ 60,676	\$ 14,311	\$ (54,032)
Western Kentucky University	165,992	57,619	1,682		(106,691)
Morehead State University	97,254	31,420	25,865		(39,969)
Murray State University	113,744	45,689	10,877		(57,178)
Northern Kentucky University	100,552	45,400	14,997	540	(39,615)
Kentucky State University	49,201	10,709	15,543	8,796	(14,153)
Total	<u>\$ 697,154</u>	<u>\$ 232,229</u>	<u>\$ 129,640</u>	<u>\$ 23,647</u>	<u>(311,638)</u>

General Revenues:

Unrestricted grants and contributions	53,590
Unrestricted investment earnings	5,107
Gain on sale of capital assets	(889)
Miscellaneous general	347,653
Total General Revenues and Transfers	<u>405,461</u>
Change in Net Assets	93,823
Net Assets at July 1, as Restated	618,461
Net Assets at June 30	<u>\$ 712,284</u>

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended JUNE 30, 2002

REVENUES

Operating revenues:

Student tuition and fees	
(Net of scholarship allowances of \$17,817,135)	\$ 25,760,243
Federal grants and contracts	43,883,977
State and local grants and contracts	16,002,650
Nongovernmental grants and contracts	790,071
Sales and services of educational departments	4,772,793
Auxiliary enterprises revenues-housing	
(Net of scholarship allowances of \$2,973,027)	4,516,164
Auxiliary enterprises revenues-other	843,441
Other operating revenues	5,498,820
Total operating revenues	<u>102,068,159</u>

EXPENSES

Operating expenses:

Educational and general	
Instruction	59,372,967
Research	573,577
Public service	30,635,859
Libraries	2,810,636
Academic support	16,834,208
Student services	8,904,226
Institutional support	16,429,508
Operations and maintenance of plant	12,888,623
Depreciation	10,358,911
Student Aid	5,333,425
Auxiliary enterprises	
Housing and other auxiliaries	5,106,278
Depreciation	974,444
Other expenditures	188,427
Total operating expenses	<u>170,411,089</u>

Operating loss	<u>(68,342,930)</u>
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NONOPERATING REVENUES (EXPENSES)

State appropriations	72,730,807
Investment income	1,307,370
Interest on capital asset-related debt	(3,550,738)
Bond issuance costs	(98,214)
Other nonoperating revenues	1,739,724
Net nonoperating revenues	<u>72,128,949</u>
Income before other revenues, expenses, gains, losses	<u>3,786,019</u>

Continued

EASTERN KENTUCKY UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended JUNE 30, 2002

Capital appropriations	13,856,070
Capital grants and gifts	455,000
Federal capital support	<u>187,809</u>
Total other revenues	<u>14,498,879</u>
Increase in net assets	<u>18,284,898</u>

NET ASSETS

Net assets-beginning of year	277,507,135
Cumulative effects of change in accounting principle, adoption of GASB Statement No. 35:	<u>(145,519,176)</u>
Net assets-beginning of year, as adjusted	<u>131,987,959</u>
Net assets-end of year	<u><u>\$ 150,272,857</u></u>

See notes to financial statements.

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Kentucky Higher Education Assistance Authority

Initially presented herein are excerpts from the CAFR for Fiscal Year 2002 with respect to Non-Major Component Units – Authorities, including KHEAA: (i) Statement of Net Assets, pages 176 and 177 and (ii) Statement of Activities, page 178. Financial information with respect to KHEAA is presented in The Kentucky Comprehensive Annual Financial Report ("CAFR") published annually by the Commonwealth. A copy of the CAFR for Fiscal Year 2002 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 CAFR for Fiscal Year 2002 may be found on the Internet at:

