Book-Entry-Only **Ratings: See "Ratings" herein**

NEW ISSUE

In the opinion of Bond Counsel for the Series 2013 Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX EXEMPTION," interest on the Series 2013 Bonds is excludable from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Series 2013 Bonds is exempt from Kentucky income tax and the Series 2013 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

$17,210,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 105

Dated: Date of Delivery **Due: April 1, as shown below**

The Agency Fund Revenue Bonds, Project No. 105 (the "Series 2013 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 Series 2013 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2013 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2013 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2013 Bonds will be made directly to DTC. The Series 2013 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, and will bear interest payable on each April 1 and October 1, commencing on October 1, 2013. Principal of, redemption premium, if any, and interest on the Series 2013 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent.

The Series 2013 Bonds mature on the dates, in the principal amounts, bear interest at the rates per annum and have the prices or yields as follows:

Maturity (April 1)	Principal Amount	Interest Rate	Price or Yield	Cusip[1] 49151F	Maturity (April 1)	Principal Amount	Interest Rate	Price or Yield	Cusip[1] 49151F
2015	$475,000	2.000%	0.400%	DE7	2025	$605,000	3.000%	2.550%	DQ0
2016	480,000	2.000	0.600	DF4	2026	625,000	4.000	2.700	DR8
2017	495,000	2.000	0.800	DG2	2027	655,000	4.000	2.850	DS6
2018	505,000	2.000	1.000	DH0	2028	680,000	3.000	3.000	DT4
2019	515,000	2.000	1.300	DJ6	2029	695,000	4.000	3.000	DU1
2020	525,000	4.000	1.500	DK3	2030	2,045,000	3.000	3.100	DV9
2021	545,000	4.000	1.750	DL1	2031	2,110,000	4.750	3.100	DW7
2022	565,000	3.000	2.000	DM9	2032	2,205,000	4.750	3.150	DX5
2023	580,000	2.000	2.150	DN7	2033	2,310,000	4.750	3.200	DY3
2024	595,000	2.125	2.300	DP2					

The Series 2013 Bonds are subject to redemption prior to maturity as described herein.

The Series 2013 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 River Authority (the "State Agency") pursuant to a Bond Resolution adopted March 19, 2013 to (i) pay the costs of the 2013 Project for the State Agency defined herein, (ii) make the required deposit, together with other funds of the State Agency, into the Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2013 Bonds.

THE SERIES 2013 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2013 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 THE BIENNIALLY RENEWABLE LEASE (AS DESCRIBED AND DEFINED HEREIN) AMONG THE COMMISSION, THE CABINET AND THE STATE AGENCY, THE RENT FROM WHICH IS SUBJECT TO 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 SERIES 2013 BONDS" herein.

The Series 2013 Bonds are offered when, as and if issued and accepted by the underwriter, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. It is expected that delivery of the Series 2013 Bonds will be made on or about May 15, 2013, in New York, New York, through the facilities of DTC, against payment therefor.

PNC CAPITAL MARKETS LLC

Dated: May 2, 2013.

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

Members

STEVEN L. BESHEAR
Governor
(Chairman of the Commission)

JERRY ABRAMSON
Lieutenant Governor

JACK CONWAY
Attorney General

LORI H. FLANERY
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

LARRY M. HAYES
Secretary
Cabinet for Economic Development

JANE DRISKELL
State Budget Director

EDGAR C. ROSS
State Controller

RYAN BARROW
Executive Director
Office of Financial Management
(Secretary to the Commission)

This Official Statement does not constitute an offer to sell the Series 2013 Bonds to any person, or the solicitation of an offer from any person to buy the Series 2013 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 Financial Advisor. 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 Financial Advisor. 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 Series 2013 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 Series 2013 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 SECURITIES 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 UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH TEND TO STABILIZE OR MAINTAIN THE MARKET PRICE FOR THE SERIES 2013 BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

 CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the holders only at the time of issuance of the Series 2013 Bonds and the Commission does not make any representations with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2013 Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2013 Bonds.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Series 2013 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 Series 2013 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 Series 2013 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 $17,210,000 Agency Fund Revenue Bonds, Project No. 105 (the "Series 2013 Bonds").
Authority	The Series 2013 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 on March 19, 2013 (i) authorizing the issuance of the Series 2013 Bonds and (ii) approving a First Supplemental Lease dated as of April 1, 2013 (the "Supplemental Lease") supplementing the Lease dated as of October 1, 2008 (the "Original Lease", and together with the Supplemental Lease, the "Lease") by and among the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky River Authority (the "State Agency"), jointly as lessee.
Use of Proceeds	The Series 2013 Bonds are being issued to provide funds with which to (i) pay certain costs of the 2013 Project, as described herein; (ii) together with other funds of the State Agency, make the required deposit into the Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2013 Bonds.
Security	The Commission previously issued its $15,720,000 Agency Fund Revenue Bonds, Project No. 91 (the "Series 2008 Bonds"); of which $13,655,000 remain outstanding. The Series 2008 Bonds were issued to pay the costs of the 2008 Project, as described herein, for the State Agency and the State Agency Revenues, as defined herein, were pledged to the payment of rent under the Original Lease The Supplemental Lease constitutes a "Parity Obligation" under the Original Lease and the Series 2013 Bonds constitute Additional Bonds (as defined herein) ranking on a parity as to security and source of payment with the Series 2008 Bonds.

The Series 2008 Bonds, Series 2013 Bonds and any Additional Bonds (collectively, the "Bonds") and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the Cabinet and the State Agency to the Commission under the Lease. The primary source for payments under the Lease will be rental payments made by the State Agency. See "SECURITY FOR THE SERIES 2013 BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease". The State Agency will make rental payments under the Lease from collections of certain fees paid by entities that withdraw water from the Kentucky River Basin (the "State Agency Revenues"). See "THE STATE AGENCY – Water User Fees" and "Tier II Fee Payers – Fiscal Year 2012." The Bonds are not secured by a lien on any of the properties constituting the Project or any amounts derived therefrom.

The Bonds are further secured by amounts on deposit in the various funds and accounts established by the Resolution, including the Reserve Fund (as defined herein), which is required to be maintained at a level equal to the maximum annual debt service requirement on the Bonds then outstanding (the "Reserve Fund Requirement"). The Commission will deposit, from proceeds of the Series 2013 Bonds and other funds of the State Agency, the amount necessary so that the balance on deposit on the Reserve Fund upon issuance of the Series 2013 Bonds will equal the Reserve Fund Requirement. See "SECURITY FOR THE BONDS; ADDITIONAL BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The Series 2013 Bonds are not secured by a lien on any of the properties constituting the 2013 Project, as described herein, or any amounts derived therefrom.

THE SERIES 2013 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2013 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 A BIENNIALLY RENEWABLE LEASE AGREEMENT WITH THE CABINET AND THE STATE AGENCY, THE RENT FROM WHICH IS SUBJECT TO APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE 2013 PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Features of Series 2013 Bonds

The Series 2013 Bonds are being offered in the authorized denominations of $5,000 or any integral multiple thereof, at the interest rates and prices or yields set forth on the cover page hereof. The Series 2013 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 Series 2013 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2013 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2013 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2013 Bonds will be made directly to DTC.

The Series 2013 Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2013. Principal of, premium, if any, and interest on the Series 2013 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the "Trustee").

The Series 2013 Bonds maturing on and after April 1, 2024 are subject to redemption at the option of the Commission on or after April 1, 2023, in whole or in part at any time, at a redemption price equal to the principal amount of the Series 2013 Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE SERIES 2013 BONDS - Redemption Provisions."

It is expected that delivery of the Series 2013 Bonds will be made on or about May 15, 2013, in New York, New York, through the facilities of DTC, against payment therefor.

Tax Status

Subject to compliance by the Commission, the Cabinet and the State Agency with certain covenants, in the opinion of Peck, Shaffer & Williams LLP, Bond Counsel, under present law, interest on the Series 2013 Bonds (including original issue discount treated as interest) is excluded from 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, except that such interest must be included in the "adjusted current earnings" of certain corporations for purposes of calculating alternative minimum taxable income. It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Series 2013 Bonds is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Series 2013 Bonds are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See "TAX EXEMPTION" herein for a more complete discussion, and EXHIBIT D.

Additional Bonds

The Resolution authorizes the issuance of obligations ranking on a parity with the security and source of payment with the Series 2008 Bonds and Series 2013 Bonds, which may be additional bonds issued in accordance with the requirements of the Resolution (the

"Additional Bonds") or other obligations permitted by the Lease (the "Parity Obligations"). See "SECURITY FOR THE SERIES 2013 BONDS."

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 Series 2013 Bonds is available by contacting the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924 and the Commission's Financial Advisor, First Southwest Company, 325 North St. Paul Street, Suite 800, Dallas, Texas 75201, Attention: Mr. Mike Newman (214) 953-8875.

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OFFICIAL STATEMENT
Relating to

$17,210,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 105

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 $17,210,000 Agency Fund Revenue Bonds, Project No. 105 (the "Bonds") issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky River Authority (the "State Agency") to provide funds with which to (i) pay the costs of the 2013 Project for the State Agency defined herein, (ii) make, together with other funds of the State Agency, the required deposit into the Reserve Fund (as defined herein) and (iii) pay the costs of issuing the Series 2013 Bonds.

The Cabinet and the State Agency, as co-lessee, entered into a Lease dated as of October 1, 2008, with the Commission, as (the "Original Lease"), to provide the Commission with amounts to pay the principal of and interest on the Commission's outstanding $15,720,000 Agency Fund Revenue Bonds, Project No. 91 Bonds (the "Series 2008 Bonds"), the proceeds of which were used to finance and refinance for the benefit of the State Agency, the construction of a concrete cellular dam, known as Dam 9, and to finance other public projects for the State Agency, including primarily Dam 3 (collectively, the "2008 Project"). The resolution authorizing the Series 2008 Bonds the ("Series 2008 Resolution") authorized the issuance of obligations having a pledge on the State Agency Revenues (as defined herein) on a parity with the lien of the Series 2008 Bonds, which may be additional bonds issued in accordance with the requirements of the Series 2008 Resolution (the "Additional Bonds") or other obligations (the "Parity Obligations") permitted by the Original Lease.

The Series 2013 Bonds are being issued as Additional Bonds under the Series 2008 Resolution and 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 dated March 19, 2013 (the "Resolution," and together with the Series 2008 Resolution, the "Bond Resolutions") authorizing the issuance of the Series 2013 Bonds and approving the Supplemental Lease hereinafter described.

The Cabinet and the State Agency have entered into a Supplemental Lease dated as of April 1, 2013, with the Commission, as (the "Supplemental Lease," and together with the Original Lease, the "Lease"), to provide the Commission with additional amounts to pay the principal of and interest on the Series 2013 Bonds. The current term of the Lease ends June 30, 2014, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet or the State Agency) for successive biennial periods to and including the biennial period which includes the final maturity of the Series 2008 Bonds, Series 2013 Bonds and any Additional Bonds that hereinafter may be issued (collectively, the "Bonds").

The Lease requires the State Agency, for each biennial period of the State Agency to request legislative appropriations of "Agency Funds" in amounts sufficient to permit the State Agency to make rental payments to the Commission which amounts are required to be sufficient to pay principal of and interest on the Bonds. The Cabinet agrees under the Lease that if a deficiency exists in the Reserve Fund, or if the State Agency fails to make a request for an appropriation as described above, that the Cabinet will request a General Fund appropriation in an amount sufficient to allow the Cabinet to maintain the

Reserve Fund Requirement in the Reserve Fund as required by the Resolution. The primary source for the payments due under the Lease will be payments made by the State Agency from collections of certain fees paid by the entities that withdraw water from the Kentucky River Basin (the "State Agency Revenues"). See "THE STATE AGENCY – Water Use Fees" and – "Tier II Fee Payers - Fiscal Year 2012" THE KENTUCKY GENERAL ASSEMBLY HAS NOT APPROPRIATED ANY AMOUNTS TO THE CABINET TO MAKE THE RENT PAYMENTS UNDER THE LEASE. THE ONLY CURRENT SOURCE OF PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS ARE AMOUNTS RECEIVED BY THE COMMISSION FROM THE STATE AGENCY UNDER THE LEASE.

The Commission has pledged to the payment of its obligations under the Resolution, payments to be received by the Commission from the Cabinet and the State Agency under the Lease. The Kentucky General Assembly has approved a budget for the State Agency having amounts projected to be sufficient to pay required rent under the Lease. The required rent payments are sufficient to meet principal and interest requirements on the Bonds through June 30, 2014.

Under the provisions of the Constitution of the Commonwealth, the Cabinet and the State Agency are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the Cabinet and the State Agency 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 the Cabinet or the 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 Cabinet or the State Agency to make rent payments under the Lease 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 any such appropriations.

The appropriations of the State Agency, 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 AGENCY – Agency Fund Appropriations" for a discussion of the difference between Agency Fund appropriations and General Fund appropriations.

In addition to amounts to be received by the Commission as rent under the Lease, a debt service reserve fund (the "Reserve Fund") was established under the Series 2008 Resolution as further security for the Bonds. The Reserve Fund is and will be held by the Trustee (defined below). The Commission is required to maintain an amount equal to the maximum annual debt service requirement on the outstanding Bonds (the "Reserve Fund Requirement") on deposit in the Reserve Fund. If amounts on deposit in the Reserve Fund are less than the Reserve Fund Requirement, the Cabinet and the State Agency are required to pay additional rent, under the Lease until the amount in the Reserve Fund equals the Reserve Fund Requirement. The Cabinet has covenanted under the Lease to seek a General Fund appropriation at each future session of the General Assembly if a deficiency exists in the Reserve Fund, or if the State Agency fails to make a request for an appropriation as described above, sufficient to remedy such deficiency. Proceeds of the Series 2013 Bonds, together with other funds received from the State Agency, will be deposited in the Reserve Fund in the amount necessary so that the balance on deposit on the Reserve Fund upon issuance of the Series 2013 Bonds will equal the Reserve Fund Requirement.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCY NOR IS THE CABINET OR THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE 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 LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR

INTEREST IN, THE PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the State Agency, the Resolution, the Series 2013 Bonds, the Lease, the 2013 Project and the Cabinet 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 76, Frankfort, Kentucky 40601 (502) 564-2924. This Official Statement will be posted with the Electronic Municipal Market Access ("EMMA") System.

