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

<u>NEW ISSUE</u>

In the opinion of Bond Counsel for the Series 2018 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 2018 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 2018 Bonds is exempt from Kentucky income tax and the Series 2018 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

$28,945,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 118

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

The Agency Fund Revenue Bonds, Project No. 118 (the "Series 2018 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 2018 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2018 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2018 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2018 Bonds will be made directly to DTC. The Series 2018 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, 2018. Principal of, redemption premium, if any, and interest on the Series 2018 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent.

The Series 2018 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
2019	$350,000	5.000%	1.870%	XT2	2029	$1,140,000	3.000%	3.100%	YD6
2020	735,000	5.000	2.120	XU9	2030	1,020,000	3.000	3.200	YE4
2021	770,000	5.000	2.270	XV7	2031	1,045,000	3.125	3.300	YF1
2022	815,000	5.000	2.350	XW5	2032	1,085,000	3.250	3.400	YG9
2023	850,000	5.000	2.450	XX3	2033	1,120,000	3.250	3.500	YH7
2024	890,000	5.000	2.600	XY1	2034	2,815,000	3.375	3.550	YJ3
2025	950,000	5.000	2.700	XZ8	2035	2,910,000	3.375	3.600	YK0
2026	985,000	5.000	2.800	YA2	2036	3,010,000	3.500	3.650	YL8
2027	1,030,000	5.000	2.900	YB0	2037	3,115,000	3.500	3.700	YM6
2028	1,085,000	5.000	3.000	YC8	2038	3,225,000	3.625	3.730	YN4

The Series 2018 Bonds are subject to redemption prior to maturity as described herein.

The Series 2018 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 April 12, 2018 to (i) pay the costs of the 2018 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 2018 Bonds.

The Scheduled payment of principal of an interest on the Series 2018 Bonds when due will be guaranteed under a Municipal Bond Insurance Policy to be issued concurrently with the delivery of the Series 2018 Bonds by Build America Mutual Assurance Company.

BAM
BUILD AMERICA MUTUAL

THE SERIES 2018 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2018 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 2018 BONDS" herein.

The Series 2018 Bonds are offered when, as and if issued and accepted by the underwriter, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. It is expected that delivery of the Series 2018 Bonds will be made on or about May 24, 2018 in New York, New York, through the facilities of DTC, against payment therefor.

Dated: May 18, 2018.

COMMONWEALTH OF KENTUCKY
STATE PROPERTY AND BUILDINGS COMMISSION

Members

MATTHEW G. BEVIN
Governor
(Chairman of the Commission)

JENEAN M. HAMPTON
Lieutenant Governor

ANDREW G. BESHEAR
Attorney General

WILLIAM M. LANDRUM III
Secretary
Finance and Administration Cabinet
(Executive Director of the Commission)

TERRY R. GILL, JR.
Secretary
Cabinet for Economic Development

JOHN E. CHILTON
State Budget Director

EDGAR C. ROSS
State Controller

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

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offer to sell the Series 2018 Bonds to any person, or the solicitation of an offer from any person to buy the Series 2018 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 2018 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 2018 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS CONTAINED IN SUCH FEDERAL ACT. 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 2018 BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Series 2018 Bonds or the advisability of investing in the Series 2018 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Exhibit G - Specimen Bond Insurance Policy".

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[1] Copyright 2017, CUSIP Global Services. CUSIP Global Services. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by Standard & Poor's Capital IQ. 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 Bondholders only at the time of issuance of the Series 2018 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 2018 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 2018 Bonds.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Series 2018 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 2018 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 2018 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 $28,945,000 Agency Fund Revenue Bonds, Project No. 118 (the "Series 2018 Bonds").

Authority The Series 2018 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 April 12, 2018 (i) authorizing the issuance of the Series 2018 Bonds and (ii) approving a Third Supplemental Lease dated as of May 1, 2018 (the "Supplemental Lease") supplementing the Lease dated as of October 1, 2008 (the "Original Lease"), as supplemented by the First Supplemental Lease dated as of April 1, 2013 and the Second Supplemental Lease dated as of May 1, 2016 (and together with the First Supplemental Lease, Second Supplemental Lease and Third 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 2018 Bonds are being issued to provide funds with which to (i) pay certain costs of the 2018 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 2018 Bonds.

Security The Commission has heretofore previously issued its $17,210,000 Agency Fund Revenue Bonds, Project No. 105 (the "Series 2013 Bonds"); of which $15,255,000 remains outstanding and its $10,850,000 Agency Fund Revenue Refunding Bonds, Project No. 113 (the "Series 2016 Bonds") of which $10,710,000 remains outstanding. The Series 2013 Bonds were issued to pay the costs of certain portions of the 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 Lease, and both constitute a "Parity Obligation" under the Original Lease and the Series 2018 Bonds constitute Additional Bonds (as defined herein) ranking on a parity as to security and source of payment with the Series 2013 Bonds and Series 2016 Bonds.

The Series 2013 Bonds, Series 2016 Bonds and Series 2018 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 2018 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 2017." 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 2018 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 2018 Bonds will equal the Reserve Fund Requirement. See "SECURITY FOR THE BONDS; ADDITIONAL BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The Series 2018 Bonds are not secured by a lien on any of the properties constituting the 2018 Project, as described herein, or any amounts derived therefrom.

THE SERIES 2018 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2018 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 2018 PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

Bond Insurance

The Scheduled payment of principal of an interest on the Series 2018 Bonds when due will be guaranteed under a Municipal Bond Insurance Policy to be issued concurrently with the delivery of the Series 2018 Bonds by Build America Mutual Assurance Company ("BAM"). See "BOND INSURANCE" and "EXHIBIT G – SPECIMEN BOND INSURANCE POLICY".

Features of Series 2018 Bonds

The Series 2018 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 2018 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 2018 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2018 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2018 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2018 Bonds will be made directly to DTC.

The Series 2018 Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2018. Principal of, premium, if any, and interest on the Series 2018 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the "Trustee").

The Series 2018 Bonds maturing on and after April 1, 2029 are subject to redemption at the option of the Commission on or after April 1, 2028, in whole or in part at any time, at a redemption price equal to the principal amount of the Series 2018 Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE SERIES 2018 BONDS - Redemption Provisions."

It is expected that delivery of the Series 2018 Bonds will be made on or about May 24, 2018, 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 Dinsmore & Shohl LLP, Bond Counsel, under present law, interest on the Series 2018 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 2018 Bonds is exempt from Kentucky income tax and the Series 2018 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 F - FORM OF BOND COUNSEL OPINION FOR THE SERIES 2018 BONDS.

Additional Bonds	The Resolution authorizes the issuance of obligations ranking on a parity with the security and source of payment with the 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 2018 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 2018 Bonds is available by contacting the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924 and the Commission's Financial Advisor, Compass Municipal Advisors, LLC, 771 Corporate Drive, Suite 1050, Lexington, Kentucky 40503, Attention: Mr. Michael George (859) 368-9622.

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OFFICIAL STATEMENT
Relating to

$28,945,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 118

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 $28,945,000 Agency Fund Revenue Bonds, Project No. 118 (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 2018 Project for the State Agency, (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 2018 Bonds.

The Cabinet and the State Agency, as co-lessees, entered into a Lease dated as of October 1, 2008, with the Commission, as supplemented and amended by a First Supplemental Lease dated as of April 1, 2013 and a Second Supplemental Lease dated as of May 1, 2016 (collectively, the "Original Lease"), to provide the Commission with amounts sufficient to pay the principal of and interest on the Commission's outstanding Agency Fund Revenue Bonds, Project No. 105 (the "Series 2013 Bonds") and Agency Fund Revenue Refunding Bonds, Project No. 113 (the "Series 2016 Bonds"), the proceeds of which were used to finance or refinance the construction of public projects for the State Agency (together with the 2018 Project, the "Project"). The resolution authorizing certain Series 2008 Bonds which were refunded by the Series 2016 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 Bonds that are Outstanding under the Series 2008 Resolution, as amended and supplemented (collectively, the "Bond Resolution"), which may be additional bonds issued in accordance with the requirements of the Bond Resolution (the "Additional Bonds") or other obligations (the "Parity Obligations") permitted by the Original Lease.

The Series 2013 Bonds and Series 2016 Bonds were issued, and the Series 2018 Bonds are being issued, as Additional Bonds under the Bond Resolution and the Series 2018 Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Resolution on April 12, 2018 amending and supplementing the Bond Resolution and authorizing the issuance of the Series 2018 Bonds and approving the Supplemental Lease hereinafter described. The Series 2013 Bonds, the Series 2016 Bonds and the Series 2018 Bonds, together with any Additional Bonds, are hereinafter referred to as the "Bonds."

The Cabinet and the State Agency will enter into a Third Supplemental Lease, dated as of May 1, 2018 (the "Third Supplemental Lease," and together with the Original Lease, the "Lease"), with the Commission, to provide the Commission with additional amounts to pay the principal of and interest on the Bonds. The current term of the Lease ends June 30, 2020, 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 Outstanding Bonds any Additional Bonds that hereinafter may be issued.

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 User Fees" and – "Tier II Fee Payers - Fiscal Year 2017" 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, 2020.

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 2018 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 2018 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 2018 Bonds, the Lease, the 2018 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 Capital 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 2018 BONDS

General

The Series 2018 Bonds are issuable only as fully registered Series 2018 Bonds. The Series 2018 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, 2018, 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 2018 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 2018 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 2018 Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "EXHIBIT E - BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2018 Bonds maturing on or after April 1, 2029, are subject to optional redemption at par on April 1, 2028, 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. The Commission has directed the Trustee to notify DTC that in the event less than all of any Series 2018 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 2018 Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Series 2018 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 2018 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 2018 Bond shall not affect the validity of the redemption of any other Series 2018 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 2018 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 2018 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 2018 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Series 2018 Bonds to be redeemed and, in the case of Series 2018 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 2018 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; 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 2018 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 2018 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 2018 Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Series 2018 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 2017." 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, 2020. 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, 2020. 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.