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

Subsequently presented herein is a Statement of Revenues, Expenses and Changes in Fund Balance/Net Assets from the KHEAA Reports on Audit for the year ended June 30, 2002, pages 13 and 15. A copy of the KHEAA Report on Audits for the year ended June 30, 2002 may be obtained from the Office of Financial Management.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2002
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky School Facilities Construction Commission	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority
Assets						
Current assets:						
Cash and cash equivalents	\$ 1,999	\$	\$ 1,506	\$ 7,964	\$ 1,287	\$ 2,449
Restricted cash	3,603					
Investments, net of amortization						
Accounts receivable, net	536	403		1,853	507	1,504
Interest receivable					14	4
Due from component units						
Inventories						579
Prepaid expenses				541	362	
Other current assets						354
Total Current Assets	6,138	403	1,506	10,358	2,170	4,890
Noncurrent assets:						
Restricted cash				4,844		
Long-term investments, net			21,284		847	5,420
Long-term receivables						
Deferred charges			255			299
Land	441			14,073	129	76
Improvements other than buildings	83					
Buildings				236,912	31,571	13,571
Machinery and equipment	412			4,748	12,994	39,384
Other fixed assets	12,880					
Less: Accumulated depreciation and amortization	(3,300)			(94,641)	(23,809)	(31,664)
Construction in progress				8,752		519
Total Capital Assets	10,516			169,844	20,885	21,886
Other assets				422		3,824
Total Noncurrent Assets	10,516		21,539	175,110	21,732	31,429
Total Assets	16,654	403	23,045	185,468	23,902	36,319
Liabilities						
Current liabilities:						
Accounts payable	138	2	12,138	1,804	531	2,141
Accrued liabilities	18					
Current portion of long-term debt:						
Notes payable		99				
Bonds payable			47,669			
Compensated absences		28	17		125	1,539
Claims liability						
Deferred revenues				4,647	999	421
Other current liabilities		17				
Total Current Liabilities	156	146	59,824	6,451	1,655	4,101
Noncurrent liabilities:						
Bonds payable			554,453			
Compensated absences	69	11	29			
Total Noncurrent Liabilities	69	11	554,482			
Total Liabilities	225	157	614,306	6,451	1,655	4,101
Net Assets						
Invested in capital assets, net of related debt	15,980			169,844	20,885	20,897
Restricted for:						
Other purposes	457			4,844		8,710
Unrestricted	(8)	246	(591,261)	4,329	1,362	2,611
Total Net Assets	\$ 16,429	\$ 246	\$ (591,261)	\$ 179,017	\$ 22,247	\$ 32,218

Kentucky Economic Development Finance Authority	Kentucky Higher Education Assistance Authority	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2002
\$ 41,005	\$ 8,400	\$ 59,211	\$ 34	\$ 242	\$ 16,317	\$ 54,021	\$ 194,435
							3,603
	1,240	65,297					66,537
88	11,963	21,493			814	6,267	45,428
398		1,706		114	207	1,682	4,125
	62						62
							579
							903
7,751	501	681					9,287
49,242	22,166	148,388	34	356	17,338	61,970	324,959
	1,980				2,305		9,129
26,062	11,245	105,065	483	3,424	1,217		175,047
39,702	10,208	334,965			5,939		390,814
	151	2,188			488		3,381
							14,719
							83
							282,054
	10,236	84					67,858
							12,880
		(34)					(153,448)
							9,271
	10,236	50					233,417
411							4,657
66,175	33,820	442,268	483	3,424	9,949		816,445
115,417	55,986	590,656	517	3,780	27,287	61,970	1,141,404
45	1,215	189			346	662	19,211
	1,962					1,945	3,925
	300	14,480			1,845		99
							64,294
							1,709
						5,531	5,531
						386	6,453
		2,544				134	2,695
45	3,477	17,213			2,191	8,658	103,917
	8,240	208,118			30,587		801,398
							109
	8,240	208,118			30,587		801,507
45	11,717	225,331			32,778	8,658	905,424
	3,827	50					231,483
						53,312	67,323
115,372	40,442	365,275	517	3,780	(5,491)		(62,826)
\$ 115,372	\$ 44,269	\$ 365,325	\$ 517	\$ 3,780	\$ (5,491)	\$ 53,312	\$ 235,980