THE SERIES 2013 BONDS

General

The Series 2013 Bonds are issuable only as fully registered Series 2013 Bonds. The Series 2013 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 April 1 and October 1, commencing October 1, 2013, at the interest rates set forth on the cover page of this Official Statement. Interest will be calculated on the basis of a 360 day year of twelve 30-day months. U.S. Bank National Association, Louisville, Kentucky is the trustee for the Bonds (the "Trustee").

Book-Entry-Only System

The Series 2013 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 Series 2013 Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2013 Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "EXHIBIT C - BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2013 Bonds maturing on or after April 1, 2024, are subject to optional redemption at par on April 1, 2023, and on any Business Day thereafter, 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.

Selection of Bonds for Redemption; Notice of Redemption. The Commission has directed the Trustee to notify DTC that in the event less than all of any Series 2013 Bonds are to be redeemed, any such redemption shall be on a pro rata basis in a principal amount equal to authorized denominations of $5,000 or any integral multiple thereof. The Commission and the Trustee are not making any representation relating to, and do not have any responsibility or obligation with respect to, whether DTC will follow the direction to redeem Series 2013 Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Series 2013 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 Series 2013 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 Series 2013 Bond shall not affect the validity of the redemption of any other Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Series 2013 Bonds to be redeemed and, in the case of Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 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 Series 2013 Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Series 2013 Bonds so called for redemption shall cease to accrue after the date fixed for redemption.

SECURITY FOR THE BONDS; ADDITIONAL BONDS

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission from the Cabinet and the State agency pursuant to the Lease. The primary source for the payments due under the Lease will be the State Agency Revenues. See "THE STATE AGENCY – Water User Fees" and – "Tier II Fee Payers - Fiscal Year 2012." No assurance can be given that the State Agency will collect sufficient State Agency Revenues to make the rental payments under the Lease.

The Kentucky General Assembly has approved a budget for the State Agency having amounts projected to be sufficient to pay required rent under the Lease through June 30, 2014. No funds have been appropriated directly to the Cabinet to enable the Cabinet to pay rent under the Lease. The required rent payments are sufficient to meet principal and interest requirements on the Bonds through June 30, 2014. The Lease will be automatically renewed unless written notice of the election by the Cabinet or the State Agency 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.

Under the provisions of the Constitution of the Commonwealth, the Cabinet and the State Agency are prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budgets for the Cabinet and the State Agency are submitted to the General Assembly of the Commonwealth every two years and are subject to the discretion and approval at each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that the Cabinet or the 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 Cabinet or the State Agency to make rent payments under the Lease 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 any such appropriations. The only current source of funds for payment of rent under the Lease is rent received by the Cabinet from the State Agency under the Lease.

The appropriations of the State Agency, 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 AGENCY – 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, including the Reserve Fund. The Commission is required to maintain (i) an amount equal to the Reserve Fund Requirement on deposit in the Reserve Fund, as described under "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Resolution" herein. If amounts on deposit in the Reserve Fund are less than the Reserve Fund Requirement, the Cabinet and the State Agency are required to pay additional rent, under the Lease until the amount in the Reserve Fund equals the Reserve Fund Requirement. The Cabinet has covenanted under the Lease to seek a General Fund appropriation at each future session of the General Assembly if a deficiency exists in the Reserve Fund, or if the State Agency fails to make a request for an appropriation as described above, sufficient to remedy such deficiency. Proceeds of the Series 2013 Bonds, together with other funds of the State Agency, will be deposited in the Reserve Fund in the amount necessary so that the balance on deposit on the Reserve Fund upon issuance of the Series 2013 Bonds will equal the Reserve Fund Requirement.

THE SERIES 2013 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 SERIES 2013 BONDS.

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCY NOR IS THE CABINET OR THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE LEASE. THE SERIES 2013 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 LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING THE 2013 PROJECT OR ANY AMOUNTS DERIVED THEREFROM. THE SERIES 2013 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 SERIES 2013 BONDS.

Under the Series 2008 Bond Resolution and the Resolution, the Commission has reserved the right to issue at one time, or from time to time, as shall be found necessary and for the best interest of the Commission, Additional Bonds for the purpose of constructing or acquiring other facilities constituting the Project, or for the purpose of refunding any of the Outstanding Bonds of the Commission, or for any combination of such purposes, but only provided the Commission shall have complied with the following requirements:

(i) The amounts required to have been credited to the respective funds and accounts in the Resolution, up to the date of authorization of said Additional Bonds, shall have been credited to said respective funds and accounts; and

(ii) if there is filed with the Commission by the State Agency a certificate of an authorized officer of the State Agency that the Revenues Available for Debt Service for the immediately preceding Fiscal Year (for which audited financial statements are available), or the adjusted Revenues Available for Debt Service for said immediately preceding Fiscal Year, if such revenues are adjusted as herein provided, are equal to not less than one hundred fifteen per cent (115%) of the maximum combined principal and interest requirements for any succeeding Fiscal Year during the life of (i) all Outstanding Bonds, (ii) the Additional Bonds then proposed to be issued; and (iii) any other obligations payable from the Revenues Available for Debt Service.

"Revenues Available for Debt Service" or "Net Revenues" means, under the Series 2008 Resolution and the Resolution, the aggregate of all of the revenues of the State Agency for a Fiscal Year, excluding (a) the proceeds of any Bonds and any other obligations payable from the Revenues Available for Debt Service, and (b) amounts required by law (excluding appropriations law) to be used for purposes other than for debt service on the Bonds and any other obligation payable from the Revenues Available for Debt Service (which, as of the date hereof, include the State Agency's revenues derived from Tier I rates and charges), all determined in accordance with generally accepted accounting principles. As of the date hereof, revenues derived from Tier II rates and charges of the State Agency constitute Net Revenues.

In the event there shall have been a change in the rates charged by the State Agency that create Revenues Available for Debt Service from the rates in effect for the next preceding Fiscal Year (for which audited financial statements are available), which change is in effect at the time of the issuance of any such Additional Bonds, then the Revenues Available for Debt Service as provided above (ii) shall be adjusted to reflect the Revenues Available for Debt Service for said next preceding Fiscal Year as they would have been had said then existing rates been in effect during all said Fiscal year. Any such Revenues Available for Debt Service shall be evidenced by a certificate of an authorized officer of the State Agency, which certificate shall be approved by the Commission prior to the issuance of the Additional Bonds and filed with the Secretary of the Commission upon its approval.

Notwithstanding the foregoing provisions, the Commission reserves the further right to issue (i) Additional Bonds to refund any of the Outstanding Bonds, provided that the debt service on the Additional Bonds in each following Fiscal Year is no greater than the debt service on the Bonds being refunded and (ii) Additional Bonds to refund any of the Outstanding Bonds, provided such Additional Bonds are issued to refund Bonds due within ninety (90) days of the date of refunding, and for the payment of which no other funds are or will be available at the maturity thereof.

As a condition precedent to the issuance of Additional Bonds in all cases, the Commission, the Cabinet and the State Agency shall enter into an amendment of or a supplement to the Lease, providing for rentals sufficient to provide Revenues to pay the principal of, premium, if any, and interest on all of the Outstanding Bonds, to make up any deficiencies in the Reserve Fund and to pay all other costs under the Bond Resolutions.

At the time of issuance, the Series 2008 Bonds and Series 2013 Bonds will be the only Bonds outstanding payable from the rental payments under the Lease and the State Agency Revenues.

See "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Lease – Additional Obligations" for a description of the terms under which the State Agency is authorized to incur obligations on a parity with its obligations to make rental payments under the Lease in connection with the Bonds.

PLAN OF FINANCE

The proceeds of the Series 2013 Bonds will be used by the Commission to (i) pay the costs of the 2013 Project for the State Agency, (ii) make, together with other funds of the State Agency, the required deposit into the Reserve Fund, and (iii) pay the costs of issuing the Series 2013 Bonds. See "SOURCES AND USES OF FUNDS FOR THE SERIES 2013 BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

SOURCES AND USES OF FUNDS FOR THE SERIES 2013 BONDS

The following table sets forth the application of the proceeds of the Series 2013 Bonds and other funds of the State Agency.

SOURCES OF FUNDS:	
Par Amount of Series 2013 Bonds	$17,210,000.00
Funds of State Agency	1,130,050.82
Net Original Issue Premium	1,386,657.20
TOTAL SOURCES	$19,726,708.02
USES OF FUNDS:	
Deposit to Project Fund	$18,400,000.00
Deposit to Reserve Fund	1,101,331.76
Deposit to Rate Stabilization Fund	28,719.06
Costs of Issuance*	196,657.20
TOTAL USES	$19,726,708.02

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

THE 2013 PROJECT

The 2013 Project financed with the proceeds of the Series 2013 Bonds consists of (i) the renovation of Locks 1 and 2 on the Kentucky River, (ii) the construction of Dam 8, including design costs, and (iii) the construction and renovation of additional public projects for the State Agency (collectively, the "2013 Project, " and together with the 2008 Project, the "Project"). The Cabinet and the State Agency will lease Project from the Commission under the Lease. For further information on the State Agency benefiting from the Project, see "THE STATE AGENCY" herein.

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, the State Budget Director and the State Controller. 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 and revenue refunding 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 Lease.

As of June 1, 2013, the Commission will have a total of $3,953,095,000 in aggregate principal amount of bonds outstanding, of which $100,385,000 is Agency Restricted Fund supported.

Future Financings of the Commonwealth

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. Governor Beshear took final action on the bills on June 4, 2010. Together, the bills authorize bond financing for projects totaling $1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, $507.4 million is General Fund supported, $515.3 million is Agency Restricted Fund supported, $522.5 million is supported by Road Fund appropriations and $435 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Bridges Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund and Road Fund authorizations have been permanently financed.

The 2012 Regular Session of the General Assembly delivered House Bill 265 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 30, 2012 and House Bill 2 (Kentucky Transportation Cabinet Budget) to the Governor on April 20, 2012, establishing an Executive Branch Budget for the biennium ending June 30, 2014. Governor Beshear took final action on House Bill 265 on April 13, 2012 and took final action on House Bill 2 on May 2, 2012. Together, the bills authorize bond financing for projects totaling $238.86 million to support various capital initiatives of the Commonwealth. Of the total authorization, $182.86 million is General Fund supported, $12.5 million is supported by Road Fund appropriations, and $43.5 million is Agency Restricted Fund supported. A portion of the Agency Restricted Fund authorization listed above has been permanently financed.

The balance of bond authorizations of the General Assembly prior to and including the 2012 Regular Session totals $1,525.9 million. Of these prior authorizations, $470.96 million is General Fund supported, $65.97 million is Agency Restricted Fund supported, $423 million is supported by Road Fund appropriations and $566 million is Federal Highway Trust Fund supported.

The 2013 Regular Session of the General Assembly delivered House Bill 7 to the Governor on February 20, 2013 authorizing a list of capital projects for the Kentucky state universities. Governor Beshear took final action on House Bill 7 on February 21, 2013. The bill authorizes bond financing for various university capital projects totaling $363.3 million to support various capital initiatives of the state universities, which are Agency Fund supported.

In addition, House Bill 238 was signed by the Governor on March 22, 2013 authorizing an agency fund bond supported capital project for the Judicial Branch in conjunction with the Administrative Office of the Courts for financing of Phase I E-Case and Docket Management system capital project totaling $28.1 million to be issued through Kentucky State Property and Buildings Commission or the Kentucky Asset/Liability Commission.

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future sessions.

THE FINANCE AND ADMINISTRATION CABINET

General. The Cabinet, created and governed by the provisions of KRS 12.020 and KRS 42.011, is a statutory administrative organization of the Commonwealth headed by the Secretary of the Cabinet, who is appointed by the Governor. The Secretary of the Cabinet is the chief financial officer of the Commonwealth. Cabinet functions include: (1) coordination and supervision of the fiscal affairs and fiscal procedures of the Commonwealth; (2) accounting, fiscal reporting and auditing of Commonwealth accounts; (3) purchasing, storekeeping and control of property and stores; (4) construction, maintenance and operation of public buildings, except those provided for the exclusive use of certain agencies; (5) providing administrative services of a financial nature to other agencies of state government; (6) investment and management of all Commonwealth funds other than pension funds; and (7) oversight of the issuance and management of all debt incurred in the name of the Commonwealth or any agency thereof.

Department of Facilities and Support Services. The Department of Facilities and Support Services is responsible for the Commonwealth's capital construction program; real property acquisition, disposition and leasing services; the daily operation and maintenance of state-owned office properties and surplus property services.

Department of Revenue. The Department of Revenue is responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. The Department of Revenue bills and collects the tax revenue necessary to support the state services provided by the Commonwealth.

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

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

THE STATE AGENCY

Kentucky River Authority

The Kentucky River Authority (the "Authority") was first established by the Kentucky General Assembly in 1986 to take over operation of the Kentucky River Locks and Dams 5 through 14 from the United States Corps of Engineers. Following the drought of 1988, the Authority was given a mission to protect and improve the waters of the Kentucky River through environmental management of the entire watershed.

The Authority is charged with developing comprehensive plans for the management of the Kentucky River Basin (the "Basin"), including long range water supply, drought response and ground water protection plans. It is also charged with adopting regulations to improve and coordinate water resource activities within the basin among state agencies and with the development of recreational areas within the basin.

The Authority is responsible for maintaining the 14 lock and dam structures on the Kentucky River. These structures were constructed by the United States Army Corps of Engineers for navigation purposes but are now only used for recreational boating and water supply.

The Authority is supported by water-user fees collected from facilities that withdraw water from within the basin. Exemptions are given to facilities using water for agricultural purposes. These fees are then passed on to the citizens in the basin who purchase water or products manufactured by use of the water resources.