In addition, a Rate Stabilization Fund has been established under the Original Lease, to be maintained by the Trustee as a separate, segregated fund of the State Agency. 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 Resolution, and is not a part of the Funds and Accounts pledged to the security of the Bonds. Amounts in the Stabilization Fund may be used for any lawful public purpose of the State Agency.

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 2018 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 2018 Bonds will equal the Reserve Fund Requirement.

THE SERIES 2018 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 2018 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 2018 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 2018 PROJECT OR ANY AMOUNTS DERIVED THEREFROM. THE SERIES 2018 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 2018 BONDS.

Under the Bond 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 2013 Bonds, the Series 2016 Bonds and the Series 2018 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.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2018 Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Series 2018 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2018 Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Series 2018 Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Series 2018 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Series 2018 Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Series 2018 Bonds, nor does it guarantee that the rating on the Series 2018 Bonds will not be revised or withdrawn.

Capitalization of BAM. BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $515 million, $87.7 million and $427.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Series 2018 Bonds or the advisability of investing in the Series 2018 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

Additional Information Available from BAM.

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Series 2018 Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Series 2018 Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Series 2018 Bonds, whether at the initial offering or otherwise Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

The BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Series 2018 Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Series 2018 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Series 2018 Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Series 2018 Bonds, nor does it guarantee that the rating on the Series 2018 Bonds will not be revised or withdrawn.

<u>Capitalization of BAM</u>. BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$508.7 million, \$79.5 million and \$429.2 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Series 2018 Bonds or the advisability of investing in the Series 2018 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

<u>Additional Information Available from BAM</u>.

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Series 2018 Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Series 2018 Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Series 2018 Bonds, whether at the initial offering or otherwise.

PLAN OF FINANCE

The proceeds of the Series 2018 Bonds will be used by the Commission to (i) pay the costs of the 2018 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 2018 Bonds. See "SOURCES AND USES OF FUNDS FOR THE SERIES 2018 BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

SOURCES AND USES OF FUNDS FOR THE SERIES 2018 BONDS

The following table sets forth the application of the proceeds of the Series 2018 Bonds and other funds of the State Agency.

SOURCES OF FUNDS:	
Par Amount of Series 2018 Bonds	$28,945,000.00
Funds of State Agency	1,300,000.00
Net Original Issue Premium	605,468.95
TOTAL SOURCES	$30,850,468.95
USES OF FUNDS:	
Deposit to Project Fund	$28,334,000.00
Deposit to Reserve Fund (for a total fund balance of $4,101,775.02)	1,651,775.02
Deposit to Rate Stabilization Fund (for a total fund balance of $615,266.25)	248,505.51
Costs of Issuance*	616,188.42
TOTAL USES	$30,850,468.95

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

THE 2018 PROJECT

The 2018 Project financed with the proceeds of the Series 2018 Bonds consists of the construction of Dam 10. The Cabinet and the State Agency will lease the 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.

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. The Governor took final action on the bills on June 4, 2010. Together, the bills authorized 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 US-68/KY-80 Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. A portion of the General Fund, Agency Restricted Fund, Road Fund and Federal Highway Trust 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. The Governor 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 authorized 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 General Fund authorization and the total Agency Restricted Fund authorizations listed above have been permanently financed.

The 2014 Regular Session of the General Assembly delivered House Bill 235 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 31, 2014 and House Bill 236 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2014, establishing an Executive Branch Budget for the biennium ending June 30, 2016. The Governor took final action on House Bill 235 on April 11, 2014 and took final action on House Bill 236 on April 25, 2014. Together, the bills authorize bond financing for projects totaling a net amount of $1,364.05 million to support various capital initiatives of the Commonwealth whereas $105 million in previously authorized debt was de-authorized in House Bill 235. Of the total authorization, $742.77 million is General Fund supported, $721.28 million is supported by Agency Fund appropriations, and $5.0 million is Road Fund supported. A portion of the General Fund and Agency Restricted Fund, and all of the Road Fund authorizations listed above have been permanently financed.

The 2016 Regular Session of the General Assembly delivered House Bill 303 (Executive Branch Budget other than the Transportation Cabinet) and House Bill 304 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2016, establishing an Executive Branch Budget for the biennium ending June 30, 2020. The Governor took final action on House Bill 303 and House Bill 304 on April 27, 2016. Together, the bills authorize bond financing for projects totaling a net amount of $1,251.24 million to support various capital initiatives of the Commonwealth with $9.0 million of previously authorized debt de-authorized in House Bill 303. Of the total authorization, $582.99 million is General Fund supported and $677.25 million is supported by Agency Fund appropriations. No additional Road Fund supported authorizations were appropriated. A portion of the General Fund and Agency Restricted Fund authorizations listed above have been permanently financed.

The 2017 Regular Session of the General Assembly delivered House Bill 13 and House Bill 482 to the Governor on March 30, 2017. House Bill 13 authorized a general fund bond supported project for the Kentucky Department of Veterans' Affairs for the financing of the Bowling Green Veterans Center totaling $10.5 million. House Bill 482 authorized a general fund bond supported project totaling $15 million for the Kentucky Economic Development Finance Authority Loan Pool to support programs administered by the Kentucky Economic Development Finance Authority for the sole purpose of facilitation a private sector investment of not less than $1 billion in one or more locations in the Commonwealth. The Governor took final action on House Bill 13 and House Bill 298 on April 11, 2017. The total authorization under House Bill 482 has been permanently financed.

The 2018 Regular Session of the General Assembly delivered House Bill 200 (Executive Branch Budget other than Transportation Cabinet) to the Governor on April 2, 2018 and House Bill 201 (Kentucky Transportation Cabinet Budget) to the Governor on April 14, 2018, establishing an Executive Branch Budget for the biennium ending June 30, 2020. The Governor vetoed House Bill 200 on April 9, 2018 and on April 13, 2018 the General Assembly enacted the Bill over the Governor's veto. On April 14, 2018 the General Assembly delivered House Bill 265 (amending the 2018-2020 Executive Branch Budget Bill) to the Governor. The Governor took final action on House Bill 201 on April 26, 2018. House Bill 265 became law without the Governor's signature on April 27, 2018. Together, the bills authorize bond financing for projects totaling a net amount of $972.7 million to support various capital initiatives of the Commonwealth whereas $26.62 million in previously authorized debt was de-authorized in House Bill 200 and House Bill 201. Of the total authorization, $377.69 million is General Fund supported, $602.89 million is supported by Agency Fund appropriations, and $18.75 million is Road Fund supported.

The balance of bond authorizations of the General Assembly dating from 2006 through 2020 subject to moral obligation or state intercept totals $2,031.31 million. Of these prior authorizations, $887.68 million is General Fund supported, $1,062.38 million is Agency Restricted Fund supported, and

$81.25 million is supported by Road Fund appropriations. House Bill 201 deauthorized $59.5 million of Grant Anticipation Revenue Vehicle (GARVEE) Bonds which were not needed to complete the US-68/KY-80 Lake Barkley and Kentucky Lake Bridges Project.

The following table summarizes, in aggregate, the information in connection with authorized but unissued debt of the Commonwealth as described in this section.

State Property and Buildings Commission
Summary of Authorized but Unissued Debt by Fund Type
as of April 27, 2018

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	TOTAL (millions)
2010 and prior	$42.11	$17.50	$50.00	$109.61
2012	19.20	-	12.50	31.70
2014	243.50	161.34	-	404.84
2016	294.68	405.66	-	700.34
2017	10.50	-	-	10.50
2018	377.69	542.89	18.75	939.32
Bond Pool Proceeds	(100.00)	(65.00)	-	(165.00)
TOTAL	$887.68	$1,062.38	$81.25	$2,031.31

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. The following departments and offices, among others, are within the Cabinet:

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 currently 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:

Kentucky River Authority Board Members

Member	Term Expires	Position
Mr. William M. Landrum III Secretary, Finance and Administration Cabinet	Ex Officio	Secretary of Finance and Administration Cabinet
Mr. Charles G. Snavely Secretary, Energy and Environment Cabinet	Ex Officio	Secretary of Energy and Environment Cabinet

Mr. Mike Flynn (Chairman) Winchester, Kentucky	September 18, 2019	A member representing an expert in water quality
Mr. James Kay (Vice Chairman) Versailles, Kentucky	September 18, 2019	A member residing in a county adjacent to the main stem of the Kentucky River
Mark Smith (Secretary) Carrolton, Kentucky	September 18, 2020	A member residing in a county adjacent to the main stem of the Kentucky River
The Honorable Harold Rainwater (Treasurer) Wilmore, Kentucky	September 18, 2018	A member representing mayors from counties which obtain the major portion of their water supply from the Kentucky River
Mr. Jack Stickney Irvine, Kentucky	September 18, 2017	A member residing in a county adjacent to either the north, middle or south forks of the Kentucky River
Mr. Rodney Simpson Frankfort, Kentucky	September 18, 2018	A member residing in a county adjacent to Locks and Dams 1-4 of the Kentucky River
Mr. Kevin Rogers Lexington, Kentucky	September 18, 2017	A member residing in a county adjacent to the main stem of the Kentucky River
The Honorable Huston Wells Franklin County Judge Executive Frankfort, Kentucky	September 18, 2018	A member representing a county judge/executive from counties which obtain the major portion of their water supply from the Kentucky River
Mr. Barry Sanders Crestwood, KY	September 18, 2020	A member representing registered engineers

The audited financial statements of the State Agency for Fiscal Year 2017 are set forth in EXHIBIT D 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 current rate is $0.130 per thousand gallons but on April 9, 2018 the Board voted to raise the rate effective July 1, 2018 to $0.220 per thousand gallons..