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2002
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Authorities					
Kentucky River Authority	\$ 4,144	\$ 1,351	\$ 380	\$ 2487	\$ 74
Bluegrass State Skills Corporation	4,039				(4,039)
Kentucky School Facilities Construction Commission	24,197	89,873	1,784		67,460
Kentucky State Fair Board	38,956	32,663			(6,293)
Kentucky Center for the Arts Corporation	10,052	2,571	1,628	621	(5,232)
Kentucky Educational Television Authority	27,652	5,395	4,069	267	(17,921)
Kentucky Economic Development Finance Authority	17,994	1,986			(16,008)
Kentucky Higher Education Assistance Authority	111,971	18,275	96,912		3,216
Kentucky Infrastructure Authority	25,169	12,995	36,865		24,691
Kentucky Grain Insurance Corporation	127	103			(24)
Kentucky Local Correctional Facilities Construction Authority	3,378	5,382	280		2,284
Kentucky Access	23,977	4,813	29,275		10,111
Totals	<u>\$ 291,656</u>	<u>\$ 175,407</u>	<u>\$ 171,193</u>	<u>\$ 3,375</u>	<u>\$ 58,319</u>

General Revenues:

Unrestricted grants and contributions	260
Unrestricted investment earnings	4,505
Gain on sale of capital assets	3,870
Miscellaneous general	18,356
Transfers	3,015
Total General Revenue and Transfers	<u>30,006</u>
Change in Net Assets	<u>88,325</u>
Net Assets at July 1, as Restated	<u>147,655</u>
Net Assets at June 30	<u><u>\$ 235,980</u></u>

Kentucky Higher Education Assistance Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance/Net Assets - Governmental Funds

for the year ended June 30, 2002

	Governmental Funds Student Aid
Revenues:	
Interest and investment income fund	\$ 514,427
State General Fund revenue	54,709,017
Student Aid & Advancement Fund revenue	40,424,708
Federal funds revenue	753,617
Other income	510,136
Total revenues	96,911,905
Expenditures:	
Kentucky Tuition Grants	14,265,831
College Access Program Grants	35,057,525
Early Childhood Development Scholarships	1,188,274
National Guard Tuition Awards	2,218,064
Kentucky Educational Excellence Scholarships	38,834,859
Teacher Scholarships	3,878,814
Osteopathic Medicine Scholarships	168,158
Work Study	843,081
Outreach and other activities	437,223
Total program benefits	96,891,829
Excess of revenues over expenses	20,076
Other financing sources and uses, including transfers:	
Interfund transfers	3,320,268
Net change in fund balance/net assets	3,340,344
Fund balance/net assets, beginning of year, as restated	18,618,001
Fund balance/net assets, end of year	\$ 21,958,345

The accompanying notes are an integral part of the financial statements.

Kentucky Higher Education Assistance Authority
Statement of Revenues, Expenditures and Changes
in Net Assets – Proprietary Funds

for the year ended June 30, 2002

	Internal Service Fund	Agency Operating Fund	Total
Operating Revenues:			
Service fees		\$ 462,872	\$ 462,872
Debt recovery commission		10,047,552	10,047,552
Federal fees earned		5,885,998	5,885,998
Default aversion fee income		1,234,921	1,234,921
Other income	\$ 104,939	538,059	642,998
Total operating revenues	104,939	18,169,402	18,274,341
Operating expenses:			
Personnel and professional services		8,062,222	8,062,222
Other administrative expenses		2,015,555	2,015,555
Default commission expenses		2,841,945	2,841,945
Other expenses	222,183	402,770	624,953
Total operating expenses	222,183	13,322,492	13,544,675
Operating income (loss)	(117,244)	4,846,910	4,729,666
Nonoperating revenues and expenses:			
Interest and investment income		686,567	686,567
Income (loss) before transfers	(117,244)	5,533,477	5,416,233
Transfers in (out):			
Interfund transfer	(104,107)	(3,216,161)	(3,320,268)
Federal Student Loan Reserve Fund transfer		(1,533,260)	(1,533,260)
Transfer from KHESLC		3,000,000	3,000,000
Increase (decrease) in net assets	(221,351)	3,784,056	3,562,705
Net assets, beginning of year	221,351	18,526,750	18,748,101
Net assets, end of year	-	\$ 22,310,806	\$ 22,310,806