The elements of the Authority's Mission Statement include (i) the maintenance and management of the water resources of the Basin; (ii) providing a clean water supply for the citizens of the Basin; (iii) providing leadership and a common forum for all stakeholders of the Basin and (iv) the promotion of the highest and best recreational uses of the water resources of the Basin.

The Board of the State Agency consists of 12 members, including the Secretary of the Energy and Environment Cabinet, the Secretary of the Finance and Administration Cabinet and ten members appointed by the Governor of the Commonwealth, representing citizens residing in the Basin, local government officials and engineers and other professionals in the area of water quality and management. The current Board members of the State Agency and their terms and background are as follows:

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KENTUCKY RIVER AUTHORITY BOARD MEMBERS

Member	Term Expires	Position
Mrs. Martha Clare Sipple (Chairperson) Winchester, Kentucky	September 18, 2016	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. Russell Meyer (Vice Chairman) Nicholasville, Kentucky	September 18, 2014	A member representing mayors from counties which obtain the major portion of their water supply from the Kentucky River
Mr. Ronald Johnson Hindman, Kentucky	September 18, 2013	A member residing in a county adjacent to either the north, middle or south forks of the Kentucky River.
Mr. Warner J. Caines (Secretary) Frankfort, Kentucky	September 18, 2016	A member representing registered engineers
Mr. James Kay Versailles, Kentucky	September 18, 2015	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. Keith Cartier Lexington, Kentucky	September 18, 2013	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. Herbbie Bannister Frankfort, Kentucky	September 18, 2015	A member representing an expert in water quality
Mr. Jerry Wildt Frankfort, Kentucky	September 18, 2014	A member residing in a county adjacent to Locks and Dams 1-4 of the Kentucky River
Mr. Ted Collins (Treasurer) Franklin County Judge Executive Frankfort, Kentucky	September 18, 2014	A member representing a county judge/executive from counties which obtain the major portion of their water supply from the Kentucky River
Ms. Pat Banks Richmond, Kentucky	September 18, 2013	A member residing in a county adjacent to the main stem of the Kentucky River
Ms. Lori H. Flanery Secretary, Finance and Administration Cabinet Frankfort, Kentucky	Ex Officio	Secretary of Finance and Administration Cabinet
Mr. Len Peters Secretary, Energy and Environment Cabinet Frankfort, Kentucky	Ex Officio	Secretary of Energy and Environment Cabinet

The audited financial statements of the State Agency for Fiscal Years 2011 and 2012 are set forth in EXHIBIT B to this Official Statement.

Water-User Fees

The operations of the State Agency are supported by the collection of water-user fees (the "Fees") from entities that withdraw water from the Basin. There are two categories of Fees: Tier I fees, which are paid by all users for the benefit of the entire watershed (the "Tier I Fees") and Tier II fees, which are an additional charge on water withdrawn from the "Main Stern" of the Kentucky River, and are reserved for the maintenance and replacement of the Locks and Dams on the Kentucky River (the "Tier II Fees"). Tier I water fees are currently $0.022 per thousand gallons of water withdrawn from any source within the boundaries of the Basin. The Tier II fee was increased on March 6, 2013, with an effective date of July 1, 2013, to its current rate of $0.130 per thousand gallons of water from its prior rate of $0.06 per thousand gallons of water.

The Fees are initially set for each year of the biennium to carry out the functions, projects and expenses authorized by the General Assembly. Fee rates may be amended as necessary to fund projects budgeted by the State Agency. Fees are collected quarterly and are deposited into a fund within the State Treasury.

The primary source for the payments due under the Lease will be payments made by the State Agency from collections of Tier II Fees.

Tier II Fee Payers — Fiscal Year 2012

In Fiscal Year 2012, 16 entities used 25,370,764,705 gallons of water and accounted for 100% of all Tier II Fees collected in that year. The following chart identifies the 10 largest water users and payers of Tier II Fees in Fiscal Year 2012: Kentucky River Authority Tier II Fee Payers Fiscal Year 2012

Largest Users	Water Usage (Gallons)	Tier II Fees per 1000 gal $0.060	% of Total Tier II Fees
Kentucky-American Water Co.	11,553,605,000	$693,216	45.5390%
Frankfort Electric and Water Plant Board	3,022,741,622	181,364	11.9143%
Richmond Water, Gas, and Sewage	2,485,647,003	149,139	9.7973%
Winchester Municipal Utilities	1,819,199,463	109,152	7.1705%
Nicholasville Water Works	1,469,517,367	88,171	5.7922%
Versailles Municipal Water Works	1,163,120,800	69,787	4.5845%
Harrodsburg Municipal Water Works	1,012,038,055	60,722	3.9890%
East Kentucky Power Cooperative	759,979,173	45,599	2.9955%
Lawrenceburg Municipal Water Works	751,716,000	45,103	2.9629%
Lancaster Municipal Water Works	547,505,000	32,850	2.1580%
Total	24,585,069,483	$1,475,103	96.9032%

Historical Pro Forma Debt Service Coverage

The following table sets out the adjusted historical pro forma debt service coverage for the eleven year period ending June 30, 2012, assuming the adjusted current Tier II Fee rate of $0.130 per 1,000 gallons of water used and the maximum annual debt service on the Bonds:

Kentucky River Authority
Tier II
Adjusted Historical Pro Forma Debt Service Coverage

Period Ended June 30	Annual Water Usage (Gallons)	Tier II Fees Per 1000 gallon $0.130	Maximum Annual DS	Coverage
2002	28,244,065,261	$3,671,728	$2,424,794	1.51x
2003	29,432,587,408	3,826,236	2,424,794	1.58x
2004	28,594,670,180	3,717,307	2,424,794	1.53x
2005	25,483,457,513	3,312,849	2,424,794	1.37x
2006	28,487,932,629	3,703,431	2,424,794	1.53x
2007	27,881,340,169	3,624,574	2,424,794	1.49x
2008	28,163,726,347	3,661,284	2,424,794	1.51x
2009	27,641,646,669	3,593,414	2,424,794	1.48x
2010	25,752,365,384	3,347,807	2,424,794	1.38x
2011	27,874,370,965	3,623,668	2,424,794	1.49x
2012	25,370,764,705	3,298,199	2,424,794	1.36x

The State Agency expects revenues generated from Tier II Fees in subsequent fiscal years to be no less than the average of the most recent five fiscal years set forth above.

Agency Fund Appropriations

The budget of the Commonwealth is required to include all fund sources, which include General Funds, Road Funds, Federal Funds, Agency Funds and Tobacco Funds. The 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. Agency Funds of the State Agency are described in its financial statements included in EXHIBIT B.

The State Agency has agreed to include an amount sufficient for rent under the Lease in each budget request. Payments of rent related to the Bonds may only be made from Agency Funds available to the State Agency from Tier II Fees.

The Kentucky General Assembly has adopted the budget for the State Agency having amounts projected to be sufficient to enable the State Agency to pay required rents through June 30, 2014. The required rent payments are designed to be sufficient to meet principal and interest requirements on the Bonds through June 30, 2014.

Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the biennial budget. The proposed budget for the State Agency is submitted to the General Assembly of the Commonwealth every two years, and is 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 the State Agency will include rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will appropriate amounts sufficient to enable the State Agency 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.

THE COMMONWEALTH

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

The Kentucky economy, once dominated by coal, horses, bourbon and tobacco has become a diversified, modern, international economy -- illustrated by the fact that Kentucky's manufacturing employment concentration as a percentage of non-farm employment is now higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

By most accounts, the losses endured by Kentucky from the national recession that ended in June 2009 were less severe than most states. The loss of household wealth was muted in Kentucky since the Commonwealth did not experience a pronounced run-up in home values. Additionally, Kentucky’s abundance of coal provided stable employment and wealth in the mining sector. Finally, Kentucky has a broad mix of manufacturing employment rather than an overreliance in a single industry. The automobile industry was one of the first sectors to rebound from the recession, and Kentucky is overrepresented in the automotive industries, especially parts manufacturing and supply.

Like most states, Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of Fiscal Year 2010, nine quarters later. The weakness in employment coming out of the recession has been stubborn across nearly every sector of Kentucky employment, so the magnitude of the rebound has been less robust than previously projected.

The good news is that now, six years after the onset of the recession, Kentucky’s economy has exceeded those previous high in terms of personal income and wages and salaries. Kentucky personal income grew by 4.5 percent in the second quarter. Quarter to quarter growth has been somewhat volatile for many quarters. Over the last ten quarters, personal income growth has gone from a low of 0.4 percent growth to 3.1 percent growth, back down to 0 .4 percent before jumping to 2.1 percent and then subsiding again to 0.4 percent. Adjacent-quarter growth is currently a solid 1.0 percent, which is similar to U.S. personal income growth.

Financial Information Regarding the Commonwealth

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

The Commonwealth annually publishes The Kentucky Comprehensive Annual Financial Report with respect to the Fiscal Year of the Commonwealth most recently ended. The CAFR 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 CAFR contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of the CAFR 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. Recent data indicates that Kentucky may rebound more quickly than other states if the resurgence of the domestic auto industry can be sustained, if Kentucky's expanded role in auto parts manufacturing remains, and if Kentucky's relative insulation from the catastrophic losses of household wealth brought about by the national housing bubble continues.

Certain Financial Information Incorporated by Reference

The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2012 is incorporated herein by reference. The Commonwealth has filed *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2012 with the following Nationally Recognized Municipal Securities Information Repository ("NRMSIR") in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"):

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

A copy of *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2012 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502)564-2924. Additionally, *The Kentucky Comprehensive Annual Financial Report* for Fiscal Year 2012 and certain other fiscal years may be found on the Internet at:

http://finance.ky.gov/services/statewideacct/Pages/ReportsandPublications.aspx

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

The Commission will enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to enable the purchaser of the Notes to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE 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 EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

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

In the absence of a legislatively enacted budget, the Supreme Court has ruled that the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of and interest, when due, on obligations that are subject to appropriation. The Series 2013 Bonds are obligations that are subject to appropriation.

Fiscal Year 2010

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

The largest portion of the Commonwealth's net assets, $18.8 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $7.9 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $13.4 billion and general revenues (including transfers) of $9.8 billion for total revenues of $23.2 billion during Fiscal Year 2010. Expenses for the Commonwealth during Fiscal Year 2010 were $24.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of ($1.46) billion, net of contributions, transfers and special items.

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

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

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

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

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

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

Fiscal Year 2011

The Commonwealth's combined net assets (governmental and business-type activities) totaled $11.5 billion at the end of 2011, as compared to $12.04 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.5 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.3 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative $9.3 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $13.3 billion and general revenues (including transfers) of $10.6 billion for total revenues of $23.9 billion during Fiscal Year 2011. Expenses for the Commonwealth during Fiscal Year 2011 were $24.4 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $520 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was $461 million or 3.6 percent. Approximately 51 percent of the governmental activities' total revenue came from taxes, while 39 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2011, the Commonwealth's governmental funds reported combined ending fund balances of $2.65 billion, an increase of $498 million in comparison with the prior year. $122.6 million is nonspendable and is comprised of inventories and cash with fiscal agents that must remain intact. The $2.17 billion is restricted for certain purposes and is not available to fund current operations. The $362 million is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2011, was $313 million. The balance reported reflects an increase of $225.8 million from the previously reported amount, which represents an increase of 262 percent. The major factor for the increase is enhanced federal participation in Medicaid; thus, reducing the state's share of these expenditures.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $6 million represents the nonspendable amount, $57 million is assigned and represents continuing appropriations and the remaining $249 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced a significant decrease in grant revenue as a result of the decrease in American Reinvestment and Recovery Act (ARRA), resulting in a significant decrease in federal fund expenditures. The Transportation Fund experienced an increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $122 million.

The Commonwealth of Kentucky's bonded debt increased by $281.8 million to $6.2 billion, at 4.7% increase during Fiscal Year 2011. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding to reduce future interest costs. No general obligation bonds were authorized or outstanding at June 30, 2011.

Fiscal Year 2012

The Commonwealth's combined net assets (governmental and business-type activities) totaled $10.69 billion at the end of 2012, as compared to $11.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, $19.95 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling $1.5 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(11) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of $11.5 billion and general revenues (including transfers) of $10.9 billion for total revenues of $22.4 billion during Fiscal Year 2012. Expenses for the Commonwealth during Fiscal Year 2012 were $23.2 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of $794 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was $987 million or 8 percent. Approximately 53.6 percent of the governmental activities' total revenue came from taxes, while 37.6 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2012, the Commonwealth's governmental funds reported combined ending fund balances of $2.4 billion, an increase of $205 million in comparison with the prior year. $120.8 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $2.45 billion is restricted for certain purposes and is not available to fund current operations. The $(134) million is considered unrestricted (committed, assigned, or unassigned) and is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2012, was $95.1 million. The balance reported reflects a decrease of $201 million from the previously reported amount, which represents a decrease of 67.7 percent. The major factor for the decrease is enhanced federal participation in Medicaid; thus, increasing the state's share of these expenditures. Another major factor is the state's increased contributions to the various pension plans.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $5.5 million represents the nonspendable amount, $35.6 million is assigned and represents continuing appropriations and the remaining $54 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced a significant decrease in grant revenue as a result of the decrease in American Reinvestment and Recovery Act (ARRA), resulting in a significant decrease in federal fund expenditures. The Transportation Fund experienced an increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $166.7 million.

The Commonwealth of Kentucky's bonded debt increased by $314 million to $6.5 billion, a 5 percent increase during Fiscal Year 2012. The major factors in this increase were the issuance of bonds to fund new capital projects and to refund debt outstanding to reduce future interest costs. No general obligation bonds were authorized or outstanding at June 30, 2012.

Fiscal Year 2013 (Unaudited)

The official revenue estimate for Fiscal Year 2013 was also released by the CFG in December 2011. The estimate for Fiscal Year 2013, as modified by the 2012 Regular Session of the General Assembly, is $9,307.8 million. The revised and enacted official estimate reflects a 2.4 percent increase in General Fund receipts for Fiscal Year 2013 when compared to Fiscal Year 2012 actual receipts. The estimate excluded Phase I Tobacco MSA payments, which are estimated by CFG to be $92.1 million in Fiscal Year 2013.