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 2017

In Fiscal Year 2017, 16 entities used 27,036,023,030 gallons of water and accounted for 100% of all Tier II Fees collected in that year. The following chart identifies the water users and payers of Tier II Fees in Fiscal Year 2017.

Kentucky River Authority
Tier II Fee Payers on Main Stem Fiscal Year 2017

Users	Water Usage (Gallons)	Tier II Fees per 1000 gal $0.130	% of Total Tier II Fees
East Kentucky Power Cooperative	25,517,000	$3,317.21	0.09%
Frankfort Electric and Water Plant Board	3,098,148,000	402,759.24	11.46
Harrodsburg Municipal Water Works	1,065,788,869	138,552.55	3.94
Irvine Municipal Utilities	504,078,000	65,530.14	1.86
Kentucky-American Water Co. Pool 9	10,620,948,000	1,380,723.24	39.28
Lancaster Municipal Water Works	543,252,000	70,622.76	2.01
Lawrenceburg Municipal Water Works	782,795,000	101,763.35	2.90
Buffalo Trace Distillery	81,183,006	10,553.79	0.30
Nicholasville Water Works	1,521,421,263	197,784.77	5.63
Richmond Water, Gas, and Sewage	2,533,585,892	329,366.17	9.37
Versailles Municipal Water Works	1,131,263,000	147,064.19	4.18
Wilmore Utilities System	226,961,000	29,504.93	0.84
Winchester Municipal Utilities	1,708,718,000	222,133.34	6.32
Boonesboro Quarry	9,780,000	1,271.40	0.04
Harrod Rock Quarry	33,360,000	4,336.80	0.12
Kentucky American-Pool 3 Plant	3,149,224,000	409,399.12	11.65
Total	27,036,023,030	$3,514,683.00	100.00%

Historical Pro Forma Debt Service Coverage

The following table sets out the adjusted historical pro forma debt service coverage for the ten year period ending June 30, 2017, 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 Debt Service Coverage

Period Ended June 30	Annual Water Usage (Gallons)	Tier II Revenues	Maximum Annual DS	Historical Coverage
2008	28,163,726,347	$1,689,824 [1]	$1,323,463	1.28x
2009	27,641,646,669	1,658,499 [1]	1,323,463	1.25
2010	25,752,365,384	1,545,142 [1]	1,323,463	1.17
2011	27,874,370,965	1,672,462 [1]	1,323,463	1.26
2012	25,370,764,705	1,522,246 [1]	1,323,463	1.15
2013	27,109,888,044	1,626,593 [1]	1,323,463	1.23
2014	25,228,458,438	3,279,700 [2]	2,424,688	1.35
2015	25,485,698,668	3,313,141 [2]	2,424,688	1.37
2016	25,254,975,520	3,283,147 [2]	2,424,688	1.35
2017	27,036,023,030	3,514,683 [2]	2,424,688	1.45

[1] $0.060/1000 gallon rate
[2] $0.130/1000 gallon rate

The State Agency estimates annual revenues generated from Tier II Fees in subsequent fiscal years, based on historical usage at the new rate of $0.220 per thousand gallons, to be approximately $5,720,000.

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 D.

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, 2020. The required rent payments are designed to be sufficient to meet principal and interest requirements on the Bonds through June 30, 2020. The 2016 Regular Session of the General Assembly delivered House Bill 303 (Executive Branch Budget other than Transportation Cabinet) and House Bill 304 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2016, establishing an Executive Branch Budget for the biennium ending June 30, 2020, including amounts projected to be sufficient to enable the State Agency to pay required rents during the first renewal term of the Lease ending on June 30, 2020.

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 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 branding and expanding the tourism industry in the Commonwealth.

As indicated in the Commonwealth of Kentucky Quarterly Economic & Revenue Report Third Quarter Fiscal Year 2018 Kentucky was in line with the national economy in terms of personal income growth. Kentucky personal income grew 3.7 percent during the third quarter of Fiscal Year 2018, slightly ahead of national growth of 3.6 percent. The adjacent-quarter growth rate was 1.5 percent, marking only the fourth time since the end of the recession that the rate has grown 1.5 or higher in a quarter. Contributing components were both wages and salaries and supplements to wages and salaries, which grew 3.8 percent and 3.9 percent.

Kentucky non-farm employment rose by 0.9 percent in the third quarter of Fiscal Year 2018, a number that is historically very low for the state and in comparison to the nation as a whole. This marks the sixth consecutive quarter of growth below 1.0 percent. The fastest growing employment super sector in Kentucky in the third quarter was leisure and hospitality services employment, which grew 1.6 percent and represents a net 3,200 increase in jobs. The slowest growing sector in the third quarter was government employment, which includes federal, state, and local government employment and grew 0.0 percent. Manufacturing employment, the fourth largest super sector in Kentucky, grew by 0.9 percent for the quarter. On an adjacent-quarter basis, manufacturing employment has declined in three of the last four quarters, with growth rates of -0.1, -0.3, -0.1 and 1.4 percent.

The third quarter of Fiscal Year 2018 marked the fifth consecutive quarter Kentucky has experienced growth in personal income. As a result of the economic tailwind, individual income and sales and use tax collections have gained benefit. The Commonwealth is poised to maintain a steady pace of growth in personal income at an estimated 4.4 percent to end Fiscal Year 2018, and 5.2 percent entering Fiscal Year 2019.

Financial Information Regarding the Commonwealth

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial* Report (the "CAFR") 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 Retirement 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.

Certain Financial Information Incorporated by Reference

The CAFR for the Fiscal Year ended June 30, 2017 is incorporated herein by reference. The Commonwealth has filed the CAFR for the Fiscal Year ended June 30, 2017 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 CAFR for the Fiscal Year ended June 30, 2017 may be obtained from EMMA. Additionally, the CAFR for the Fiscal Year ended June 30, 2017 and certain other fiscal years may be found on the Internet:

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 herein 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* (or successor reports) with EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

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

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, premium, if any, and interest, when due, on obligations that are subject to appropriation. The Bonds are obligations that are subject to appropriation.

Fiscal Year 2015

The Commonwealth's combined net position (governmental and business-type activities) totaled $(14.029) billion at the end of Fiscal Year 2015, as compared to $10.058 billion at the end of the previous year. This significant decrease in the net position of the governmental activities occurred when the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 68 and No. 71 (GASB 68 and 71), *Accounting and Financial Reporting for Pensions,* the provisions of which require the Commonwealth, as a participating employer in the Kentucky Employees Retirement System, the State Police Retirement System, the Teachers' Retirement System, the Judicial Retirement Plan and the Legislators' Retirement Plan, to reflect in the Statement of Net Position its proportionate share of the net pension liability of such retirement plans. The adoption of this pronouncement resulted in a decrease of $24.6 billion in the Commonwealth's beginning net position.

The largest portion of the Commonwealth's net position, $21.6 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(36.818) 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 position 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 position.

The Commonwealth received program revenues of $14.1 billion and general revenues (including transfers) of $11.8 billion for total revenues of $25.9 billion during Fiscal Year 2015. Expenses for the Commonwealth during Fiscal Year 2015 were $25.4 billion, which resulted in a total increase of the Commonwealth's net position in the amount of $540.4 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was $(5.1) million or 1.0 percent. Approximately 48.8 percent of the governmental activities' total revenue came from taxes, while 49.3 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, 2014 the Commonwealth's governmental funds reported combined ending fund balances of $2.0 billion, a net decrease of $184.1 million in comparison with the prior year. $99.3 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $1.7 billion is restricted for certain purposes and is not available to fund current operations. $214 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2015, was $104.4 million. The balance reported reflects an increase of $235.1 million from the previously reported amount, which represents an increase of 179.8 percent. The major factor for the increase in fund balance is an increase in revenues of $580.1 million or 6.2 percent.

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $6.2 million represents the nonspendable amount. The unrestricted had a balance of $98.1 million, therefore 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 an increase in intergovernmental revenues of $1.3 billion. Expenditures decreased across a majority of all functions, except for the Cabinet for

Health and Family Services (CHFS) which experienced an increase in expenditures of $1.2 billion (a 13.6 percent increase in expenditures for total federal expenditures).

The Commonwealth's bonded debt decreased by $136.7 million to $6.2 billion, a 2.2 percent decrease during Fiscal Year 2015. The major factor in this decrease is a result of the refunding of old issues by the Fiscal Year 2015 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2015 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2015 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2015.

Fiscal Year 2016

The Commonwealth's combined net position (governmental and business-type activities) totaled $(14.6) billion at the end of Fiscal Year 2016, as compared to $(14) billion at the end of the previous year.

The largest portion of the Commonwealth's net position, $22.2 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is $(38) 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 position 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 position.

The Commonwealth received program revenues of $15 billion and general revenues (including transfers) of $12.1 billion for total revenues of $27.1 billion during Fiscal Year 2016. Expenses for the Commonwealth during Fiscal Year 2016 were $27.6 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of $553.6 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was $(922.2) million or 6.52 percent. Approximately 47.5 percent of the governmental activities' total revenue came from taxes, while 44.2 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 close of Fiscal Year 2016, the Commonwealth's governmental funds reported combined ending fund balances of $2.3 billion, a net decrease of $301.6 million in comparison with the prior year. $96.9 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. $1.8 billion is restricted for certain purposes and is not available to fund current operations. $402.6 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2016, was $355 million. The balance reported reflects an increase of $250.6 million from the previously reported amount, which represents an increase of 240 percent. The major factor for the increase in fund balance is an increase in revenues of $346 million or 3.4 percent.