The accompanying notes are an integral part of the financial statements.

EXHIBIT B

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists state agencies which 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 as displayed in Table II.

Appropriation supported debt carries the name of the Commonwealth and is either (i) a general obligation of the Commonwealth, 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 Commonwealth. 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 \$500 million of debt outstanding.	Aa3/A+/AA-
Kentucky Higher Education Student Loan Corporation	KRS 164A Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to \$950 million of debt outstanding; effective July 15, 2002, limit became \$1.95 billion.	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 (Insured)

*Ratings, where applicable, include Moody's, S&P and Fitch. On October 9, 2002, S&P 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+. S&P also lowered the Kentucky Infrastructure Authority's moral obligation pledge from A to A-.

TABLE II
DEBT OF THE STATE AND ITS AGENCIES
as of 6/30/02

AGENCY	AMOUNT ISSUED	PRINCIPAL	FISCAL YEAR ENDING		FISCAL YEAR ENDING	
		OUTSTANDING 6/30/2002	6/30/2003 PRINCIPAL INTEREST		6/30/2004 PRINCIPAL INTEREST	
APPROPRIATION SUPPORTED DEBT						
Asset/Liability Commission	105,780,000	81,535,000	11,840,000	3,297,078	31,475,000	2,562,305
State Property Buildings Commission	3,232,951,319	2,170,202,921	118,733,431	117,220,495	121,866,232	113,193,391
Turnpike Authority	2,246,519,300	890,974,119	108,296,239	62,669,941	112,987,227	51,626,083
School Facilities Construction Commission	795,070,862	602,608,341	47,668,996	27,847,124	49,216,899	25,718,835
Kentucky Infrastructure Authority	205,460,000	161,355,000	9,235,000	8,125,380	9,655,000	7,708,985
Subtotal	6,585,781,481	3,906,675,382	295,773,666	219,160,017	325,200,358	200,809,599
Universities (General Fund Supported Debt)						
Eastern Kentucky University	51,545,000	32,745,000	4,235,000	1,427,409	4,430,000	1,230,144
KY Community and Technical College System	100,879,000	67,695,000	8,020,000	3,294,935	8,440,000	2,914,700
Kentucky State University	20,750,000	10,185,000	1,370,000	619,688	1,455,000	539,388
Morehead State University	20,790,000	10,785,000	945,000	529,338	1,000,000	474,520
Murray State University	16,285,000	9,755,000	1,430,000	551,105	1,510,000	474,930
Northern Kentucky University	61,610,000	34,140,000	3,865,000	4,658,300	4,060,000	4,505,365
University of Kentucky	88,935,000	46,205,000	8,680,000	2,134,708	6,180,000	1,747,125
University of Louisville	150,335,000	96,675,000	8,730,000	5,124,879	9,120,000	4,695,394
Western Kentucky University	33,695,000	20,705,000	2,495,000	1,071,473	2,510,000	949,070
Subtotal	544,824,000	328,890,000	39,770,000	19,411,832	38,705,000	17,530,635
Universities (Agency Fund Supported Debt)						
Eastern Kentucky University	29,585,000	14,665,000	1,690,000	592,280	1,000,000	602,698
Kentucky State University	7,000,000	3,595,000	485,000	181,909	505,000	156,389
Morehead State University	28,315,000	19,615,000	1,360,000	976,896	1,350,000	914,505
Murray State University	18,690,000	10,177,000	855,000	417,192	600,000	390,783
Northern Kentucky University	9,668,000	6,900,000	325,000	285,206	335,000	270,469
University of Kentucky	161,695,000	120,516,000	7,855,000	5,712,719	8,235,000	5,365,786
University of Louisville	19,285,000	12,895,000	700,000	733,343	750,000	691,308
Subtotal	274,238,000	188,363,000	13,270,000	8,899,544	12,775,000	8,391,937
Subtotal	7,404,843,481	4,423,928,382	348,813,666	247,471,394	376,680,358	226,732,171
NON-APPROPRIATION SUPPORTED DEBT						
Moral Obligation Debt						
Kentucky Housing Corporation	1,440,435,000	1,142,200,000	27,030,000	61,395,058	29,305,000	61,774,992
KY Higher Educ Student Loan Corp	854,310,000	788,770,000	30,540,000	22,988,671	19,715,000	21,417,450
Kentucky Infrastructure Authority	87,870,000	63,505,000	5,585,000	3,237,879	5,880,000	2,946,894
Subtotal	2,382,615,000	1,994,475,000	63,155,000	87,621,608	54,900,000	86,139,335
Project Revenue Debt						
Local Correctional Facilities Const Auth	45,595,000	32,710,000	1,845,000	1,691,809	1,940,000	1,600,945
Subtotal	45,595,000	32,710,000	1,845,000	1,691,809	1,940,000	1,600,945
Subtotal	2,428,210,000	2,027,185,000	65,000,000	89,313,417	56,840,000	87,740,280
Total Debt	9,833,053,481	6,451,113,382	413,813,666	336,784,811	433,520,358	314,472,451