Fiscal Year 2013 General Fund actual revenues total $6,775.4 million through March, 2013. Receipts have now grown 2.6 percent for the first nine months of fiscal year. Based on March's results, General Fund revenues need to grow 1.7 percent for the remainder of the fiscal year to meet the enacted official estimate.

General Fund revenues for March, 2013 were $735.8 million, compared to $732.8 million during March, 2012. During March, 2013, sales and use tax receipts decreased 5.5 percent when compared to March, 2012 and have decreased 0.8 percent for the fiscal year. Individual income tax collections fell 3.3 percent compared to March, 2012. Total individual income tax receipts are up 5.7 percent for Fiscal Year 2013. Corporation income tax receipts rose 53.1 percent for March, 2013 and have increased 12.7 percent for the fiscal year. Property taxes for March, 2013 decreased 16.5 percent compared to March, 2012, but are up 6.3 percent for the fiscal year. Cigarette tax receipts decreased 1.0 percent in March, 2013 when compared to March, 2012 and have now fallen 5.4 percent year-to-date. Coal severance tax receipts fell 29.1 percent in March, 2013 when compared to March, 2012 and are down 24.9 percent for the fiscal year. The Kentucky Lottery Corporation dividend payment for March, 2013 fell 5.1% to $18.0 million compared to March, 2012's payment, and collections are down 0.5 percent for the fiscal year.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day to day investment management to the Office of Financial Management. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices. PFM has made its recommendations to OFM and the State Investment Commission ("SIC"), and the approved recommendations not requiring statutory changes are currently being implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

http://finance.ky.gov/services/ofm/Documents/SIC%20Invest%20Prog%20Rev.pdf

In response to the above referenced report, House Bill 234 was signed by the Governor on March 21, 2013, which amended KRS 42.500 to incorporate into law some of the report's recommendations. It removes the 10 percent limit of available investments that the Securities Investment Commission may invest in mutual funds which allows the SIC to invest more in mutual funds. It also specifies the mutual fund's credit rating shall be the highest rated category by a nationally recognized statistical rating organization and 100 percent of the securities in the mutual fund shall be eligible investments under KRS 42.500.

At April 30, 2013, the Commonwealth's operating portfolio was approximately $3.593 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (11%); securities issued by agencies and instrumentalities of the United States Government (38%); mortgage-backed securities and collateralized mortgage obligations (9%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (3%); and corporate and asset-backed securities, including money market securities (26%). The portfolio had a current yield of 0.32% and an effective duration of 0.87 years.

The Commonwealth's investments are currently categorized into three investment pools; the Short Term, Limited Term and Intermediate Term Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short Term Pool consists primarily of the General Fund and related accounts. The Limited Term Pool is a money market like pool which focuses on principal protection for certain agency funds. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale.

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

The Commonwealth has used over the counter treasury options since the mid 1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than 20% of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio. The Commonwealth has had no options positions outstanding since April 2004.

The Commonwealth has had a securities lending program since the mid 1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of "Eligible Collateral," marked to market daily. "Eligible Collateral" is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent, Deutsche Bank, lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in Eligible Collateral authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth.

On June 30, 2003, the State Investment Commission adopted Resolution No. 03-03, which amended the Commonwealth's investment policy concerning asset based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counterparties. The Commonwealth engages in asset based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to $25 million per issuer and a stated final maturity of five years or less. Money market securities rated A1 P1 or higher are limited to 20% of the investment pools. Asset-Backed Securities ("ABS") are limited to 20% of the investment pools. Mortgage–Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25% of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase. Changes have been proposed for these regulations which generally would tighten the securities eligible for purchase while allowing a larger position certain of those security types.

Interest Rate Swaps

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. As of May 1, 2013, the Commission had interest rate swap transactions outstanding with a total notional amount outstanding of $210,665,000. This swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled $243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the Commission’s 2007 $243.08 million General Fund Floating Rate Project Notes.

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.

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. Most retirement benefits are subject to a statutory inviolable contract under which the benefits shall not, with limited exceptions, be reduced or impaired by alteration, amendment or repeal. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2012* Note 8 beginning on page 84. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at **http://kyret.ky.gov** and **http://www.ktrs.ky.gov**, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2012 actuarial valuation reports used in preparing the associated Pension Plans' 2012 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $8,903 million, while KTRS had a UAAL of $12,282 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2012 had funding percentages of 30.2 percent for the Kentucky Retirement Systems and 54.5 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2012 pension benefits was $481.9 million; $250.9 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2012 was $757.8 million; $557.3 million was contributed.

Other Post Employment Benefits ("OPEB"). The Governmental Accounting Standards Board has promulgated Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"), which the Commonwealth has adopted.

The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the Commonwealth pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the Commonwealth commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, KTRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offer this group an insured Employer Group Waiver Drug Plan.

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2012 has been estimated to not exceed \$2,928 million for the Kentucky Retirement Systems and \$3,255 million for KTRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2012. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased significantly from the \$4,320 million previously reported in the Kentucky Retirement Systems' 2011 CAFR. The actuarial estimates for KTRS increased slightly from the \$3,128 million previously reported in their 2011 CAFR due to the changes adopted in House Bill 540 (see "Changes to State Retirement Systems" below).

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2012 healthcare benefits was \$354.5 million; \$192.6 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2012 was \$471.9 million; \$179.8 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2012 had funding percentages of 23.8 percent for the Kentucky Retirement Systems and 11.7 percent for KTRS.

The Commonwealth's 2012-2014 biennial budget increased employer contribution rates by 39 percent in Fiscal Year 2013 and 35 percent in Fiscal Year 2014 for the Kentucky Retirement Systems' non-hazardous duty retirement system. The increase for the State Police Retirement System is 40 percent in Fiscal Year 2013 and 36 percent in Fiscal Year 2014.

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

As a result of the passage of House Bill 1, and viewed without regard to other intervening factors, the growth in the Commonwealth's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time. By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group established in 2008 and by following the schedule of payments included in House Bill 1, the Commonwealth expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky Retirement

System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

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

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

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of "funding notes" and authorizing funding notes to be issued by the Kentucky Asset/Liability Commission ("ALCo") for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the "Funding Obligation"). This authorization, together with certain authorizations in the Budget Act, permits ALCo to issue funding notes in an amount not to exceed $875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its $467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its $269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. Pursuant to authorization granted in the State Budget for Fiscal Years 2013-2014, ALCo issued its $153.290 Funding Notes General Fund First Series (Taxable) in February, 2013 to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2013 and 2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

HCR 162. House Concurrent Resolution (HCR) 162 from the 2012 Regular Session of the General Assembly, which was signed by Governor Beshear on April 23, 2012, established the Kentucky Public Pensions Task Force (the "PP Task Force"). The purpose of the PP Task Force was to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. The PP Task Force was required to submit its findings, recommendations, and any proposed legislation to the Legislative Research Commission by December 7, 2012. Recommendations for proposed changes for Kentucky Retirement Systems (KRS) include: Phase-in for the full payment of the Annual Required Contribution beginning in Fiscal Year 2014-2015 for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS), reset amortization period for KERS, County Employees Retirement System (CERS), and SPRS for the payment of the unfunded liability to a 30-year period, repeal COLA provisions for all employees/retirees, extend required break in reemployment after retirement to two years, require employer to pay costs of "spiking" pensions, increase KRS Board composition from nine to eleven members, increase transparency by establishing a web page with information for the public regarding its financial and actuarial condition, and change the retirement plan for new hires from a Defined Benefit Plan to a Hybrid Cash Balance Plan.

Senate Bill 2 from the 2013 Regular Session of the General Assembly, which was signed into law by the Governor on April 4, 2013, incorporated most of the above mentioned PP Task Force's recommendations. The bill created a new section in KRS Chapter 7A establishing a 13 member Public Pension Oversight Board to oversee the Kentucky Retirement Systems and report to the General Assembly on benefits, administration, investments, funding, laws, administration regulations and legislation pertaining to Kentucky Retirement Systems. The bill also states that new employees hired after January 1, 2014 will be placed in a Hybrid Cash Balance Plan. This plan has a guaranteed rate of return of 4.0 percent for both hazardous and non-hazardous employees, plus 75 percent of the investment return in the plan in excess of 4.0 percent to the employee. Hazardous employees' employer contribution is set at 7.5 percent of salary and non-hazardous employees have an employer contribution of 4.0 percent. The bill further provides for a 1.5 percent COLA only if it is prefunded and appropriated by the General Assembly or if the pension plan is 100 percent funded. New employees as of January 1, 2014 are no longer party to the inviolable contract, and the General Assembly has the right to amend, suspend or reduce benefits with future legislation. The bill additionally makes provisions for a Health Savings Account as an insurance option for retirees, requires the General Assembly to start fully funding the ARC beginning in Fiscal Year 2015, and resets to a 30 year amortization beginning in 2015.

House Bill 440 was signed by the Governor on April 4, 2013, and while it is not dedicated to pensions, it is considered to be a companion bill to Senate Bill 2 to address the funding issue. It amends KRS 141.020 to reduce the personal tax credit from $20 to $10 for tax years beginning on or after January 1, 2014. It also creates a new section in KRS Chapter 61 to create a Kentucky Retirement Systems unfunded liability trust fund to collect monies from donations, gifts, contributions and grants, and is to be used to eliminate the unfunded liability and supplement the investable assets of the Kentucky Retirement System. The bill further amends KRS 138.4602 to allow for a trade-in allowance on new cars that is currently available with used cars.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. In addition to the deposit to the bond and note payment funds 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. There was established by the Series 2008 Bond Resolution and the Resolution maintains 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 the 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 Resolutions at or before their maturity. Accrued interest on the Series 2013 Bonds, if any, will be deposited to a Project No. 105 Bond Service Subaccount of the Bond Service Fund to be established for such purpose. The Bond Resolutions require the Commission to deposit or cause to be deposited on or before any April 1 or October 1 and any date set for redemption of Bonds prior to maturity (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 together with redemption premium, if any.

Under the Resolution "Revenues" means, with respect to the Lease, all of the rental payments and other payments to be made by the Cabinet and the State Agency to the Commission pursuant to the Lease, or any other amounts received by the Commission for the use or occupancy of the Project and any other payments or deposits to be made to the Bond Service Fund, including proceeds from the disposition of any portion of the Project pursuant to the Bond Resolutions.

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Series 2013 Bonds to be held and maintained by the Trustee. From the proceeds of the Series 2013 Bonds and other available moneys, if any, deposited by the Commission at the time of delivery of the Series 2013 Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Series 2013 Bonds. On payment of all duly authorized expenses incident to the issuance of such Series 2013 Bonds, any remaining balance in the Cost of Issuance Fund 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 constitutes a trust fund for the benefit of the Bondholders. The Construction Fund will be used for the purposes of financing that portion of the 2013 Project consisting of the acquisition, construction or undertaking of new property in connection with buildings and real estate related to the 2013 Project, including the cost 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 the Act. Any moneys remaining in the Construction Fund after the 2013 Project is completed in full will be transferred to the Trustee to be held, in trust, in the Bond Service Fund.

4. Debt Service Reserve Fund. The Resolution maintains the Reserve Fund established under the Series 2008 Resolution, into which there shall be paid and set aside from the proceeds of the Series 2013 Bonds the amount necessary so that the balance in the Reserve Fund is equal to the Reserve Fund Requirement on the date of issuance of the Series 2013 Bonds.

The Reserve Fund will be maintained by the Trustee as a separate trust fund and separate account statements with respect thereto shall at all times be kept and maintained. If on any date the amount on deposit in the Debt Service Reserve Fund is less than the Reserve Fund Requirement, the Trustee will promptly notify the Commission, the Cabinet and the State Agency in writing of such deficiency, and the Trustee will deposit in the Reserve Fund any payments made by the Commission, the Cabinet or the State Agency to replenish the Reserve Fund, pursuant to the Lease. The Commission shall cause the State Agency and the Cabinet to seek appropriations to remedy any deficiency in the Reserve Fund, as provided in the Lease.

Moneys on deposit in the Reserve Fund on any Payment Date in excess of the Reserve Fund Requirement will be transferred to the Bond Service Fund. Except for such excess amounts, moneys on deposit in the Reserve Fund will be used to make up any deficiencies in the Bond Service Fund to pay the interest on and the principal of the Bonds (in the order listed). Upon any such transfer from the Reserve Fund to the Bond Service Fund, the Trustee will promptly notify the Commission, the Cabinet and the State Agency of such transfer and the amount of such transfer. Investment Obligations in the Reserve Fund will be valued by the Trustee on each Payment Date on the basis of the amortized cost of such Investment Obligations, exclusive of accrued interest thereon.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Trustee may, at the written direction of the Commission, transfer amounts on deposit in Reserve Fund in excess of the Reserve Fund Requirement after such redemption to the Bond Service Fund or escrow fund established for such purpose to pay the principal of or the principal portion of the redemption price of said

Bonds to be redeemed or defeased. On the final maturity date of the Bonds, any moneys in the Reserve Fund may be used to pay the principal of and interest on the Bonds on such final maturity date.

The procurement and deposit of a Reserve Fund Facility, defined below, shall be treated as a proper deposit in lieu of cash to the credit of the Reserve Fund to the stated amount of such Reserve Fund Facility then in force and available to draw upon. In the event that such a Reserve Fund Facility is to be delivered to the Trustee to satisfy the Reserve Fund Requirement in whole or in part, an insurance agreement or letter of credit (which is authorized by the Resolution to be executed and delivered) may specify the manner in which draws shall be made upon the Reserve Fund Facility, and may specify subrogation rights of the Reserve Fund Facility Provider, defined below, and provisions regarding reimbursement to the Reserve Fund Facility Provider; provided, that the Reserve Fund Facility Provider shall receive no payment of the principal of or the interest on the Bonds it is deemed to own until all of the principal of, interest on and past due interest on the Bonds have been paid to the other owners of the Bonds (other than the Reserve Fund Facility Provider).