The General 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. The unrestricted had a balance of $349.6 million, therefore 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 an increase in intergovernmental revenues of $684.2 million. Expenditures increased by very small amounts across a majority of all functions, except for the Cabinet for Health and Family Services (CHFS) which experienced an increase in expenditures of $587.8 million. The federal receipts and expenditures for CHFS were approximately $9 billion resulting in a 5.8 percent increase in expenditures for total federal expenditures which is within a normal change for an agency of this size. The Transportation Fund experienced a slight decrease in revenues due to decreased tax receipts and an increase in expenditures, resulting in a decrease in fund balance of $114.3 million.

The Commonwealth's bonded debt increased by $340.2 million to $6.5 billion, a 5.5 percent increase during Fiscal Year 2016. The major factors in this increase are the issuance of new debt to advance refund debt outstanding to reduce future interest cost and the issuance of new debt to fund new projects authorized during Fiscal Year 2016. No general obligation bonds were authorized or outstanding at June 30, 2016.

Fiscal Year 2017

The Commonwealth's combined net position (governmental and business-type activities) totaled ($15.8) billion at the end of Fiscal Year 2017, as compared to ($14.6) billion at the end of the previous year.

The largest portion of the Commonwealth's net position, $23 billion, is net investment 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 position, 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 position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is ($40.2) 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 position 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-shown in Note 15 to the financial statements) on the statement of net position.

The Commonwealth received program revenues of $14.9 billion and general revenues (including transfers) of $12.3 billion for total revenues of $27.2 billion during Fiscal Year 2017. Expenses for the Commonwealth during Fiscal Year 2017 were $28.4 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of $1.2 billion, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was $1.45 billion or 9.6 percent. Approximately 47.8 percent of the governmental activities' total revenue came from taxes, while 43.7 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, 2017, the Commonwealth's governmental funds reported combined ending fund balances of $2.1 billion, a net decrease of $232.6 million in comparison with the prior year. $97 million is non-spendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $1.9 billion is restricted for certain purposes and is not available to fund current operations. The $91.2 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2017, was $6.2 million. The balance reported reflects a decrease of $349 million from the previously reported amount, which represents an decrease of 98.3%. The major factor for the decrease in fund balance is an increase in expenditures of $880 million or 9.2%.

The General Fund balance is segregated into non-spendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $6.2 million represents the non-spendable amount. The unrestricted had a balance of $55 thousand, therefore 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. The revenues increased by $120.2 million from the previous year, a change of less than 1 percent. Expenditures increased by $247.5 million from the previous year, a change of 1.8 per cent. The Transportation Fund experienced a slight increase in revenues and a small decrease in expenditures, resulting in an increase in fund balance of $76.5 million.

The Commonwealth's bonded debt increased by $64.7 million to $6.6 billion, a 1.0% increase during the current fiscal year. The major factors in this increase is the issuance of new debt to advance refund debt outstanding to reduce future interest cost and the issuance of new debt to fund new projects authorized during Fiscal Year 2017. No general obligation bonds were authorized or outstanding at June 30, 2017.

Fiscal Year 2018 (Unaudited)

As reported by the Office of the State Budget Director on May 10, 2018, the April 2017 General Fund receipts increased by 6.3 percent compared to the same month of the previous Fiscal Year. Total revenues for the month were $1,165.3 million, compared to $1,095.8 million during April 2017, an increase of $69.5 million. The official Fiscal Year 2018 revenue estimate calls for 2.3 percent growth in revenues. Based on April's receipts, General Fund revenues can fall 6.5 percent for the remainder of the fiscal year and meet the official estimate. Compared to last year, Road Fund receipts increased 8.8 percent in April 2018 to $134.9 million. The official Road Fund revenue estimate calls for revenues to decline 0.3 percent for the fiscal year. Based on year-to-date tax collections, revenues can fall 2.4 percent for the remainder of the fiscal year to hit the official forecast.

Consensus Forecasting Group; Official Revenue Forecasts

The Consensus Forecasting Group ("CFG"), in conjunction with the Office of the State Budget Director ("OSBD"), is statutorily charged with the responsibility of developing budget planning reports, preliminary revenue estimates, and official revenue estimates for each branch of government and the General and Road funds, pursuant to KRS 48.120 and KRS 48.115. The CFG is staffed by the Legislative Research Commission ("LRC") but receives econometric and modeling support from the

Governor's Office for Economic Analysis, an organizational unit of the OSBD. Members of the CFG are jointly selected by the State Budget Director and the LRC.

Subject to modification by the General Assembly, appropriations made in the branch budget bills enacted for each branch of government shall be based upon the official revenue estimates presented to the General Assembly by the OSBD in conjunction with the CFG. The enacted estimates shall become the official revenue estimates of the Commonwealth upon the branch budget bills becoming law, and shall remain the official revenue estimates of the Commonwealth until revised by the CFG, as provided in KRS 48.115(2).

The Office of the State Budget director makes available on its website the CFG official, enacted and revised revenue estimates for the General and Road Funds. The updates can be found at www.osbd.ky.gov.

The official revenue estimates, as adopted by the CFG, legislatively enacted by the General Assembly, revised by the CFG and compared to actual General and Road Fund totals for Fiscal Years 2015 through 2020 are represented below:

General Fund

Fiscal Year	Adopted	Enacted	Revised	Actual
2015	$9,794,300,000	$9,973,800,000	N/A	$9,966,600,000
2016	10,046,600,000	10,067,200,000	$10,289,900,000	10,338,900,000
2017	10,617,200,000	10,616,375,000	N/A	10,477,800,000
2018	10,875,500,000	10,874,400,000	10,718,400,000	N/A
2019 [1]	11,005,900,000	11,198,200,000	N/A	N/A
2019 [1]	11,290,000,000	11,487,500,000	N/A	N/A

[1] General Fund enacted revenues for fiscal years 2019 and 2020 include modifications resulting from tax reform legislation enacted during the 2018 Regular Session of the Kentucky General Assembly, specifically House Bills 75, 366 and 487. These changes include (1) moving to a flat 5% income tax for individuals and corporations; (2) broadening the sales tax base to include sales tax on certain services; and (3) increasing the cigarette tax by $0.50 per pack to a total of $1.10.

Road Fund

Fiscal Year	Adopted	Enacted	Revised	Actual
2015	$1,546,700,000	$1,584,870,600	N/A	$1,526,700,000
2016	1,558,400,000	1,559,396,800	$1,445,900,000	1,482,500,000
2017	1,456,900,000	1,456,900,000	N/A	1,508,000,000
2018	1,478,200,000	1,478,200,000	1,503,300,000	N/A
2019	1,505,300,000	1,505,300,000	N/A	N/A
2020	1,508,500,000	1,508,500,000	N/A	N/A

The revised CFG official revenue estimate for the Phase 1 Tobacco Master Settlement Agreement payments is $114.6 million for Fiscal Year 2018. The CFG official revenue estimate as adopted for the Phase 1 Tobacco Master Settlement Agreement payments is $119.5 million in Fiscal Year 2019 and $118.1 million in Fiscal Year 2020.

The Office of the State Budget Director makes available on its website monthly updates to the General Fund receipts and the Road Fund receipts. When published, the updates can be found at www.osbd.ky.gov.

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission ("SIC"), comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and two gubernatorial appointees from the Kentucky Banker's Association and Bluegrass Community Bankers 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 SIC, and most recommendations have been 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

On April 30, 2018, the Commonwealth's operating portfolio was approximately $4.085 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (28.9%); securities issued by agencies and instrumentalities of the United States Government (25.3%); mortgage-backed securities and collateralized mortgage obligations (6.3%); repurchase agreements collateralized by the aforementioned (13.3%); municipal securities (0.0%); and corporate and asset-backed securities, including money market securities (26.2%). The portfolio had a current yield of 1.96% and an effective duration of 0.45 years..

The Commonwealth's investments are currently categorized into three investment pools; the Short Term, Limited Term, and the 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 SIC 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 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 percent 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.

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 percent of the investment pools. Asset-Backed Securities ("ABS") are limited to 20 percent of the investment pools. Mortgage-Backed Securities ("MBS") and Collateralized Mortgage Obligations

("CMO") are also limited to a maximum of 25 percent 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 in certain of those security types.

Interest Rate Swaps

From time to time, the Commonwealth utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. ALCo is the agency with specific statutory authority to enter into and manage interest rate swaps and other similar vehicles. As of December 31, 2017, ALCo had one interest rate swap outstanding with a total notional amount outstanding of $166,965,000. 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 ALCo's 2007 $243.08 million General Fund Floating Rate Project Notes.

State Retirement Systems

Following is information about the Commonwealth'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.

Retirement Plans. Eligible state employees may participate in one of two provided multi-employer benefit plans: the Kentucky Retirement Systems and the Teachers' Retirement System of Kentucky ("TRS"). The Kentucky Retirement Systems is comprised of five retirement plans, KERS Non-Hazardous, KERS Hazardous, County Employees Retirement System ("CERS") Non-Hazardous, CERS Hazardous, and the State Police Retirement System ("SPRS"). Each retirement plan is state supported, except for the CERS plans, which have been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement System sand TRS (collectively, the "Retirement Plans") provide both retirement and Other Post-Employment Benefits("OPEB") to state employees and teachers based upon their age, hire date, years of service and retirement date. 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. Kentucky Employees Retirement System ("KERS") eligible employees hired January 1, 2014 and thereafter, and TRS eligible employees hired January 1, 2019 and thereafter are no longer party to the inviolable contract and the General Assembly can amend, suspend or reduce benefits with future legislation. The Kentucky Public Employees' Deferred Compensation Authority (the "KDC") additionally provides administration of tax-deferred supplemental retirement plans for all state, public school and university employees, and employees of local political subdivisions that have elected to participate. The available deferred compensation plans include a 457(b) Plan and a 401(k) Plan. The Retirement Plans and KDC 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 Retirement Plans and of the Retirement Plans' assets and liabilities, see The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2017 Note 8 beginning on page 90. Additional information regarding the Kentucky Retirement Systems and TRS can be found on their respective web sites at https://kyret.ky.gov and https://trs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post-Employment Benefits. 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 following schedules are descriptions of plan benefits by hire date for employees who participate in the KERS Non-Hazardous and TRS benefit tiers. New benefit tiers or changes to existing benefit tiers created as a result of the passage of Senate Bill 151 from the 2018 Regular Session of the

Kentucky General Assembly and signed by the Governor are outlined under "RECENT CHANGES TO STATE RETIREMENT SYSTEMS" and APPENDIX C.