FISCAL YEAR ENDING 6/30/2005		FISCAL YEAR ENDING 6/30/2006		FISCAL YEAR ENDING 6/30/2007		REMAINING DEBT SERVICE TO MATURITY	
PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
12,875,000	1,697,068	13,420,000	1,149,138	5,830,000	547,000	6,095,000	283,800
124,084,798	107,002,986	124,410,715	98,428,044	122,474,381	92,677,716	1,558,633,365	586,700,500
90,871,355	39,931,685	83,398,837	45,369,556	85,495,075	26,846,897	409,925,386	94,667,365
51,083,649	23,465,046	52,147,371	21,133,357	53,215,368	18,726,647	349,276,058	90,106,444
10,105,000	7,268,642	10,550,000	6,795,424	11,100,000	6,268,199	110,710,000	35,301,110
289,019,803	179,365,427	283,926,922	172,875,519	278,114,824	145,066,458	2,434,639,809	807,059,220
4,265,000	1,033,879	4,465,000	845,374	4,140,000	646,349	11,210,000	1,163,985
8,675,000	2,514,270	9,135,000	2,098,425	9,345,000	1,654,765	24,080,000	2,754,325
1,545,000	454,075	810,000	363,438	865,000	312,813	4,140,000	669,063
1,050,000	427,578	1,100,000	383,935	1,155,000	336,770	5,535,000	1,102,573
1,600,000	392,215	1,690,000	304,315	1,795,000	208,615	1,730,000	334,495
4,235,000	4,342,563	4,285,000	4,182,048	4,530,000	4,021,798	13,165,000	20,441,508
6,495,000	1,460,785	6,820,000	1,158,395	5,610,000	846,958	12,420,000	1,435,613
9,480,000	4,233,574	10,010,000	3,748,914	10,285,000	3,232,551	49,050,000	11,425,444
2,640,000	824,250	2,785,000	691,290	2,940,000	548,840	7,335,000	968,955
39,985,000	15,683,187	41,100,000	13,776,132	40,665,000	11,809,457	128,665,000	40,295,959
955,000	557,050	1,000,000	514,243	1,050,000	469,303	8,970,000	3,393,761
540,000	129,469	190,000	100,669	195,000	91,406	1,680,000	343,687
1,415,000	849,761	1,395,000	782,426	1,285,000	714,749	12,810,000	3,901,787
602,000	367,849	520,000	346,048	540,000	325,285	7,060,000	2,242,176
350,000	255,009	365,000	238,649	385,000	221,330	5,140,000	1,380,469
8,560,000	4,999,384	7,810,000	4,616,559	7,650,000	4,236,614	80,406,000	28,623,723
790,000	646,073	835,000	596,423	890,000	542,869	8,930,000	2,039,863
13,212,000	7,804,594	12,115,000	7,195,016	11,995,000	6,601,555	124,996,000	41,925,465
342,216,803	202,853,209	337,141,922	193,846,667	330,774,824	163,477,470	2,688,300,809	889,280,644
31,445,000	60,289,002	35,590,000	58,633,022	39,295,000	56,743,390	979,535,000	701,138,903
37,680,000	20,411,604	845,000	18,628,190	995,000	18,566,590	698,995,000	386,796,053
4,435,000	2,681,497	4,735,000	2,443,614	4,870,000	2,187,723	38,000,000	9,893,724
73,560,000	83,382,103	41,170,000	79,704,826	45,160,000	77,497,703	1,716,530,000	1,097,828,680
2,030,000	1,503,658	2,135,000	1,399,506	2,240,000	1,287,918	22,520,000	5,241,169
2,030,000	1,503,658	2,135,000	1,399,506	2,240,000	1,287,918	22,520,000	5,241,169
75,590,000	84,885,761	43,305,000	81,104,332	47,400,000	78,785,620	1,739,050,000	1,103,069,849
417,806,803	287,738,969	380,446,922	274,950,999	378,174,824	242,263,090	4,427,350,809	1,992,350,492