In the event that a Reserve Fund Facility is delivered to the Trustee in lieu of cash, a corresponding amount of money on deposit in the Reserve Fund shall be transferred to a separate, segregated account in the Bond Service Fund. All moneys in any such separate, segregated account in the Bond Service Fund shall be invested in Investment Obligations with a yield no greater than the respective yields on the related tax-exempt Bonds, if applicable, and used to pay the principal of and interest on the Bonds as the same becomes due or to redeem Bonds prior to maturity on the next optional redemption date permitted with respect to the Bonds; provided, that such moneys may be otherwise used or invested if the Commission delivers to the Trustee an opinion of nationally recognized bond counsel to the effect that such other use or investment does not adversely affect the tax status of the interest on any tax-exempt Bonds for federal income tax purposes.

"Reserve Fund Facility" means a surety bond, insurance policy, guaranty, letter of credit or other credit facility issued to guarantee or assure timely payment of the principal of or interest on, or both, of some or all outstanding Bonds, subject only to notification that there are insufficient funds for such payment. The Reserve Fund Facility shall be in a stated amount which, when added to the funds deposited in the Debt Service Reserve Fund and the stated amounts of all other Reserve Fund Facilities, will equal 100% of the Reserve Fund Requirement computed on a basis which includes all outstanding Bonds. The Reserve Fund Facility must be unconditional and irrevocable so long as any Bonds secured thereby are outstanding. This definition shall also include any related covenants or agreements contained in an agreement with the Reserve Fund Facility Provider. If more than one Reserve Fund Facility is held in the Debt Service Reserve Fund at any time, references shall be to the related Reserve Fund Facility.

"Reserve Fund Facility Provider" means an insurance company, bank, savings and loan association, savings bank, thrift institution, credit union, trust company, surety company or other institution, which is, at the time of the issuance of the Reserve Fund Facility, of sufficient credit quality to entitle debt backed by its Reserve Fund Facility to be rated in the two (2) highest rating categories by at least two (2) nationally recognized rating agencies.

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 Series 2013 Bonds by the Commission shall be excludable from the gross income of the holders of the Bonds (the "Holders") for the purposes of federal income taxation and not permit the Series 2013 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 Commission, 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 aggregate 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 Bond Resolutions 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 aggregate 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 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 Bond Resolutions 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 Bond Resolutions or the Bonds 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 Bond Resolutions.

The Resolution provides that 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 Bond Resolutions 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 Bond Resolutions 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 Bond Resolutions 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.

The Resolution provides that, regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Bond Resolutions or the Bonds by the Holders of not less than 25% of the aggregate 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 Bond Resolutions 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 Bond Resolutions and will not be unduly prejudicial to the interest of the Holders of the Bonds not making such request.

Individual Holder Action Restricted. No owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Resolutions 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 owner shall have 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 owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made written request, accompanied by indemnity and security satisfactory to the Trustee, and shall have offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, and the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, 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 owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Bond Resolutions, by its, his or their action or to enforce any right hereunder, except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the owners of all 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 aggregate 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 owners of the Bonds, (ii) to grant to or confer upon the Trustee for the benefit of the owners 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 Bond Resolutions 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, (vi) to provide for a Reserve Fund Facility, or (vii) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of the owners 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 Cabinet 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 Resolutions 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 or will mature, 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 Resolutions, and the Trustee will and is irrevocably instructed by the Bond Resolutions to give notice thereof to the Holders.

As used herein, "Defeasance Obligations" means:

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

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

(c) certificates assigned a rating equivalent to the rating assigned to obligations pledging the full faith and credit of the United States at the time of purchase by S&P, "Moody's and Fitch Ratings Inc., a New York corporation ("Fitch") (if rated by Fitch) evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee, including the Trustee or any of its affiliates, in a segregated trust account in the trust department separate from the general assets of such custodian;

(d) 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 (a), (b) or (c) which fund may be applied only to the payment when due of such bonds or other obligations, and (iii) assigned a rating equivalent to the rating assigned to obligations pledging the full faith and credit of the United States at the time of purchase by S&P, Moody's and Fitch (if rated by Fitch).

The Lease

Lease of Project by Lessee from Lessor; Term of the Lease; Payment of Rent. The Commission has entered into the Lease with the Cabinet and the State Agency (collectively, the "Lessee") whereby the Lessee 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 rentals payable under the Lease include amounts sufficient to restore any deficiency in the Reserve Fund, as determined in accordance with the Resolution.

The Lease has a current term ending June 30, 2014. The Commission has granted the Lessee (or the Cabinet or the State Agency) the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the Lease relating to the Bonds ends June 30, 2034 (the final maturity date permissible for any Series 2013 Bonds to be issued by the Commission for the Project being April 1, 2033) and for each such renewal term, if renewed therefor, the State Agency is obligated to pay, and agrees under the Lease that in the event of such renewal must pay or cause to be paid, to the Commission, as rent for such biennium each Debt Servicing Obligation which comes due on each payment date during the renewal term for such period, secured by amounts paid by the State Agency from Revenues Available for Debt Service; provided, that the State Agency shall cause such rent to be deposited on the dates and in the manner set forth in the Lease. In the event that either the Cabinet or the State Agency elects to renew the Lease for an ensuing renewal term, but not the other, then the renewing entity shall be considered to be the sole Lessee thereunder; provided, however, that if the State Agency elects not to renew the Lease, then the Cabinet shall have the right under the Bond Resolutions to substitute another state agency of the Commonwealth as co-Lessee under the Lease or to enter into a sublease or another agreement with any such state agency.

Payments for the rent becoming due during the term ending June 30, 2014, and for each renewal term, if the Lease shall be renewed for any such renewal term, shall be made or caused to be made by the State Agency to the Commission on each debt servicing date during each such term, in such minimum amounts as will enable the Commission, solely from such source, to pay its Debt Servicing Obligation for the Project; provided, that the Lessee shall cause such rent to be deposited on the dates and in the manner set forth in the Lease. The primary source of the payment of rent shall be from payments made by the State Agency.

Each of the successive options to renew may be exercised for the succeeding renewal term at any time after the adjournment of the Session of the General Assembly of the Commonwealth at which appropriations shall have been made for the operation of the state government for each succeeding renewal term by notifying the Commission by a writing signed by the Secretary of the Cabinet and/or the Chairman of the State Agency, respectively, delivered to the Commission; provided, however, that such option shall in each instance be deemed automatically exercised, and the Lease automatically renewed for the succeeding renewal term, effective on the first day thereof, unless a written notice of the election of the Lessee not to renew, signed by the Secretary of the Cabinet and/or the Chairman of the State Agency, respectively, shall have been delivered to the Commission before the close of business on the last business day in May, immediately preceding the beginning of such succeeding renewal term.

If the Lessee (or the Cabinet or the State Agency) exercises its successive renewal option, according to the automatic renewal provisions described above, then upon the first day of the biennial renewal term for which such option is exercised, the Lessee (or the Cabinet or the State Agency) shall be firmly bound for the entire amount of the rent, including the Additional Rent (hereinafter defined), becoming due and payable for such renewal term, payable from any funds of the Lessee (or the Cabinet or the State Agency), including, but not limited to, appropriations, 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; provided, however, that nothing contained in the Lease may be construed as binding the Lessee (or the Cabinet or the State Agency) to pay rentals for more than one biennial renewal term at a time. Under the provisions of the Constitution of the Commonwealth, the Commission, the Cabinet and the State Agency are each prohibited from entering into lease obligations extending beyond their biennial budget period.

"Debt Servicing Obligation" means the aggregate amounts required to be paid in respect of the Bonds, on any payment date, being (i) the scheduled maturity of the principal of any Bonds maturing on such payment date; (ii) the principal of and premium, if any, on any Bonds subject to redemption on such payment date; and (iii) the interest required to be paid on the Bonds which were outstanding immediately prior to such payment date.

No rent need be paid during any period when the amount in the Bond Fund is sufficient to pay the principal and interest next payable on the Bonds then Outstanding, plus the amount of other costs then due on the Bonds.

In the Bond Resolutions, the Commission has covenanted that it will receive and apply the rental payments from the Cabinet and the State Agency to pay the principal of and interest on the Bonds when due, and will carry out each and every duty imposed on it by the Kentucky Revised Statutes in respect thereto.

Additional Rent. The State Agency, and in the case of subsection (a) below the Cabinet, covenants and agrees to pay "Additional Rent" for the term of the Lease and during any renewal term, as follows:

(a) To the Trustee, to restore any deficiency in the Reserve Fund, as determined in accordance with the Bond Resolutions;

(b) To the Trustee, when due, all fees of the Trustee for services rendered, all fees and charges of any paying agent, the Bond Registrar, counsel, accountants and others incurred in the performance on request of the Trustee of services for which the Trustee and such other persons are entitled to payment or reimbursement; and

(c) To the Commission, upon demand, all reasonable expenses incurred by it in relation to the Project which are not otherwise required to be paid by the Commission under the terms of the Lease.

Effect of Lessee's Exercise of Its Option to Renew. If the Lessee (or the Cabinet or the State Agency) gives written notice to the Commission of the election of the Lessee (or the Cabinet or the State Agency) not to renew the Lease for any renewal term, prior to the automatic renewal described above, the Lessee (or the Cabinet or the State Agency) shall not become obligated to pay rentals beyond the last day of the then current term, and the Lessee (or the Cabinet or the State Agency) shall thereby forfeit all of its future options to renew, and shall peacefully surrender to the Commission possession of the Project on or prior to the last day of the then current term; provided, however, an election on the part of the Lessee (or the Cabinet or the State Agency) not to renew for a future term shall not in any manner alter or diminish any obligation of the Lessee (or the Cabinet or the State Agency) thereunder for the then current term, and shall not preclude subsequent reinstatement of the Lease for any future renewal term, if agreed to by the Commission upon the same terms and conditions as would have been applicable if the Lease had been renewed according to the provisions of the Lease, except that if such reinstatement is sought when one or more installments of rent or Additional Rent for such renewal term are overdue and unpaid, it shall be a condition of such reinstatement that such overdue rent or Additional Rent be tendered.

State Agency to Seek Appropriations. The State Agency covenants and agrees that on each and every occasion when appropriations bills are prepared for introduction in the various successive Sessions of the General Assembly of the Commonwealth, the State Agency will cause to be included in the appropriations proposed to be made for the State Agency, sufficient amounts in the aggregate (over and above all other requirements of the State Agency) to enable the State Agency to pay rent under the Lease, and thereby provide to the Commission moneys sufficient for the payment of the Debt Servicing Obligation and the other payment obligations of the State Agency under the Lease. In its statutory role as the financial agency of the Commonwealth, the Cabinet covenants to apply appropriated funds to make such rent payments to the extent such appropriations are made in each legislative and budgetary biennium of the Commonwealth.

Cabinet to Seek Appropriations. In the event of a deficiency in the Reserve Fund or in the event that the State Agency fails to make a request for an appropriation as described above, the Cabinet covenants and agrees in the Lease that on each and every occasion when appropriations bills are prepared for introduction in the various successive Sessions of the General Assembly of the Commonwealth, the Cabinet will cause to be included in the General Fund appropriations proposed to be made for the Cabinet, sufficient amounts (over and above all other requirements of the Cabinet), which will enable the Cabinet to pay the Additional Rent in an amount sufficient, on any date, to maintain the Reserve Fund Requirement in the Reserve Fund as required by the Bond Resolutions. In its statutory role as the financial agency of the Commonwealth, the Cabinet covenants to apply appropriated funds to make such Additional Rent payments to the extent such appropriations are made in each legislative and budgetary biennium of the Commonwealth.

Pledge of Revenues Available for Debt Service. Under the Lease there is pledged for the payment of the Debt Servicing Obligation and any rent payable in accordance with the terms and the provisions of the Lease, subject only to the provisions of the Lease and the Bond Resolutions permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Lease and the Bond Resolutions, the Revenues Available for Debt Service.

Rate Covenant of State Agency. To provide funds sufficient to make all rental payments due under the Lease, the State Agency covenants to at all times establish, enforce and collect rates and charges for services rendered and facilities afforded by the works and facilities of the State Agency (the

"System"); taking into account and consideration the cost and value of the System, the costs of operating and maintaining the System in a good state of repair, proper and necessary allowances for depreciation and for additions and extensions, the amounts necessary for the orderly retirement of all obligations for the repayment of money ("Obligations"), and the accumulation and maintenance of necessary reserves any amounts deposited in the Stabilization Fund established by the State Agency as described below (other than amounts received from proceeds of any obligations); and such rates and charges shall be adequate to meet all such requirements as provided in the Lease, and shall, if necessary, be adjusted from time to time in order to comply with the terms of the Lease (subject to such regulatory approvals as may be required by law); and annual Revenues Available for Debt Service front such rates and charges shall be further adequate to provide, after payment of any amounts deposited in the Stabilization Fund (other than amounts received from the proceeds of Obligations) during the applicable period, 1.15 times coverage of annual principal and interest on all Obligations (including without limitation the Bonds); provided, that, in determining such coverage, the State Agency may include as annual Revenues Available for Debt Service any amounts withdrawn from the Stabilization Fund during the applicable period, so long as the annual Revenues Available for Debt Service from such rates and charges shall provide (after such deductions) at least one (I) time coverage of such annual principal and interest; provided further, that for Interim Indebtedness (as hereinafter defined) annual principal and interest shall be calculated using (i) an assumed interest rate equal to the rate used by the Cabinet to calculate debt service appropriations for bonds newly authorized in that budget period, (ii) a final maturity date that is no later than twenty (20) years from the date the Interim Indebtedness is incurred, and (iii) approximately level debt service. The term "Interim Indebtedness" as used herein, means Obligations with respect to which the State Agency has covenanted to issue Bonds, or to request that Bonds be issued on its behalf, for the repayment thereof, at or prior to the maturity of such Obligations.