Kentucky Employees' Retirement System
Governance KRS 61.510 through KRS 61.705
Cost Sharing Multiple Employer Defined Benefit Non-Hazardous

	Tier 1	Tier 2	Tier 3
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system		

	Tier 1	Tier 2	Tier 3
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months or for retirements after June 30, 2023 each year must contain 12 months). Includes lump-sum compensation payments (before and at retirement) except for retirements after June 30, 2023.	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation	No Final Compensation
Benefit Factor:	.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		

Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

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Teachers' Retirement System
Governance KRS 161.220 through KRS 161.990
Cost Sharing Multiple Employer Defined Benefit with Special Funding

	Tier 1 Participation prior to 7/1/2008	Tier 2 Participation on or after 7/1/2008
Covered Employees:	Provides pension plan coverage for local school districts and other educational agencies in the state.	
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service	
Final Compensation:	Average of the highest 5 annual salaries reduced 5% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.	Average of the highest 5 annual salaries reduced 6% per year from the earlier of age 60 or the date 27 years of service would have been completed. Average of the highest 3 annual salaries if age 55 with 27 or more years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.
Benefit Factor:	Non-University members: 2.00% for service prior to 7/1/1983; 2.50% for service after 7/1/1983; 2.00% if participation after 7/1/2002 and less than 10 years; 2.50% if participation after 7/1/2002 and more than 10 years; 3.00% if retire after 7/1/2004 with more than 30 years. University members: 2.0% for each year of service.	Non-University members: 1.70% if less than 10 years; 2.00% if greater than 10 years, but no more than 20 years; 2.30% if greater than 20 years, but no more than 26 years; 2.50% if greater than 26 years, but no more than 30 years; 3.00% for service greater than 30 years. University members: 1.50% if less than 10 years; 1.70% if greater than 10 years, but less than 20 years; 1.85% if greater than 20 years, but less than 27 years; 2.00% if greater than 27 years.
Cost of Living Adjustment (COLA):	1.5% annually additional ad hoc increases must be authorized by the General Assembly.	
Unreduced Retirement Benefit:	Any age with 27 years of Kentucky service. Age 55 with 5 years of Kentucky service.	Any age with 27 years of Kentucky service. Age 60 with 5 years of Kentucky service. Age 55 with 10 years of Kentucky service.
Reduced Retirement Benefit:	Must be retired for service or disability to be eligible. Retired members are given a supplement based upon a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement.	

Pension Funding. The Commonwealth's enacted budget proposal for fiscal years 2019 and 2020 included the full Actuarially Determined Employer Contribution ("ADEC") for the assumed rate of return found on the following pages for the Kentucky Retirement Systems and TRS. Based upon the assumptions employed in the Retirement Plans' June 30, 2017 actuarial valuation reports used in preparing the associated Retirement Plans' 2017 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $14,688 million. TRS, assuming a 7.5 percent investment return, had a pension UAAL of $14,305 million. Under the GASB 67 Accounting Method and assuming a 4.49 percent blended investment rate of return, the TRS pension UAAL would be $28,259 million. The state supported portion of the Retirement Plans for the Fiscal Year ended June 30, 2017 had funding percentages of 16.92 percent for the Kentucky Retirement Systems and 56.41 percent for TRS (the blended rate for TRS would yield a 39.83 percent funding level). These funding percentages compare to 19.46, 54.63 and 35.22 percent respectively for the Fiscal Year ended June 30, 2016. The funding ratios have declined due to a variety of factors including, changes to the discount rate, lower than projected investment returns and other variances from actuarial assumptions. The Kentucky Retirement Systems' state supported ADEC for pension benefits for the Fiscal Year ended June 30, 2017 was $697.4 million; $873.3 million was contributed. The TRS state supported pension ADEC for the Fiscal Year ended June 30, 2017 was $1,076.6 million; $1,050.7 million was contributed.

The Commonwealth's enacted budget for Fiscal Years 2017 and 2018 provided funding for payment of the full ADEC of the Kentucky Retirement Systems as well as an additional $185.767 million above the ADEC over the biennium. Similarly, the TRS was appropriated a budgeted estimate of 94 percent of the ADEC over the biennium. In addition to increased pension appropriations, the Kentucky Permanent Pension Fund was established in House Bill 238 (2016 Regular Session), the proceeds of which shall only be used for contributions to the Commonwealth's pension funds. The appropriated deposits to this fund are budgeted in the 2018 budget bill to be transferred to individual retirement plans.

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Schedule of Funding Progress
Kentucky Retirement Systems (KRS) - Retirement Funds[+]

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
Kentucky Employees Retirement System (KERS)					
Non-Hazardous					
6/30/2013	$2,636,122,852	$11,386,602,159	$8,750,479,307	23.2%	$1,644,408,698
6/30/2014	2,423,956,716	11,550,110,224	9,126,153,508	21.0	1,577,496,447
6/30/2015++	2,350,989,940	12,359,672,849	10,008,682,909	19.0	1,544,234,409
6/30/2016+++	2,112,286,498	13,224,698,427	11,112,411,929	16.0	1,529,248,873
6/30/2017++++	2,123,623,157	15,591,641,083	13,468,017,926	13.6	1,602,396,000
Hazardous					
6/30/2013	$505,656,808	$783,980,594	$278,323,786	64.5%	$132,015,368
6/30/2014	527,897,261	816,850,063	288,952,802	64.6	129,076,038
6/30/2015++	556,687,757	895,433,387	338,745,630	62.2	128,680,130
6/30/2016+++	559,487,184	936,706,126	377,218,942	56.0	147,563,457
6/30/2017+++++	607,158,871	1,121,419,836	514,260,965	54.1	178,511,000
State Police Retirement System (SPRS)					
6/30/2013	$241,800,328	$651,580,654	$409,780,326	37.1%	$45,256,202
6/30/2014	242,741,735	681,118,402	438,376,667	35.6	44,615,885
6/30/2015++	248,387,946	734,156,446	485,768,500	33.8	45,764,515
6/30/2016+++	234,567,536	775,160,294	540,592,758	28.1	45,551,469
6/30/2017++++	261,320,225	967,144,667	705,824,442	27.0	54,065,000
Kentucky Retirement Systems Summary (Includes KERS Non-Hazardous, KERS Hazardous and SPRS)					
6/30/2013	$3,383,579,988	$12,822,163,407	$9,438,583,419	26.4%	$1,821,680,268
6/30/2014	3,194,595,712	13,048,078,689	9,853,482,977	24.5	1,751,188,370
6/30/2015	3,156,065,643	13,989,262,682	10,833,197,039	22.6	1,718,679,054
6/30/2016	2,906,341,218	14,936,564,847	12,030,223,629	19.5	1,722,363,799
6/30/2017	2,992,102,253	17,680,205,586	14,688,103,333	16.9	1,834,972,000
Judicial Retirement Plan (JRP) & Legislator's Retirement Plan (LRP)					
6/30/2013	$226,397,872	$404,726,709	$178,328,837	55.9%	$37,917,899
6/30/2014	255,517,906	413,310,123	157,792,217	61.8	37,917,899
6/30/2015	383,464,411	513,844,487	130,198,076	74.6	34,476,745
6/30/2016	---*	---*	---*	---.-*	---*
6/30/2017	457,704,218	509,499,416	51,795,198	89.8	31,096,555

[+]This schedule does not include data pertaining to the County Employees Retirement System (CERS); the data for 6/30/13-6/30/17 in this schedule is as presented in the CAFR of the pension plan for the Fiscal Years Ended June 30, 2013 through June 30, 2017.
[++]Discount rate changed from 7.75 percent to 7.50 percent as of 7/2014.
[+++]Discount rate changed from 7.50 percent to 6.75 percent as of 7/2015.
[++++]Discount rate changed from 6.75 percent to 5.25 percent as of 7/2017.
[+++++]Discount rate changed from 7.50 percent to 6.25 percent as of 7/2017.

[*]JRP and LRP only perform actuarial valuations every 2 years for pension benefits

Schedule of Funding Progress -
Teachers' Retirement System - Kentucky[+]

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
Retirement Funds					
6/30/2013	$14,962,758,000	$28,817,232,000	$13,854,474,000	51.9%	$3,480,066,000
6/30/2014++	16,174,199,000	30,184,404,000	14,010,205,000	53.6	3,486,327,000
6/30/2015	17,219,520,000	31,149,962,000	13,930,442,000	55.3	3,515,113,000
6/30/2016	17,496,894,000	32,028,227,000	14,531,333,000	54.6	3,537,226,000
6/30/2017	18,514,638,000	32,819,887,000	14,305,249,000	56.4	3,563,584,000
Other Post Employment Benefits (OPEB)					
6/30/2013	$507,048,000	$3,615,398,000	$3,108,350,000	14.0%	$3,480,066,000
6/30/2014	605,043,000	3,292,043,000	2,687,000,000	18.4	3,486,327,000
6/30/2015	735,025,000	3,624,323,000	2,889,298,000	20.3	3,515,113,000
6/30/2016	895,324,000	3,740,132,000	2,844,808,000	23.9	3,537,226,000
6/30/2017	1,081,424,000	3,800,788,000	2,719,364,000	28.5	3,563,584,000

[+]The data for 6/30/13-6/30/17 in this schedule is as presented in the CAFR of the Teachers' Retirement System for the Fiscal Years Ended June 30, 2013 through June 30, 2017.
[++]Reflects change in assumptions and/or methods.