EXHIBIT C

THE PROJECT

Project Originally Financed by the Prior Notes

University of Kentucky - Center for Rural Health. The original authorized budget amount for this project was \$6,100,000 and involves the construction of an academic and clinical services building for the University of Kentucky Center of Excellence in Rural Health and the allied health programs of the Hazard Community College, a Kentucky Community and Technical College System institution located in Hazard, Kentucky. The facility will provide space to support programs in rural health services research, graduate education in nursing and physical therapy, a baccalaureate program in clinical laboratory sciences, cross training for allied health professionals, medical residency training in family practice, and radiography and clinical lab technology. In addition, the new facility will provide continuing education and technical assistance programs to Kentucky's rural counties. The total cost of this project is projected to be \$13,065,000 and has been funded to date with SPBC bond proceeds, federal funds and private funds. The construction of this project is expected to be completed in January of 2004. The Commission is issuing the Bonds to retire the Prior Notes, the proceeds of which were used to originally finance this project. The Commission owns the project and leases it to the University of Kentucky under a Lease.

Projects Originally Financed by the Prior Bonds

University of Kentucky - Commonwealth Stadium Expansion. The original authorized budget amount for this project was \$24,000,000 and involved the expansion of the University of Kentucky's Commonwealth Stadium to a capacity of approximately 67,500 seats, providing an additional 16,000 permanent seats and related amenities to serve stadium patrons. The construction of this project is complete. The Commission owns the project and leases it to the University of Kentucky under a Lease.

Eastern Kentucky University - Law Enforcement Training Complex. The original authorized budget amount for this project was \$20,000,000 and involved the construction of a basic training complex for the Department of Criminal Justice Training on the campus of Eastern Kentucky University. The construction of the facility has been completed and contains all of the classrooms, support and supply activities for the basic training and housing for both basic and in-service students. The Commission owns the project and leases it to Eastern Kentucky University under a Lease.

Kentucky Higher Education Assistance Authority - Construction of New Headquarters. The original authorized budget amount for this project was \$9,000,000 and involved the construction of a 75,000 square foot office building for KHEAA. The project is complete, is owned by the Commission and leased to KHEAA under a Lease.