For each Fiscal Year of the budget period in its budget prepared in accordance with the terms of the Lease, the State Agency agrees that it will prepare an estimate of gross income and revenue to be derived from the operation of the System for each such Fiscal Year, and to the extent that said gross income and revenues are insufficient to meet all requirements as provided herein, the State Agency covenants and agrees that it will immediately (subject to regulatory approvals as required by law) revise its rates and charges for services rendered by the System, so that the same will be adequate to meet all of such requirements

Rate Stabilization Fund. The State Agency has established a Rate Stabilization Fund (the "Stabilization Fund") being held by the Trustee on behalf of the State Agency as a separate, segregated account of the State Agency as provided in the Series 2008 Resolution. Pursuant to the terms of the Bond Resolutions, the Stabilization Fund is not pledged to the payment of the principal of, premium, if any, or interest on the Bonds or any other amount payable under the Bond Resolutions, and is not a part of the funds and accounts pledged to the security of the Bonds under the Bond Resolution. In any applicable period, after the payment of current expenses and debt service with respect to all outstanding Obligations, the State Agency may transfer its revenues or the proceeds of any Obligations to the Stabilization Fund. The State Agency may maintain the Stabilization Fund at such funding level as it may determine. Any moneys on deposit in the Stabilization Fund may be withdrawn from the Stabilization Fund by the State Agency with a written requisition of the State Agency submitted to the Trustee, and used by the State Agency for any lawful purpose of the State Agency, including without limitation the payment of current expenses, the payment of debt service on any Obligations, deposits to the Reserve Fund and the payment of the cost of repairs, replacements, renewals, improvements, extensions and equipment of and to the System. In complying with its rate covenant described above, the State Agency may account for moneys on deposit in the Stabilization Fund as described above.

Additional Obligations. Before Obligations (including without limitation any Bonds) may be incurred by the State Agency, there is required to be filed with the Trustee a certificate of the chief accounting officer of the State Agency stating, and setting forth the calculations supporting such statement, that at the date of incurring such Obligations, Revenues Available for Debt Service are at least 1.15 times Maximum Annual Debt Service.

In calculating Revenues Available for Debt Service, if there is in effect at the date of such calculation any change in the State Agency's rates and charges that produce revenues that are available to pay debt service or obligations of the State Agency, it shall be assumed that such new rates and charges were in effect at all times and the calculation of Revenues Available for Debt Service shall be adjusted to reflect the amounts which would have been credited had such rates and charges been in effect at all times.

"Maximum Annual Debt Service" as used below means the sum of all amounts required to be paid from revenues of the State Agency, during any single fiscal year commencing after the date of such calculation, or set aside during such fiscal year, for payment of debt service on all Obligations.

For the purpose of determining the Maximum Annual Debt Service, variable rate obligations will be deemed to bear interest at the maximum rate of interest applicable to such variable rate bonds; provided, however, that if such maximum rate of interest is less than the interest rate quoted in The Bond Buyer 25 Revenue Bond Index (the "Index Rate") as published in The Bond Buyer for the last week of the month preceding the date of issuance of such variable rate bonds, then the interest rate on such variable rate bonds shall be deemed to be the Index Rate. If The Bond Buyer 25 Revenue Bond Index is no longer published, an index that is deemed to be substantially equivalent by nationally recognized bond counsel may be substituted therefor. Also, for the purpose of determining the Maximum Annual Debt Service, any Obligation scheduled to be outstanding during such period that is subject to tender at the option of the holder shall be assumed to mature on the stated maturity date or mandatory sinking fund payment date thereof.

In calculating Maximum Annual Debt Service it will be assumed that the Obligations proposed to be incurred at the time of incurring such Obligations are outstanding and that the proceeds of such Obligations, if incurred to refund other Obligations, shall have been applied as provided in the proceedings in connection with the incurrence of such proposed Obligations.

Obligations incurred to refund other Obligations may be incurred without compliance with the requirements described above if there shall be filed with the Trustee a certificate of the chief accounting officer of the State Agency stating, and setting forth the calculations on which such statement is based, assuming the incurrence of such Obligations, that debt service, as calculated upon issuance of such Obligations, will not be greater than debt service, as calculated immediately prior to the proposed incurrence of such Obligations, in any future Fiscal Year.

See "SECURITY FOR THE BONDS; ADDITIONAL BONDS" in the body of this Official Statement for a discussion of the ability of the Commission to issue Bonds having a pledge on the payments due under the Lease which is on a parity with the lien of the Bonds.

Events of Default and Remedies. Events of default under the Lease 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 (but the Lessee shall not be deemed to be in default if the Lessee commences to remedy said defaults within said thirty (30) day period, and proceeds to and does remedy said default with due diligence).

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet and the State Agency 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 Lessee's 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 the Lease. The owners 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 Series 2013 Bonds the ratings of "A1", "A+" and "A", 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 7 World Trade Center at 250 Greenwich 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 agency, 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 Series 2013 Bonds are subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel, to the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT D. Certain legal matters will be passed upon for the Commission by their counsel.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2013 Bonds, or in any way contesting or affecting the validity of the Series 2013 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 Series 2013 Bonds or due existence or powers of the Commission.

TAX EXEMPTION

General

In the opinion of Bond Counsel for the Series 2013 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2013 Bonds is excludible from gross income for federal income tax purposes and interest on the Series 2013 Bonds is not a specific item of tax preference under Section 57 of the Internal Revenue Code of 1986 (the "Code") for purposes of the federal individual or corporate alternative minimum taxes. Furthermore, Bond Counsel for the Series 2013 Bonds is of the opinion that interest on the Series 2013 Bonds is exempt from income taxation by the Commonwealth and the Series 2013 Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

A copy of the opinion of Bond Counsel for the Series 2013 Bonds is set forth in EXHIBIT D.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series 2013 Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2013 Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2013 Bonds being includable in gross income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Series 2013 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2013 Bonds may adversely affect the Federal tax status of the interest on the Series 2013 Bonds.

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2013 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2013 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Peck, Shaffer & Williams LLP.

Although Bond Counsel has rendered an opinion that interest on the Series 2013 Bonds is excludible from gross income for Federal income tax purposes and that interest on the Series 2013 Bonds is excludible from gross income for Kentucky income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2013 Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. For example, such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Series 2013 Bonds may also result in the limitation of interest and certain other deductions for financial institutions and certain other taxpayers, pursuant to Section 265 of the Code. Finally, residence of the holder of the Series 2013 Bonds in a state other than Kentucky or being subject to tax in a state other than Kentucky may result in income or other tax liabilities being imposed by such states or their political subdivisions based on the interest or other income from the Series 2013 Bonds. Bond Counsel expresses no opinions regarding any tax consequences other than what is set forth in its opinion and each Bondholder or potential Bondholder is urged to consult with tax counsel with respect to the effects of purchasing, holding or disposing the Series 2013 Bonds on the tax liabilities of the individual or entity.

The Commission has not designated the Series 2013 Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Tax Treatment of Original Issue Discount

The Series 2013 Bonds that have an interest rate that is lower than the yield, as shown on the cover page hereto (the "Discount Bonds"), are being offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond, and for the Discount Bonds, the amount of accretion will be based on a single rate of interest, compounded semiannually (the "yield to maturity"). The amount of OID that accrues during each semi-annual period will do so ratably over that period on a daily basis. With respect to an initial purchaser of a Discount Bond at its issue price, the portion of OID that accrues during the period that such purchaser owns the Discount Bond is added to such purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond and thus, in practical effect, is treated as stated interest, which is excludable from gross income for federal income tax purposes.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

Tax Treatment of Bond Premium

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series 2013 Bonds that have an interest rate that is greater than the yield, as shown on the cover page hereto (the "Premium Bonds"), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each Series 2013 Bond the interest on which is excludible from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that Series 2013 Bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2013 Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series 2013 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

SALE BY COMPETITIVE BIDDING

The Bonds were awarded by competitive sale on May 2, 2013 to PNC Capital Markets (the "Underwriter") at an aggregate purchase price of $18,485,754.24 (which is equal to the principal amount of the Bonds plus net original issue premium of $1,386,657.20 and less underwriting discount of $110,902.96). The Underwriter has advised the Commission that it intends to make a public offering of the Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter shall deem necessary in connection with the marketing of the Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Commission in connection with the issuance of the Series 2013 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2013 Bonds is contingent upon the issuance and delivery of the Series 2013 Bonds. First Southwest Company has agreed, in its financial advisory contract, not to bid for the Series 2013 Bonds, either independently or as a member of a syndicate organized to submit a bid for the Series 2013 Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2013 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

CONTINUING DISCLOSURE AGREEMENT

The Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in Rule 15c2-12 (the "Rule"), as amended, under the Securities Exchange Act of 1934. Specifically, the Commission will enter into a Continuing Disclosure Agreement in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to the Municipal Securities Rulemaking Board (the "MSRB"), of any of the following types of events with respect to the Series 2013 Bonds (i) principal and interest payment delinquencies; (ii) non-payment related defaults, if material; (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security; (vii) modifications to rights of security holders, if material; (viii) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Series 2013 Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities, including timely notices of changes in the Commission’s underlying ratings affecting its outstanding securities. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12. The Commonwealth and the Commission have recently learned that in some instances prior rating changes on certain securities issued by the Commonwealth and its agencies, including the Commission, resulting from rating downgrades on certain bond insurers, were not the subject of material event notices, due, in part, to the lack of any direct notification to the Commonwealth of the specific rating impact on such particular securities of the Commonwealth and its agencies. The Commonwealth and the Commission have taken necessary actions to assure compliance with Rule 15c2-12 with respect to such events. Additionally, the Commonwealth and the Commission are putting procedures in place to assure that future material event notices will be timely filed with respect to such events.

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 and the State Agency.

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: /s/ Ryan Barrow

Ryan Barrow
Executive Director
Office of Financial Management
(Secretary to the Commission)

KENTUCKY RIVER AUTHORITY

By: /s/ Martha Clare Sipple

Martha Clare Sipple
Chairperson

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation or a pledge of the faith and credit of the Commonwealth. The General Assembly does not intend to appropriate any funds to fulfill the financial obligations represented by these types of indebtedness. Some issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, Kentucky Infrastructure Authority Governmental Agencies Program bonds, and Kentucky Infrastructure Authority Wastewater and Drinking Water Revolving Fund Revenue bonds are not moral obligation debt.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS*
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+/A+
Kentucky Asset/Liability Commission	**KRS 56.860** Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies***
Turnpike Authority of Kentucky	**KRS 175.410-175.990** Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly	Aa2/AA+/A+
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 to moderate income residents of the State.	Limited to $ 5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority	**KRS 224A** Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of $500 million.	Aa3/A+/A+** (Appropriation) Aaa/AAA/AAA (Leverage Loan)
Kentucky Higher Education Student Loan Corporation	**KRS 164A** Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission	**KRS 157.611-157.665** Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance	**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.	Baa2/BB/NR (National Insured).

* Ratings, where applicable, include Moody's, Standard & Poor's, and Fitch. Certain State Property and Buildings Commission Agency and Road Fund Revenue Bonds may have ratings different from those identified above.

** The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds Series 2010A and Series 2012A are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.

*** On September 12, 2012, Fitch downgraded certain stand-alone grant anticipation revenue vehicle (GARVEE) bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "AA-" to "A+" and changed the outlook from Negative to Stable. On November 14, 2012, Moody's downgraded certain stand-alone grant anticipation revenue vehicle (GARVEE) bonds, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund from "Aa2" to "Aa3" with a negative outlook

NOTE: On November 8, 2012, Fitch downgraded the Commonwealth of Kentucky's General Fund and Road Fund appropriation supported obligations from "AA-" to "A+" and changed the outlook from Negative to Stable. Fitch also downgraded certain agency fund obligations from "A+" to "A" and changed the outlook from Negative to Stable.

EXHIBIT B

FINANCIAL STATEMENTS OF KENTUCKY RIVER AUTHORITY

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REPORT OF THE AUDIT OF THE KENTUCKY RIVER AUTHORITY

For The Fiscal Year Ended
June 30, 2012

ADAMH. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Jerry T. Graves, Executive Director
Kentucky River Authority
Board of Directors

Independent Auditor's Report

We have audited the accompanying financial statements of the Kentucky River Authority, a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Kentucky River Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky River Authority as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Kentucky River Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Jerry T. Graves, Executive Director
Kentucky River Authority
Board of Directors
(Continued)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,

Adam H. Edelen
Auditor of Public Accounts

October 1, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following narrative and analysis is provided as an overview of the financial activities of the Kentucky River Authority (Authority), a discretely presented component unit of the Commonwealth of Kentucky, for the fiscal years ended June 30, 2012 and 2011, and to assist the reader in an assessment of the financial condition of the Authority in comparison with the prior year. Please assess this narrative and analysis in conjunction with the Authority's financial statements and the accompanying notes.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year and, accordingly, the Authority reported ending net assets totaling $38,877,967 of which $6,422,519 are classified as restricted.
- Current year expenses totaled $3,479,692, an increase of $917,046 from FY 2011.
- Current year fee income totaled $2,429,623, a decrease of $187,328 from FY 2011.
- Current year State appropriations totaled $248,400, a decrease of $10,271 from FY 2011.
- At June 30, 2012, balances remaining on commitments total approximately $4,201,935 (see Note 8).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows presents the receipts and usage of cash and cash equivalents. Only transactions that affect the Authority's cash account typically are reported in the Statement of Cash Flows.

Notes to the Financial Statements:

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $38,877,967 at the close of the most recent fiscal year.

Condensed Financial Information (in thousands)
Statement of Net Assets
As of June 30

	2012	2011	Percentage Increase/ (Decrease)
Current assets	$ 7,925	$ 11,810	(32.90%)
Capital assets-net	43,765	42,109	3.93%
Total assets	51,690	53,919	(4.13%)
Current liabilities	903	1,879	(51.94%)
Non-current liabilities	11,909	12,471	(4.51%)
Total liabilities	12,812	14,350	(10.72%)
Investment in capital assets, net of related debt	31,093	27,874	11.55%
Restricted for capital projects	6,423	10,410	(38.30%)
Unrestricted	1,362	1,285	5.99%
Total net assets	$ 38,878	$ 39,569	(1.75%)

Current assets consist primarily of unrestricted cash and cash equivalents (deposits of Tier I fees), cash and cash equivalents restricted for capital projects (deposits of Tier II fees), and accounts receivable from charges for services and state appropriations.