Other Post Employment Benefits. The Commonwealth's CAFR for the fiscal year ended 6/30/2017 represents Governmental Accounting Standards Board (GASB)Statement 45 ("Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"). The Commonwealth intends to adopt GASB Statement 75 ("Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions") for CAFR reporting after the fiscal year ending 6/30/2018.

The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Retirement 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. TRS became self-insured for post-retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, TRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, TRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offered this group an insured Employer Group Waiver Drug Plan. The TRS Board requires retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage.

The Retirement Plans commission actuarial studies, which provide results for consideration, under certain actuarial funding methods and sets of assumptions. A five-year experience study covering the period from July 1, 2008 to June 30, 2013 for the Kentucky Retirement Systems, was dated April of 2014. Similarly, a five-year experience study covering the period from July 1, 2010 to June 30, 2015 for the TRS Board was dated September 15, 2016. In addition to the experience studies, annual actuarial reports are performed on both retirement systems. Pursuant to their respective actuarial studies, the

OPEB UAAL as of June 30, 2017 was estimated at $1,881.7 million for the Kentucky Retirement Systems and $2,719.4 million for TRS. 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, 2017. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities increased from the $1,702.5 million reported in the Kentucky Retirement Systems' 2016 CAFR. The actuarial estimates for TRS decreased from the $2,884.8 million reported in their 2016 CAFR.

The Kentucky Retirement Systems' state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2017 was $146.9 million; $167.2 million was contributed. The TRS state supported OPEB Annual Required Contribution for the Fiscal Year ended June 30, 2016 was $103.9 million; $181.4 million was contributed. The state supported portion of the OPEB for the Fiscal Year ended June 30, 2017 had funding percentages of 44.3 percent for the Kentucky Retirement Systems and 28.5 percent for TRS.

Schedule Of Funding Progress -
Kentucky Retirement Systems (KRS) - Other Post Employment Benefits (OPEB)+

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll
Kentucky Employees Retirement System (KERS)					
Non-Hazardous					
6/30/2013	$497,584,327	$2,128,754,134	$1,631,169,807	23.4%	$1,644,408,698
6/30/2014	621,236,646	2,226,759,925	1,605,523,279	27.9	1,577,496,447
6/30/2015	695,018,262	2,413,705,252	1,718,686,990	28.8	1,544,234,409
6/30/2016	743,270,060	2,456,677,964	1,713,407,904	30.3	1,529,248,873
6/30/2017	823,917,560	2,683,496,055	1,859,578,495	30.7	1,602,396,000
Hazardous					
6/30/2013	$370,774,403	$385,517,675	$14,743,272	96.2%	$132,015,368
6/30/2014	419,395,867	396,986,820	(22,409,047)	105.6	129,076,038
6/30/2015	451,514,191	374,904,234	(76,609,957)	120.4	128,680,130
6/30/2016	473,160,173	377,745,230	(95,414,943)	125.3	147,563,457
6/30/2017	493,458,367	419,439,652	(74,018,715)	117.7	178,511,000
State Police Retirement System (SPRS)					
6/30/2013	$136,321,060	$222,326,743	$86,005,683	61.3%	$45,256,202
6/30/2014	155,594,760	234,271,127	78,676,367	66.4	44,615,885
6/30/2015	167,774,940	254,838,710	87,063,770	65.8	45,764,515
6/30/2016	172,703,691	257,197,259	84,493,568	67.2	45,551,469
6/30/2017	180,463,820	276,641,361	96,177,541	65.2	54,065,000
Kentucky Retirement Systems Summary (Includes KERS Non-Hazardous, KERS Hazardous, SPRS)					
6/30/2013	$1,004,679,790	$2,736,598,552	$1,731,918,762	36.7	$1,821,680,268
6/30/2014	1,196,230,273	2,858,017,872	1,661,787,599	41.9	1,751,188,370
6/30/2015	1,314,307,393	3,043,448,196	1,729,140,803	43.2	1,718,679,054
6/30/2016	1,389,133,924	3,091,620,453	1,702,486,529	44.9	1,722,363,799
6/30/2017	1,497,839,747	3,379,576,978	1,881,737,231	44.3	1,834,972,000

Judicial Retirement Plan (JRP) & Legislators' Retirement Plan (LRP)

6/30/2013	$72,459,795	$77,095,915	$4,636,120	94.0	$37,917,899
6/30/2014	82,779,429	80,687,607	(2,091,822)	102.6	37,917,899
6/30/2015	94,241,652	88,150,481	(6,091,171)	106.9	34,476,745
6/30/2016	104,138,383	93,292,111	(10,846,272)	111.6	34,476,745
6/30/2017	115,102,561	74,112,837	(40,989,724)	155.3	31,096,555

[+] The data for 6/30/13-6/30/17 in this schedule is as presented in the CAFR of the pension plan for the Fiscal Years Ended June 30, 2013 through June 30, 2017.

Recent Changes to State Retirement Systems. Senate Bill 151 from the 2018 Regular Session of the General Assembly was signed into law by the Governor on April 10, 2018. The bill modified the funding structure of the Retirement Plans from a percent-of-payroll method to a level-dollar method which will take effect beginning with FY 2021, provided reform to the TRS plan, further modified benefits under the Kentucky Retirement System plans, and replaced prior legislation for opt-out provisions for quasi-governmental agencies wishing to exit the Kentucky Retirement System plans. Under the TRS plan, the bill created a new benefit tier effective for new employees hired on or after January 1, 2019 who will be placed in a Hybrid Cash Balance Plan. This plan has a guaranteed rate of return of zero percent plus 85 percent of the investment return in the plan in excess of zero percent to the employee. Additionally, teachers hired as of January 1, 2019 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 further made provisions which require the General Assembly to fully fund the ADEC beginning in Fiscal Year 2019, and reset the amortization to 30-years beginning in 2019. Further explanation of the pension reform changes may be found in Exhibit C.

Some of the 2018 Pension Reforms were based on a PFM Group Consulting, LLC three part report dated August 2017, May 2017 and December 2016, respectively. The report developed a range of analyses that illustrated the current and projected financial condition of the retirement systems, and provided options and recommendations for improvement and reform. The report and other selected pension reform related information may be viewed at www.osbd.ky.gov.

In May and July of 2017, the Kentucky Retirement Systems Board voted to make the following assumption changes which were used for the Fiscal Year 2017 Actuarial Report as well as used in determining the Fiscal Year 2019 and 2020 employer contributions:

		Assumed Rate of Return		Inflation		Payroll Growth	
		To	From	To	From	To	From
KERS-N(1)	Pension	5.25%	6.75%	2.30%	3.25%	0.00%	4.00%
KERS-N(1)	OPEB	6.25	6.75	2.30	3.25	0.00	4.00
KERS-H(2)	Pension	6.25	7.50	2.30	3.25	0.00	4.00
KERS-H(2)	OPEB	6.25	7.50	2.30	3.25	0.00	4.00
SPRS	Pension	5.25	6.75	2.30	3.25	0.00	4.00
SPRS	OPEB	6.25	6.75	2.30	3.25	0.00	4.00
CERS	Pension	6.25	7.50	2.30	3.25	2.00	4.00
CERS	OPEB	6.25	7.50	2.30	3.25	2.00	4.00
CERS-H(2)	Pension	6.25	7.50	2.30	3.25	2.00	4.00
CERS-H(2)	OPEB	6.25	7.50	2.30	3.25	2.00	4.00

(1) Non-Hazardous

(2) Hazardous

As of July 2017, the TRS assumptions are as follows:

		Assumed Rate of Return	Inflation	Payroll Growth
TRS	Pension	7.50%	3.50%	4.00%
TRS	OPEB	8.00	3.50	4.00

In December 2016 the Kentucky Retirement Systems and TRS publicly presented the annual actuarial valuation reports of the systems as prepared by Cavanaugh Macdonald as of June 30, 2016. The assumed investment rate of return for KERS Non-Hazardous and SPRS was 6.75 percent based on the annual valuation conducted as of June 30, 2016. The TRS, CERS and KERS Hazardous plans continue to use a 7.5 percent discount rate. There was a reduction in the assumed rate of return from 7.75 percent to 7.5 percent for the valuation as of June 30, 2015.

Senate Bill 2 from the 2013 Regular Session of the General Assembly was signed into law by the Governor on April 4, 2013. 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 stated 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. This provision was modified with the passage of SB 151 in the 2018 Regular Session. 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 made provisions for a Health Savings Account as an insurance option for retirees, required the General Assembly to start fully funding the ADEC beginning in Fiscal Year 2015, and reset the amortization to 30-years beginning in 2015.

<u>Litigation Potentially Impacting KERS</u>. In April 2013, Seven Counties Services, Inc. ("Seven Counties"), filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Western District of Kentucky (the "Bankruptcy Court"). Seven Counties provides mental health services for the Cabinet for Health and Family Services for the greater Louisville, Kentucky area and surrounding counties. For approximately the past twenty-five years, Seven Counties has been a participating employer in KERS. Seven Counties identified KERS as a creditor with a primary objective of discharging its continuing obligation to remit retirement contributions for approximately 1,300 employees and terminate its membership in KERS. The estimated impact of Seven Counties' objective on KERS would result in an unfunded liability of approximately $90 million at that time.

KERS opposed Seven Counties' attempt to discharge its obligations and terminate its membership. KERS asserted that Seven Counties is a Governmental Unit properly participating in KERS by Executive Order issued in 1978 and thus ineligible for Chapter 11 relief. Consequently, Seven Counties would remain statutorily obligated to continue participation and remit contributions.