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EXHIBIT D

SUMMARY OF THE REFUNDED NOTES AND BONDS

Advance Refunded Prior Bonds

State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 66, Series A maturing on the dates, in the amounts and bearing interest at the rates, as follows:

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>
May 1, 2011	\$2,910,000	5.375%
May 1, 2012	3,060,000	5.400
May 1, 2013	3,225,000	5.400
May 1, 2014	3,400,000	5.500
May 1, 2015	3,585,000	5.500
May 1, 2016	3,780,000	5.600
May 1, 2017	4,000,000	5.700
May 1, 2018	4,225,000	5.700
May 1, 2020	4,510,000	5.750

Current Refunded Prior Notes

Kentucky Asset/Liability Commission Project Notes, 2002 Agency Fund Series A maturing on the date, in the amount and bearing interest at the rate, as follows:

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>
November 1, 2003	\$6,360,000	3.500%

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EXHIBIT E

BOOK ENTRY ONLY SYSTEM

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

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

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

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

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

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

To facilitate subsequent transfers, all Bonds 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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 Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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

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EXHIBIT F
FORM OF BOND COUNSEL OPINION FOR THE BONDS

[Date of Delivery]

Commonwealth of Kentucky
State Property and Buildings Commission
Frankfort, Kentucky 40601

State Property and Buildings Commission of the
Commonwealth of Kentucky
\$39,985,000 Agency Fund Revenue and Revenue Refunding Bonds,
Project No. 80, Series A

We have examined a certified copy of the proceedings of the State Property and Buildings Commission of the Commonwealth of Kentucky (the "*Commission*"), authorizing the issuance by the Commission of its Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "*Bonds*") in the aggregate principal amount of \$39,985,000, issued for the purpose of providing funds (i) to finance and refinance certain projects, (ii) to refund certain outstanding bonds of the Commission (the "*Prior Commission Bonds*"), (iii) to refund certain outstanding notes of the Kentucky Asset/Liability Commission (the "*Prior ALCo Notes*"), and (iv) to pay the costs of issuance of the Bonds, all for the benefit of certain state agencies identified in this opinion (the "*Lessees*").

The Bonds are being issued by the Commission, pursuant to Chapter 56 and Sections 58.010 to 58.140, inclusive, of the *Kentucky Revised Statutes*, as supplemented and amended (the "*Act*"), H.B. 321 of the General Assembly of the Commonwealth of Kentucky, 1998 Regular Session and H.B. 502 of the General Assembly of the Commonwealth of Kentucky, 2000 Regular Session (the "*Budget Act*"), and a resolution adopted by the Commission on September 12, 2003 (the "*Bond Resolution*"). The projects to be financed and refinanced with the proceeds of the Bonds (collectively, the "*Project*") have been leased to the respective Lessees, pursuant to the Financing/Lease Agreement dated as of June 26, 2002, by and between the Kentucky Asset/Liability Commission, the Cabinet (as hereinafter defined), the Commission and the University of Kentucky; the Financing/Lease Agreement dated as of August 1, 1998, by and among the Kentucky Asset/Liability Commission, the Commission, the Cabinet and the University of Kentucky, as supplemented and amended; the Financing/Lease Agreement dated as of June 1, 2000, by and among the Kentucky Asset/Liability Commission, the Commission, the Cabinet and Eastern Kentucky University, as supplemented and amended; and the Financing/Lease Agreement dated as of June 1, 2000, by and among the Kentucky Asset/Liability Commission, the Commission, the Cabinet and the Kentucky Higher Education Assistance Authority, as supplemented and amended (collectively, the "*Lease*").