During FY 2012, the Authority completed $2,907,659 of construction in progress, purchased $40,852 of capital assets and disposed of $191,647 of capital assets. Depreciation expense for FY 2012 totaled $1,292,709. During FY 2011, the Authority purchased $10,671 of capital assets.

Current liabilities consist primarily of general accounts payable. The fluctuation between years is a decrease of approximately $975,404, which was due to a decrease in payable activity.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Non-current liabilities represent the non-current portion of compensated absences and lease payable. The non-current portion of the Authority's compensated absences liability at year-end is based on an allocation of the annual and compensated leave hours used to the total hours remaining as of year-end. In total (both the current and non-current portions), the compensated absences liability remained static during FY 2012.

As of June 30, 2012, the Authority's net assets primarily are invested in capital assets, net of related debt \$31,093,510 and followed by restricted for capital projects \$6,422,518. The remaining portion is unrestricted \$1,361,939.

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Condensed Financial Information (in thousands)
Statement of Revenues, Expenses, And Changes In Net Assets
For the Fiscal Years Ended June 30

	2012	2011	Percentage Increase (Decrease)
Operating revenues:			
Fee income	$ 2,430	$ 2,617	(7.15%)
Other income	72	15	380.00%
State appropriations	248	259	(4.25%)
Total operating revenues	2,750	2,891	(4.88%)
Operating expenses:			
Compensation and benefits	601	560	7.32%
Rentals	26	33	(21.21%)
Professional fees	22	22	0.00%
Intergovernmental grants	453	98	362.24%
Other grants	137	141	(2.84%)
Repairs and engineering services	24	13	84.62%
Administrative and other expenses	98	130	(24.62%)
Depreciation expense	1,293	799	61.83%
Total operating expenses	2,654	1,796	47.77%
Income from Operations	96	1,095	(91.23%)
Non-Operating revenues			
Income from investments	38	(66)	(157.58%)
Total non-operating revenues	38	(66)	(157.58%)
Non-Operating expenses			
Interest expense	742	766	(3.13%)
Grant to state	84		100.00%
Total non-operating expenses	826	766	7.83%
Change in net assets	$ (692)	$ 263	(363.12%)

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The Authority's net assets decreased $691,503 during the current fiscal year. During FY 2011 the Authority's net assets increased $262,377.

State appropriations decreased $10,271 during the current fiscal year from FY 2011.

An investment gain of $38,456 was experienced during the current fiscal year. During FY 2011 the Authority had an investment loss of $66,110 primarily due to an arbitrage rebate payment of $129,849 from prior period earnings.

Condensed Financial Information (in thousands)
Statement of Cash Flows
For the Fiscal Years Ended June 30

	2012	2011	Percentage Increase (Decrease)
Net cash provided by (used in):			
Operating activities	$ (98)	$ 2,157	(104.54%)
Capital and related financing activities	(3,691)	4,069	(190.71%)
Investing activities	(45)	(66)	(31.82%)
Net change in cash and cash equivalents	(3,834)	6,160	(162.24%)
Cash and cash equivalents, beginning of year	11,068	4,908	125.51%
Cash and cash equivalents, end of year	$ 7,234	$ 11,068	(34.64%)

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

CAPITAL ASSETS ADMINISTRATION

The following table summarizes the changes in capital assets between FY 2012 and 2011.

	2012	2011	Percentage Increase (Decrease)
Capital Assets Not Being Depreciated:			
Land	$ 546,493	$ 532,293	2.67%
Land improvements			
Construction in Progress-			
Dam No. 9		16,423,312	(100.00%)
Dam No. 8	1,107,329	39,210	2724.10%
Dam No. 3		14,530,113	(100.00%)
Lock No. 3 & 4	235,615		100.00%
Capital Assets Being Depreciated:			
Lock and Dams	47,557,350	15,000,000	217.05%
Lock and Dam Buildings	432,010	408,110	5.86%
Equipment	161,058	210,361	(23.44%)
Office equipment	22,406	22,406	0.00%
Vehicles	78,567	218,159	(63.99%)
Accumulated depreciation	(6,376,207)	(5,275,145)	20.87%
Capital assets, net	$ 43,764,621	$ 42,108,819	3.93%

Additional information on the Authority's capital assets can be found in Note 3.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During FY 2012 Tier I and Tier II rate of fees charged on water use were maintained at 2.2 cents and 6 cents per 1,000 gallons respectively. There are some variations in water use due to weather conditions and general business trends. Tier I water use was 4.04% lower in FY 12 over the prior year. Tier II water use was 8.92% lower in FY 12 over the prior year.

There are 14 lock and dam structures on the Kentucky River, for which the Authority is responsible for maintenance. The Authority has title to the lock and dam structures and adjoining real estate at Dams 5 through 14. Dams 1 through 4 are owned by the U.S. Army Corps of Engineers (Corps). It is anticipated that title to these facilities will be transferred to the Authority within the next four fiscal years. All these structures will require substantial renovations.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS, (CONTINUED)

Renovation of Dam 9 was completed March 15, 2011 at a cost of $16,423,312. Renovation of Dam 3 was completed December 31, 2011 at a cost of $16,134,038. Both of these structures now have a 50 year useful life. Design of renovation of Dam 8 is essentially complete at a cost of $1,007,000 and construction will be bid by December 2012. Reconstruction of Dam 8 is estimated to be complete by December 2014. Rehabilitation of the lock gates at Locks 3 and 4 at a cost of $4,400,000 is ongoing to extend their operating life and safety. This project is estimated to be complete by November 2012. Design of renovations to Locks 1 and 2 and Design of Lock and Dam 10 is scheduled to begin in early 2013. Reconstruction of these facilities will follow completion of design. Additional debt financing will be done by the Authority in early 2013 to fund the construction costs at Dam 8.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the Kentucky River Authority, 627 Wilkinson Blvd., Frankfort, Kentucky, 40601.

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FINANCIAL STATEMENTS

KENTUCKY RIVER AUTHORITY
STATEMENT OF NET ASSETS

June 30, 2012

Assets	
Current Assets:	
Cash And Cash Equivalents:	
Unrestricted	$ 811,758
Restricted	6,422,518
Accounts Receivable	690,649
Total Current Assets	7,924,925
Capital Assets-Net	43,764,621
Totals Assets	51,689,546
Liabilities	
Current Liabilities:	
Accounts Payable	251,466
Accrued Payroll	51,867
Compensated Absences	66,696
Lease Payable	533,086
Total Current Liabilities	903,115
Non-Current Liabilities:	
Lease Payable	11,886,559
Compensated Absences	21,905
Total Non-Current Liabilities	11,908,464
Total Liabilities	12,811,579
Net Assets	
Invested In Capital Assets, Net Of Related Debt	31,093,510
Restricted For Capital Projects	6,422,518
Unrestricted	1,361,939
Total Net Assets	$ 38,877,967

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

KENTUCKY RIVER AUTHORITY
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

For The Year Ended June 30, 2012

Operating Revenues:	
Fee Income	$ 2,429,623
Other Income	71,710
State Appropriations	248,400
Total Operating Revenues	2,749,733
Operating Expenses:	
Compensation And Benefits	601,289
Rentals	25,672
Professional Fees	21,763
Intergovernmental Grants	452,902
Other Grants	137,040
Repairs And Engineering Services	24,255
Administrative And Other Expenses	98,128
Depreciation Expense	1,292,709
Total Operating Expenses	2,653,758
Income From Operations	95,975
Non-Operating Revenues (Expenses):	
Investments Income	38,456
Grant To State	(83,500)
Interest Expense	(742,434)
Total Non-Operating Expenses	(787,478)
Change In Net Assets	(691,503)
Net Assets, July 1, 2011	39,569,470
Net Assets, June 30, 2012	$ 38,877,967

KENTUCKY RIVER AUTHORITY
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2012

Cash Flows From Operating Activities:	
Cash Received From Customers	$ 2,801,347
Cash Payments For Personnel Expenses	(575,591)
Cash Payments For Goods And Services	(2,323,300)
Net Cash Used By Operating Activities	(97,544)
Cash Flows From Capital And Related Financing Activities:	
Construction Related To Capital Assets	(1,317,934)
Debt Service Interest	(742,434)
Acquisition Of Capital Assets	(1,630,577)
Net Cash Used By Financing Activities	(3,690,945)
Cash Flows From Investing Activities:	
Grant To State	(83,500)
Income From Investments	38,456
Net Cash Used By Investing Activities	(45,044)
Net Change In Cash And Cash Equivalents	(3,833,533)
Cash And Cash Equivalents, July 1, 2011	11,067,809
Cash And Cash Equivalents, June 30, 2012	$ 7,234,276
Reconciliation Of Income From Operations To Net Cash Flows From Operating Activities:	
Gain From Operations	$ 95,975
Depreciation	1,292,709
(Increase) Decrease In Operating Assets:	
Accounts Receivable	51,613
Increase (Decrease) In Operating Liabilities:	
Accounts Payable	(1,563,541)
Accrued Expenses	25,699
Compensated Absences	1
Net Cash Used By Operating Activities	$ (97,544)

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Kentucky River Authority (Authority) is presented to assist in understanding the Authority's financial statements. The financial statements and notes are representations of the Authority's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Activities:

The Authority was created by an Act of the 1986 General Assembly of the Commonwealth of Kentucky (Commonwealth). That Act together with subsequent amendments is codified as KRS 151.700 through 151.730. These statutes empower the Authority, among other things, to collect water use fees on water withdrawn and used within the geographic boundaries of the Kentucky River Basin. Additional definitions, exemptions, and collection methods of these fees are contained in Kentucky Administrative Regulations, 420 KAR 1:010 through 1:050. The regulations separate water use fees into Tier I and Tier II fees. Tier I fees are collected on water use from all sources within the Kentucky River Basin and are applied to the operating expenses of the Authority, and such purposes as directed by the Authority Board. Tier II fees, which are collected in addition to Tier I fees on the water withdrawn and used from the main stem of the Kentucky River, are to be applied to capital projects enhancing the water supply of the main stem of the Kentucky River, as well as other capital improvements to the Kentucky River lock and dam system. The rate of water use fees may be adjusted each year of the biennium, as necessary, to carry out the functions, projects, and expenses authorized by the General Assembly in the Authority's biennial budget.

Reporting Entity:

The Authority is a component unit of the Commonwealth of Kentucky and its financial statements are included in the Commonwealth's Comprehensive Annual Financial Report as a discretely presented component unit. The Governor appoints the Authority's Board members. The Authority is attached for administrative purposes to the Commonwealth's Finance and Administration Cabinet.

Basis of Presentation:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB pronouncements prevail. The Authority has further elected not to apply FASB pronouncements issued after November 30, 1989, in accordance with GASB Statement No. 20.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As required by Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*," the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Measurement Focus and Basis of Accounting:

The financial statements of the Authority have been presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Accordingly, revenues are recognized when they are earned and become measurable, and expenses are recognized at the time liabilities are incurred.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Authority considers all funds on deposit with the Commonwealth's State Treasury in addition to a Rate Stabilization Fund held by the trustee, US bank, to be cash and cash equivalents.

Accounts Receivable:

Accounts receivable consist of revenues earned as of year-end, but not yet received. The direct write-off method is used for uncollectible fee accounts. This method is not in accordance with generally accepted accounting principles, but the departure does not have a material effect on the financial statements. Based on historical collection experience and a review of existing receivables, no fee accounts receivable were written-off during 2012.

Capital Assets:

All capital assets are valued at historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Lock and dam structures acquired through donation are valued at estimated fair value at the date of donation. Engineering expenses on major renovations that extend the life of the facility are recorded as capital improvements.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation of all exhaustible capital assets is recorded as an allocated expense. The Authority's capitalization threshold is $500. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of capital asset is as follows:

Lock and Dams	20 years
Equipment	3 - 10 years
Vehicles	5 years
Major Renovations of the Locks and Dams	50 years

Compensated Absences:

Compensated absences represent the liability to employees for unused annual and compensatory leave. The liability is recorded at the employees' current rate of pay. The liability also includes employer payroll taxes (FICA) and employee benefits such as retirement. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Financial Statements:

The Statement of Net Assets presents the Authority's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories:

a. **Invested in capital assets, net of related debt** - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
b. **Restricted net assets** - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
c. **Unrestricted net assets** - All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Revenues:

Fee income represents the amounts due from users who withdraw water from within the geographic boundaries of the Kentucky River Basin.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State appropriations represent the amounts allocated to the Authority by the Commonwealth of Kentucky from its general fund. These appropriations lapse at year-end as the unobligated amounts revert back to the Commonwealth of Kentucky.

Expenses:

The Authority reports expenses relating to the use of economic resources. Expenses are classified by natural or object classification in the statement of revenues, expenses, and changes in net assets.

Engineering Services:

Engineering service expenses for minor repairs or inspections are shown as operating expenses. Engineering expenses on major renovations that extend the life of the facility are recorded as capital improvements. The level of design may vary from year to year and may contribute to a net loss for operational activities.

NOTE 2 - CASH AND CASH EQUIVALENTS

The cash receipts of the Authority are deposited with the Commonwealth's State Treasury. The Commonwealth's Office of Financial Management is responsible for investing the funds of the Authority as a part of the Commonwealth's investment pool. See the Commonwealth's Comprehensive Annual Financial Report for disclosure of the legally authorized investments and the credit risk classifications of the investment pool.

In accordance with the applicable statutes, the Authority is to receive interest on the available balances accumulated from the collection of fees. Interest is received pro-rata, based on the average balances of the Authority.

Cash and cash equivalents consist primarily of receipts from collections of Tier II fees. Collections of Tier II fees are restricted to fund projects to improve the water supply of the main stem of the Kentucky River, as well as other capital improvements to the Kentucky River lock and dam system.