On May 30, 2014, the Bankruptcy Court held that Seven Counties was not a Governmental Unit and could move forward with its Chapter 11 bankruptcy case. Moreover, the Court held that Seven Counties' statutory obligation to continue to participate and remit contributions to KERS was a "contract" eligible for rejection. Seven Counties rejected its participation in KERS.

In June 2014, KERS appealed the Bankruptcy Court's ruling. On October 6, 2014, Seven Counties filed a formal reorganization plan with the Bankruptcy Court. On January 6, 2015, the Bankruptcy Court confirmed Seven Counties' plan of reorganization (the "Confirmation Order"). On January 19, 2015, KERS appealed the Confirmation Order. At a hearing on January 20, 2015, the

Bankruptcy Court denied a motion by KERS seeking a stay of the Confirmation Order, which would have delayed implementation of the reorganization plan pending the determination of the issues on appeal. After the Bankruptcy Court denial of the stay, KERS filed an emergency motion for a stay with the U.S. District Court for the Western District of Kentucky (the "District"), which the District Court denied on February 4, 2015. On May 12, 2015, KERS filed a motion with the District Court to certify a question to the Kentucky Supreme Court in connection with whether the relationship between KERS and Seven Counties (i) constituted a "contract" subject to rejection in bankruptcy by Seven Counties or (ii) was a statutory obligation of Seven Counties not constituting a contract. On March 31, 2016 the United States District Court issued a Memorandum of Opinion and Order that (i) denied KERS' motion to certify a question of law to the Kentucky Supreme Court, (ii) reversed the Bankruptcy Court's determination regarding classifying KERS as a multi-employer plan and determined KERS was a multiple employer plan, (iii) affirmed the Bankruptcy Court's decision in all other aspects; and (iv) denied Seven Counties cross-appeal.

On April 21, 2016 the Kentucky Retirement Systems Board voted to appeal the decision to the United States Court of Appeals for the Sixth Circuit. KERS filed a brief with the Sixth Circuit Court of Appeals on January 3, 2017. Seven Counties then filed a brief at the end of July 2017, and oral arguments were held on November 30, 2017. A ruling on this matter is pending.

Other entities within the Commonwealth, including some entities with pending litigation, are attempting to terminate their participation in KERS. For example, Kentucky Retirement Systems filed an action against Kentucky River Community Care ("KRCC") to compel it to comply with its statutory duties and require retirement plan participation. Similarly, Bluegrass Oakwood, Inc., a subsidiary of Bluegrass MHMR, attempted to terminate its participation in KERS through an action before the Kentucky Court of Appeals that was dismissed on February 24, 2015, resulting in Bluegrass Oakwood remaining as a participant in KERS. No assurance can be provided with respect to the impact of such actions, if any, on the future contribution rates.

In June 2014, the City of Fort Wright, a participating employer in CERS, filed a lawsuit against the Kentucky Retirement Systems' Board of Trustees alleging that the Board invested CERS funds in investments that were prohibited by statute and common law. In addition, the City alleged that the Board of Trustees paid substantial asset management fees, which the suit alleges were improper. Kentucky Retirement Systems filed a motion to dismiss this action based on a number of legal issues, including the argument that the action was barred by the doctrine of sovereign immunity. Franklin Circuit Court denied the motion to dismiss. An interlocutory appeal of the sovereign immunity issue was filed at the Kentucky Court of Appeals. On September 23, 2016, the Court of Appeals upheld the Franklin Circuit Court's ruling that sovereign immunity did not prohibit this action from proceeding. After a denied motion to the Kentucky Supreme Court for discretionary review of the Court of Appeals ruling, the case is now proceeding at the Franklin Circuit Court on the merits of the claims made. The City of Fort Wright filed a Renewed Motion for Declaratory Judgment on May 1, 2017. Kentucky Retirement Systems will file its Reply to this Motion upon the resolution of a pending discovery issue. Both parties have filed Motions for Declaratory Judgment on the legal issue of whether or not Kentucky Retirement Systems is authorized under Kentucky law to invest County Employee Retirement System plan assets according to the standards established in KRS 61.650 or if some other standard applies. This issue has been fully briefed. Oral arguments will be set for this matter and then the case will be submitted to the Court for a decision.

In what is essentially a companion case to the City of Fort Wright matter outlined above, Damian Stanton filed a Complaint on September 4, 2015, alleging that he is a member of CERS and that the Board invested CERS funds in investments that were prohibited by both statutory and the common law, as well as alleging that substantial management fees were paid as a result of the investments. This case was held in abeyance pending the outcome of the Kentucky Retirement Systems' motion for discretionary review in the Fort Wright matter. No new action has been taken in this matter to date.

On November 17, 2016, Western Kentucky University ("WKU") filed a motion in Franklin Circuit Court seeking a judgment against the Kentucky Retirement Systems after the Kentucky Retirement Systems asserted WKU should continue to make retirement contributions for employees who were purportedly fired as WKU employees and then rehired as contract laborers. On March 3, 2017, Kentucky Retirement Systems filed a Motion to dismiss this action based on WKU's failure to name necessary parties. Franklin Circuit Court denied this motion. The parties are currently seeking discovery in this matter. In January 2009, Sheriff John Aubrey and a number of other plaintiffs, including hazardous duty members of the Kentucky Retirement Systems, law enforcement unions and fraternal organizations, and a number of hazardous duty employers, filed a complaint in Franklin Circuit Court seeking a determination that the 2008 amendments to KRS 61.637 regarding the legal requirements for reemployment after retirement were unconstitutional and discriminatory. The case progressed to the Supreme Court of Kentucky on a Motion to Dismiss of the Kentucky Retirement Systems based on a claim of sovereign immunity. In April 2013, the Supreme Court ruled that sovereign immunity did not prevent this case from being filed against the Kentucky Retirement Systems, and remanding the case back to Franklin Circuit Court. Recently, plaintiffs filed a Motion for Summary Judgment. Kentucky Retirement Systems filed a Response and Cross-Motion for Summary Judgment on June 14, 2017. WKU has filed a motion for Summary Judgment in that action, Kentucky Retirement Systems is in the process of drafting its response.

On June 12, 2017, the River City Fraternal Order of Police and several other individuals filed a Complaint and Motion for a Restraining Order challenging the Kentucky Retirement Systems' implementation of the Medicare Secondary Payer Act as it relates to KRS 61.702, asserting that Kentucky Retirement Systems violated both the federal law and the inviolable contract rights of its members. The court granted a Temporary Restraining Order (the "TRO"); however, a hearing was held at the end of July 2017 to determine whether to dissolve the TRO or grant an injunction during the pendency of this action. On September 25, 2017 Franklin Circuit Court issued an Order in the River City FOP litigation denying the Plaintiffs' Motion for Temporary Injunction a dissolved the Court's previously Restraining Order effective November 1, 2017. Plaintiff thereafter filed a Motion to amend their Complaint to explicitly allege a violation of the federal Medicare Secondary Payer Act. This motion was granted. Kentucky Retirement Systems filed a notice that it was removing the case to Federal District Court.

In December 2017, certain members and beneficiaries of the Kentucky Retirement Systems filed litigation (Mayberry et al v. KKR et al) against certain Hedge Fund Sellers, Investment, Actuarial and Fiduciary Advisors, Annual Report Certifiers, and certain (past and present) Kentucky Retirement Systems Trustees and Officers in Franklin Circuit Court. The litigation alleges (in summary) that actuarial assumptions, fees, statements and disclosures harmed the financial status of the Retirement System. While Kentucky Retirement Systems is designated a "Defendant" that designation is a technical formality in so much as Kentucky Retirement Systems is a "nominal defendant." On April 20, 2018 the Kentucky Retirement Systems and the plaintiffs filed a joint notice with the Court advising that Kentucky Retirement Systems does not intend to challenge its status as a "nominal defendant."

On April 11, 2018 Kentucky Attorney General Andy Beshear, along with the Kentucky Education Association and the Kentucky State Fraternal Order of Police, filed a lawsuit against the 2018 Pension Reform Bill also known as Senate Bill 151 (18 RS SB 151). The lawsuit seeks declaratory judgement on seven counts and also seeks both temporary and permanent injunctive relief on implementation of 18 RS SB 151.

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 Capital 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 is established by the Bond Resolution 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 2018 Bonds, if any, will be deposited to a Project No. 118 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 2018 Bonds to be held and maintained by the Trustee. From the proceeds of the Series 2018 Bonds and other available moneys, if any, deposited by the Commission at the time of delivery of the Series 2018 Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Series 2018 Bonds. On payment of all duly authorized expenses incident to the issuance of such Series 2018 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 2018 Project consisting of the acquisition, construction or undertaking of new property in connection with buildings and real estate related to the 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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, 2020. 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, 2038 (the final maturity date permissible for any Series 2018 Bonds to be issued by the Commission for the Project being April 1, 2038) 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, 2020, 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

Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc. ("S&P") is expected to assign to the Series 2018 Bonds the rating of "AA" (stable outlook), with the understanding that upon delivery of the Series 2018 Bonds, the Bond Insurance Policy will be issued by BAM. Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A2" to the Series 2018 Bonds. Such ratings reflect only the view of Moody's and S&P, respectively. An explanation of the significance of the rating 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. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, (212) 553-0300. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely if, in the judgment of S&P or Moody's, respectively, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Series 2018 Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Series 2018 Bonds are subject to the approving legal opinion of Dinsmore & Shohl 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 F. 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 2018 Bonds, or in any way contesting or affecting the validity of the Series 2018 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 2018 Bonds or due existence or powers of the Commission.

TAX EXEMPTION

General

In the opinion of Bond Counsel for the Series 2018 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2018 Bonds is excludible from gross income for federal income tax purposes and interest on the Series 2018 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 2018 Bonds is of the opinion that interest on the Series 2018 Bonds is exempt from income taxation by the Commonwealth and the Series 2018 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 2018 Bonds is set forth in EXHIBIT F.