The Bonds are dated the date hereof, are issued in fully registered form in the denomination of \$5,000 each and any integral multiple thereof, are lettered RA and numbered 1 and upward, mature on the dates and in the principal amounts, and bear interest at the rates per annum, payable on May 1 and November 1 of each year, commencing on May 1, 2004, as follows:

<u>DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>	<u>DATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST RATE</u>
May 1, 2005	\$340,000	2.000%	May 1, 2016	\$3,150,000	5.250%
May 1, 2006	355,000	2.000	May 1, 2017	615,000	4.200
May 1, 2007	360,000	2.250	May 1, 2017	3,705,000	5.250
May 1, 2008	365,000	2.750	May 1, 2018	1,600,000	4.250
May 1, 2009	375,000	3.000	May 1, 2018	2,940,000	5.250
May 1, 2010	385,000	3.000	May 1, 2019	530,000	4.375
May 1, 2011	3,310,000	3.375	May 1, 2019	2,000,000	5.250
May 1, 2012	3,410,000	4.000	May 1, 2020	385,000	4.375
May 1, 2013	3,550,000	5.000	May 1, 2020	2,280,000	5.250
May 1, 2014	305,000	3.875	May 1, 2021	405,000	4.600
May 1, 2014	3,425,000	5.250	May 1, 2022	420,000	4.625
May 1, 2015	915,000	4.000	May 1, 2023	440,000	4.750
May 1, 2015	3,000,000	5.250	May 1, 2024	460,000	4.750
May 1, 2016	960,000	4.125			

The Bonds are subject to optional redemption prior to maturity as set forth therein and as set forth in the Bond Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for the issuance of the Bonds under the laws of the Commonwealth of Kentucky now in force. In that connection, we have examined (i) the Act, (ii) the Budget Act, (iii) a certified copy of the Bond Resolution, (iv) executed counterpart of the Leases, (v) the form of Bond, and (vi) such other proceedings, documents, instruments, showings and matters of law as we have deemed necessary to render this opinion.

Based on the foregoing, and in reliance thereon, it is our opinion that the Bond Resolution has been duly adopted by the Commission, and constitutes a valid and binding obligation of the Commission, enforceable against the Commission in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion. It is also our opinion that the Leases have been duly authorized, executed and delivered by the Commission, and constitute valid and binding obligations of the Commission, enforceable against the Commission in accordance with their respective terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

We have also examined the form of Bond prescribed for said issue, and find the same in due form of law, and in our opinion the Bonds are valid and binding obligations of the Commission, payable as to principal and interest solely and only from the payments to be made by the Lessees pursuant to the Leases, which payments are subject to biennial appropriation by the General Assembly of the Commonwealth of Kentucky, except that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, moratorium, reorganization and other similar laws affecting the rights and remedies of creditors and secured parties and by equitable principles, whether considered at law or in equity, including the exercise of judicial discretion.

It is also our opinion that, subject to compliance by the Commission, the Lessees and certain state agencies with certain covenants, under present law, the interest on the Bonds is not includible in gross income of the owners thereof for federal income tax purposes, and is not treated as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations. Failure to comply with certain of such covenants could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

It is also our opinion, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that the interest on the Bonds is exempt from the income tax imposed by the Commonwealth of Kentucky, and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions and taxing authorities. No opinion is expressed with respect to any other taxes imposed by the Commonwealth of Kentucky or any political subdivisions thereof. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied upon certifications of the Commission, the Finance and Administration Cabinet of the Commonwealth of Kentucky, the Lessees and certain other state agencies with respect to certain material facts solely within the respective knowledge of the Commission, the Cabinet, the Lessees and said state agencies relating to the application of the Bonds and the Prior Commission Bonds and the Prior ALCo Notes (collectively, the "*Prior Bonds*") and upon the report of McGladrey & Pullen, LLP, with respect to (i) the sufficiency of certain United States government obligations purchased with the proceeds of the Bonds to pay the principal of, premium, if any, and interest on the Prior Commission Bonds, and (ii) the yield on the Bonds and the yield on said United States government obligations. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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FORM OF FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation

Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]

[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefore. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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