In accordance with the capital lease agreement effective October 1, 2008 with the State Property and Building Corporation (SPBC), the Authority deposited $335,000 into a Rate Stabilization Fund held by the trustee, US bank, Louisville, Kentucky. The Authority retains legal right to these funds, however they are held outside of the State’s Treasury.

At June 30, 2012, the fair market value of Kentucky River Authority’s pooled deposits with the Commonwealth and the Rate Stabilization Fund with US bank totaled $7,234,276.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	$ 532,293	$ 14,200	$	$ 546,493
Construction in Progress				
Dam No. 8	39,210	1,068,119		1,107,329
Lock No. 3 and No. 4		235,615		235,615
Total capital assets not being depreciated	571,503	1,317,934		1,889,437
Other capital assets:				
Lock and Dams No. 5, No. 7-9 and No. 11-14	12,000,000			12,000,000
Dam No. 3	14,530,113	1,603,925		16,134,038
Lock and Dam No. 6	1,500,000			1,500,000
Dam No. 9	16,423,312			16,423,312
Lock and Dam No. 10	1,500,000			1,500,000
Lock and Dam Buildings	408,110	23,900		432,010
Vehicles	218,159		139,592	78,567
Equipment	232,767	2,752	52,055	183,464
Total other capital assets	46,812,461	1,630,577	191,647	48,251,391
Total capital assets	47,383,964	2,948,511	191,647	50,140,828
Accumulated depreciation	(5,275,145)	(1,292,709)	(191,647)	(6,376,207)
Capital assets, net	$ 42,108,819	$ 1,655,802	$	$ 43,764,621

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 4 - COMPENSATED ABSENCES

It is the Authority's policy to permit employees to accumulate earned but unused annual leave, compensatory leave, and sick pay benefits. The policy of the Commonwealth of Kentucky is to only record the cost of annual and compensatory leave.

Annual and Compensatory Leave:

Annual leave is accumulated at amounts ranging from 7.50 to 15.00 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees. At June 30, 2012, the Authority's estimated liability for accrued annual and compensatory leave was $88,601.

The estimated liability and change in the estimated liability for compensated absences for the Authority as of June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 88,602	$ 77,690	$ 77,691	$ 88,601	$ 66,696

Sick Leave:

It is the policy of the Authority to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits as of year-end.

NOTE 5 - INTERGOVERNMENTAL ACTIVITY

The Authority leases office space on a monthly basis from the Capital Plaza Operations agency within the Commonwealth's Commerce Cabinet. Rent expense during FY 2012 under this rental agreement totaled $19,652. The lease can be terminated on 30 days notice either by the Authority or Capital Plaza Operations.

NOTE 6 - RETIREMENT PLANS

The employees of the Authority participate in the Kentucky Employees Retirement Systems (KERS) of the Commonwealth of Kentucky, which is a cost-sharing, multiple-employer, defined benefit pension plan covering substantially all regular full-time employees. The plan provides retirement, disability, and death benefits to plan members. The KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature.

Employees who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.2% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after 27 years of service and receive full benefits; or retire after age 55 and receive reduced benefits. The KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

The payroll for employees, who are all covered by the KERS, for the year ended June 30, 2012 totaled approximately $425,948. Covered employees are required by state statute to contribute 5.00% of their salary to the KERS. The Authority is required by the same statute to contribute 23.61% of the covered employees' salaries. The contribution requirement for the year ended June 30, 2012 totaled approximately $81,621. The Authority's contributions for the years ended June 30, 2011 and 2010 totaled approximately $67,185 and $48,013, respectively.

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed into law. This legislation will significantly impact retirement benefits for employees who begin participating with KRS on or after September 1, 2008. The law also has a few provisions that will affect current employees and retirees. For those employees beginning participation on or after September 1, 2008 they will be required to contribute 6.00% of their annual covered salary. Employers, including the Authority, will continue to be required to contribute an actuarially determined rate. House Bill 1 contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to KRS beginning July 1, 2010. If in the future the General Assembly adheres to this schedule, all participating agencies will be required to pay the full employer contribution by 2025. The financial impact to the Authority in these future years is not yet known.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Employees Retirement System's Annual Financial Reports (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Kentucky Employees Retirement System.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 6 - RETIREMENT PLANS (Continued)

In addition to the above defined benefit pension plan, the Authority's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

NOTE 7 - ECONOMIC DEPENDENCY

The Authority collects fees from water users in the Kentucky River Drainage Basin. These fees are the primary funding source of the Authority's activities. For the year ended June 30, 2012, five customers accounted for approximately 66.0% of the total fees earned during the year. One of these five customers accounted for approximately 32.6%.

NOTE 8 - COMMITMENTS

Prior to year-end, the Authority had ongoing projects on Lock and Dam 3, 4 and 8. The balance remaining on these commitments as of year-end totaled approximately $4,201,935.

The Authority leases a copier under a four-year lease agreement expiring June 2014. Monthly payments under the agreement are $225 plus additional charges per copy. Rent expense during FY 2012 under this agreement totaled $2,839.

As of year-end, the future obligations under this agreement are as follows:

Fiscal Year Ending June 30:

2013	$	2,701
2014		2,701
Total	$	5,402

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; natural disaster; and errors and omissions. The Authority has purchased commercial insurance for public officials' liability coverage, which covers the litigation costs relative to errors and omissions as they pertain to the Authority's Board members. Additionally, the Authority's exposure under negligent claims filed against it is limited through the Kentucky Board of Claims. The Authority also has purchased commercial insurance for liability and collision loss on Authority owned vehicles, which are less than five years old. Loss to buildings and equipment are self-insured through the Commonwealth's Fire and Tornado Fund.

NOTE 10 - LONG-TERM OBLIGATIONS

On October 3, 2008, the State Property and Buildings Commission (SPBC) authorized and issued $15,720,000 in Series 2008 Agency Fund Revenue Bonds (Project No. 91). The majority of the proceeds of these bonds were used for refunding $14,025,000 in ALCo 2005 Agency Fund 2nd Series A-5 Notes held by the Authority. The Authority approved a lease agreement with SPBC, effective October 1, 2008, to act as a mechanism for financing the principal and interest payments of the bonds. The bonds have a delivery date of October 21, 2008, with interest payable on April 1 and October 1 each year, commencing on April 1, 2009 and ending with the final maturity of the term bonds due April 1, 2029. Interest rates range from 3.4% to 5.750% at the final maturity date.

Changes in long-term liabilities for the year ended June 30, 2012, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Lease Payable	$ 12,933,386	$ -	$ 513,741	$ 12,419,645	$ 533,086
Total	$ 12,933,386	$ -	$ 513,741	$ 12,419,645	$ 533,086

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012
(Continued)

NOTE 10 - LONG-TERM OBLIGATIONS (CONTINUED)

KENTUCKY RIVER AUTHORITY
PROJECT 91 REVENUE BONDS DTD 10/21/08
LEASE PAYMENT SCHEDULE

Subject to change dependent on reinvestment of debt service fund or debt service reserve. Payments are made quarterly in equal installments.

Fiscal Year Ending	Principal Payment	Interest Expense	Total Payments
6/30/2013	$ 533,086	$ 721,849	$ 1,254,935
6/30/2014	553,682	700,150	1,253,832
6/30/2015	579,125	676,310	1,255,435
6/30/2016	606,991	649,919	1,256,910
6/30/2017	633,645	620,615	1,254,260
6/30/2018	667,569	588,791	1,256,360
6/30/2019	702,704	553,490	1,256,194
6/30/2020	742,685	513,072	1,255,757
6/30/2021	786,301	470,397	1,256,698
6/30/2022	831,129	425,172	1,256,301
6/30/2023	879,591	377,403	1,256,994
6/30/2024	929,265	326,798	1,256,063
6/30/2025	982,574	273,361	1,255,935
6/30/2026	1,037,094	216,800	1,253,894
6/30/2027	1,096,460	192,779	1,289,239
6/30/2028	857,744	120,159	977,903
6/30/2029		3,059	3,059
Remaining Balance	$ 12,419,645	$ 7,430,124	$ 19,849,769

NOTE 11 - NET ASSETS RESTRICTED FOR CAPITAL PROJECTS

Kentucky River Authority has Net Assets Restricted for Capital Projects of $6,422,518. This amount consists of solely restricted cash. The restricted cash consists of accounts restricted to maintenance and construction of capital assets as well as $336,068 in a Rate Stabilization Fund. This fund is related to the capital lease obligation, held by the fiscal agent and is the property of the Authority. The receivable is the remaining proceeds from a onetime appropriation from the State. This appropriation is restricted for the maintenance and renovation of capital assets.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Jerry T. Graves, Executive Director
Kentucky River Authority
Board of Directors

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With
Government Auditing Standards

We have audited the financial statements of the Kentucky River Authority (Authority), a discretely presented component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Kentucky River Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Kentucky River Authority's financial statements for the year ended June 30, 2012, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Kentucky River Authority, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Adam H. Edelen
Auditor of Public Accounts

October 1, 2012

EXHIBIT C

BOOK-ENTRY-ONLY SYSTEM

The Series 2013 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-only system is used, only DTC will receive or have the right to receive physical delivery of Series 2013 Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Series 2013 Bonds under the Resolution.

The following information about the book-entry-only system applicable to the Series 2013 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 Series 2013 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 Series 2013 Bond certificate will be issued for each maturity of the Series 2013 Bonds, in the aggregate principal amount of the Series 2013 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 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating of AA+. 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 Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 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 Series 2013 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 Series 2013 Bonds, except in the event that use of the book-entry-only system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 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 Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 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 Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013 Bond documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 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 Series 2013 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 Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2013 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 the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, 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 Series 2013 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, Series 2013 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, Series 2013 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 SERIES 2013 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2013 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 SERIES 2013 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2013 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 C concerning DTC and DTC's book-entry-only system has been obtained from sources that the Commission believes to be reliable, but the Commission takes no responsibility for the accuracy thereof.

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EXHIBIT D

FORM OF BOND COUNSEL OPINION FOR THE SERIES 2013 BONDS

[Date of Delivery]

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

Re: $17,210,000 Commonwealth of Kentucky State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 105

Ladies and Gentlemen:

We have examined a certified copy of the transcript of proceedings of the Commonwealth of Kentucky State Property and Buildings Commission (the "Commission") relating to the authorization, sale and issuance of its Agency Fund Revenue Bonds, Project No. 105 in the aggregate principal amount of $17,210,000 (the "Bonds"), dated on original issuance as of the date of their delivery.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act"), House Bill 265 of the General Assembly of the Commonwealth of Kentucky (the "Commonwealth"), 2012 Regular Session, as enacted and vetoed in part (the "Budget Act"), and in accordance with the bond resolution of the Commission adopted on March 19, 2013 (the "Resolution") for the purpose of (i) paying costs of a project (the "Project")"); (ii) funding a debt service reserve fund with respect to the Bonds and (iii) paying the costs of issuing the Bonds. The Project has been leased to the Finance and Administration Cabinet of the Commonwealth of Kentucky (the "Cabinet") and the Kentucky River Authority (the "State Agency"), as co-lessee, pursuant to a Lease Agreement dated as of October 1, 2008, as supplemented by a First Supplemental Lease Agreement dated as of April 1, 2013 (collectively, the "Lease"). The Bonds are being issued on a parity as to security and source of payment with the Commission's outstanding Agency Fund Revenue Bonds, Project No. 105 (the "Series 2008 Bonds").

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

We have also examined records relating to the authorization and original issuance of the Bonds, including a specimen Bond and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied on certificates of officials of the Commonwealth, the Commission, the Cabinet and the State Agency as to certain factual matters.

We have assumed the authenticity of all documents submitted to us as originals, the legal capacity of natural persons and the conformity to the originals of all documents submitted to us as copies. We have assumed that parties other than the Commission and the Cabinet had the requisite power and authority to enter into and perform all obligations of all documents to which they are parties. We have assumed the due authorization by all requisite action, and the execution and delivery by such other parties of such documents, and the validity and binding effect thereof on such other parties. We have relied for purposes of the opinions set forth below on the representations and warranties made in such documents by all parties thereto.

Based on the foregoing, and in reliance thereon, and on the basis of our examination of such other matters of fact and questions of law as we have deemed relevant in the circumstances, it is our opinion, under the law existing on the date of this opinion, that:

1. The Commission is an independent agency and public body corporate of the Commonwealth, duly organized and validly existing under the laws of the Commonwealth. The Commission has the legal right and authority to issue the Bonds.

2. The Resolution has been duly adopted by the Commission and is the valid and binding obligation of the Commission enforceable in accordance with its terms.

3. The Bonds have been duly authorized and issued by the Commission and are the valid and binding, special and limited obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal and interest from and are secured by a pledge of the revenues to be derived by the Commission from the Lease. A sufficient portion of the revenues have been pledged to pay the interest on and principal of the Bonds as the same become due.

4. The Lease has been duly authorized, executed and delivered by the Cabinet. The Lease is the legal, valid and binding obligations of the Cabinet and the State Agency. The Lease is enforceable in accordance with its terms.

5. The Bonds are special and limited obligations of the Commission, payable solely and only from the revenues provided for by the Resolution. The Bonds do not pledge the general credit or taxing power, if any, of the Commonwealth, the Commission, the Cabinet, the State Agency or any other agency or political subdivision of the Commonwealth.

6. The Bonds are not secured by a pledge of, or lien on, any properties constituting the Project or by a pledge of or lien on the income derived from the Project, if any, but are payable as to principal and interest solely and only from and are secured by a pledge of the revenues to be derived from the Lease. The ability of the Cabinet and the State Agency to make payments under the Lease is dependent on legislative appropriations to the Cabinet and the State Agency. The Lease currently has a terms ending June 30, 2014, with the right to renew the Lease for additional successive terms of two years until the Bonds and the interest thereon have been paid and discharged.

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

8. The Commission has <u>not</u> designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

9. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth and any of its political subdivisions.

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

In rendering our opinion as to the due authorization, execution and delivery of the Lease, we have relied on opinions of counsel to the Cabinet and the State Agency.

Very truly yours,

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