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 2018 Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2018 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 2018 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 2018 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 2018 Bonds may adversely affect the Federal tax status of the interest on the Series 2018 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 2018 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 2018 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 Dinsmore & Shohl LLP.

Although Bond Counsel has rendered an opinion that interest on the Series 2018 Bonds is excludible from gross income for Federal income tax purposes and that interest on the Series 2018 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 2018 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 2018 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 2018 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 2018 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 2018 Bonds on the tax liabilities of the individual or entity.

The Commission has not designated the Series 2018 Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Tax Treatment of Original Issue Discount

The Series 2018 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 Original Issue 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 2018 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 2018 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 2018 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 2018 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 2018 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.

UNDERWRITING

The Series 2018 Bonds were awarded by competitive sale to UBS Financial Services Inc. (the "Underwriter") at an aggregate purchase price of $29,002,932.88 (which is equal to the principal amount of the Series 2018 Bonds plus net original issue premium of $605,468.95 and less underwriting discount of $547,536.07. The purchase price includes the amount paid by the Underwriter to purchase the Municipal Bond Insurance Policy. The Underwriter has advised the Commission that it intends to make a public offering of the Series 2018 Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, 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 Series 2018 Bonds.

FINANCIAL ADVISOR

Compass Municipal Advisors, LLC is employed as Financial Advisor to the Commission in connection with the issuance of the Series 2018 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2018 Bonds is contingent upon the issuance and delivery of the Series 2018 Bonds. Compass Municipal Advisors, LLC has agreed, in its financial advisory contract, not to bid for the Series 2018 Bonds, either independently or as a member of a syndicate organized to submit a bid for the Series 2018 Bonds. Compass Municipal Advisors, LLC, 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 2018 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 2018 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 2018 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. On May 9, 2018, the Commission filed to EMMA a Notice of Material Event, Notice of Rating Downgrade and Late Filing regarding this matter and listing the affected securities. 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/ Mike Flynn

Mike Flynn
Chairman

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, the Kentucky Local Correctional Facilities Construction Authority and the State Investment Commission..

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 Commonwealth, 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 issuers 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 ("SPBC")	**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.	A1/A-/A+
Kentucky Asset/Liability Commission ("ALCo")	**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 ("TAK")	**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	A3/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 ("KHC")	**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 ("KIA")	**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.	Aaa/AAA/AAA
Kentucky Higher Education Student Loan Corporation ("KHESLC")	**KRS 164A** Finances, makes and administers loans to fund and refinance costs to attend education institutions as permitted by the state.	Limited to $5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission ("SFCC")	**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.	A1
Kentucky Economic Development Finance Authority ("KEDFA")	**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 Public Transportation Infrastructure Authority ("KPTIA")	**KRS 175B.005-175B.115** Facilitate construction, financing, operation, and oversight of significant transportation projects within the Commonwealth by entering into bi-state agreements and by creating bi-state authorities and project authorities.	Cannot incur debt without prior approval of projects by General Assembly.	Baa3/NR/BBB-

* 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 Turnpike Authority of Kentucky rating by Fitch Ratings applies to the outstanding bonds of the Authority prior to its Economic Development Road Revenue Bonds (Revitalization Projects), 2016 Series B. The State Property and Buildings Commission rating by Standard & Poor's applies to its outstanding bonds and to a rating of the bond insurer of the State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 116 (the "Project No. 116 Bonds"). However, Standard & Poor's did not provide an underlying rating for the Project No. 116 Bonds.

Notes

- 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 are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.
- On February 18, 2014, Moody's downgraded certain stand-alone GARVEEs, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund to "A1" from "Aa3" with a negative outlook. On June 16, 2014, Moody's downgraded certain GARVEEs, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund to "A2" from "A1" and changed the outlook from negative to stable.
- On March 4, 2016, Standard & Poor's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations to "AA-" from "AA" and changed the outlook from negative to stable. On July 20, 2017, Standard & Poor's revised its outlook on the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations to negative from stable.
- On July 20, 2017, Moody's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations to "Aa3" from "Aa2".
- On July 20, 2017, Moody's downgraded the Commonwealth's issuer credit rating to "A1" from "Aa3" and its rating on the Commonwealth's appropriation debt to "A2" from "A1". At the same time, Moody's lowered its rating on debt backed by the Commonwealth state intercept programs for schools and universities to "A1" from "Aa3". The outlook on all is stable.
- On May 18, 2018, Standard & Poor's downgraded the Commonwealth's issuer credit rating to "A" from "A+" and its rating on the Commonwealth's appropriation debt to "A-" from "A". At the same time, Standard & Poor's lowered its rating on debt backed by the Commonwealth state intercept programs for schools and universities to "A-" from "A" and on lease debt issued by various Kentucky county public properties corporations backed by appropriations from Administrative Office of the Courts to "BBB+" from "A-". The outlook on all ratings is stable.

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EXHIBIT B

PROJECTS FOR THE BENEFIT OF THE COMMONWEALTH OF KENTUCKY FINANCED UNDER PUBLIC PRIVATE PARTNERSHIPS

Overview

Due to varying factors, including but not limited to, political hurdles, fiscal environment challenges, project complexities, and the sheer size of need between varying sectors, the nation has been faced with the challenge to update fundamental, yet aging, infrastructure nationwide. For these reasons, state and local governments, including the Commonwealth, are driven to explore alternative means for procurement and delivery of such projects. This exploration has resulted in the Public-Private Partnership ("P3") structures being utilized on specific projects, as a viable method versus traditional public sector financing to design, build and operate required infrastructure projects in aspects of risk sharing, innovation and value to the taxpayer.

The Commonwealth of Kentucky has financed three capital construction projects through the P3 structure. In 2015, the Commonwealth of Kentucky State Office Building project was financed through the issuance of $68,757,000 tax-exempt Certificates of Participation ("COPs"). In 2015, the Next Generation-Kentucky Information Highway project was funded from proceeds of a conduit issue of $231,950,000 of tax-exempt senior bonds and $57,996,000 of taxable senior bonds that are currently outstanding and $15,229,000 of subordinate bonds to be issued in July 2018, all via the Kentucky Economic Development Finance Authority. In 2018, the Commonwealth of Kentucky State Office Building project was financed through the issuance of $107,260,000 tax-exempt COPs and $3,415,000 taxable COPs.

For a brief summary of P3 projects undertaken by the Commonwealth, please see "Table I, Active Public Private Partnerships," or read each project's description below.

Commonwealth P3 Projects

2015 Commonwealth of Kentucky State Office Building project. The Certificates of Participation, Series 2015 (Commonwealth of Kentucky State Office Building project) closed on April 29, 2015. The proceeds of the Series 2015 Certificates provided funds to construct, install, and equip an office building consisting of approximately 371,160 square feet in Frankfort, Kentucky. The office building is designed to accommodate 1,400 workers which will be displaced due to the termination of a lease on privately owned office space used by Commonwealth agencies. Construction commenced in March 2015 and the project achieved substantial completion and final completion on April 1 and May 15, 2016, respectively.

Under a "Design/Build/Finance/Operate/Maintain" structure, the Commonwealth's Department of Facilities Management issued a request for proposals for construction of the office building. The Commonwealth transferred state-owned property at Sower Boulevard, Frankfort, Kentucky to the winning proposer, CRM/D.W. Wilburn, a single-purpose Kentucky limited liability company comprised of a contract developer and contractor, and executed both a management contract and facilities lease (i.e. ease to purchase) agreement. Under the management contract, the building will be managed by the developer upon completion of the project. Additionally, the lease allows the Commonwealth to use and occupy the building subject to proper management and the payment of periodic lease payments, which consists of base rent and additional rent. The Commonwealth maintains an option to purchase the entire Project on any date on or after the commencement of the lease, otherwise the Project will be conveyed back to the Commonwealth at the end of the lease term.

The Series 2015 COPs are payable solely from the revenues to be derived from the rental payments of the Finance and Administration Cabinet under the lease.

The complete Official Statement for the Commonwealth State Office Building project may be obtained from the NRMSIR and can be found on the Internet at:

http://emma.msrb.org/ER1080545.pdf

Next Generation Kentucky Information Highway project. The Next Generation Kentucky Information Highway System (the "System") is a statewide network for internet access consisting of electronic equipment, fiber cable, outside plant installations, building facilities, interface equipment, network services and customer services that is designed to upgrade the services available to its core users, as well as develop a state-wide middle-mile network with excess capacity that can deliver reliable, high-speed internet connectivity throughout Kentucky to stimulate economic activity.

The System is being developed through a "Design/Build/Finance/Operate/Maintain" public/private partnership structure. The Commonwealth and the System developer (the "System Developer") entered into a project implementation agreement, pursuant to which the Commonwealth granted the System Developer an exclusive right to design, construct, operate and maintain the System in return for payments by the Commonwealth in the form of a milestone payment, a designated equipment payment and availability payments. The Kentucky Economic Development Finance Authority issued Senior Revenue Bonds (Next Generation Kentucky Information Highway Project) on September 3, 2015, the proceeds of which were loaned to a non-profit corporation (the "Borrower") for the purpose of paying a portion of the costs of the design, development and construction of the System (the "Project").

The Borrower's primary source of revenue to repay the loan is the receipt of availability payments and in certain circumstances a termination payment, to be made by the Commonwealth to the Borrower under a project agreement. All availability payments (or termination payment) to be made by the Commonwealth are subject to appropriation by the General Assembly.

The design-builder included a detailed Project Schedule and Schedule Update in its *Next Generation Kentucky Information Highway Project EMMA Report* for the January 2018 reporting period. As a result of certain ongoing "Supervening Events" impacting the Project, the updated Project Schedule shows a System Completion Date of October 21, 2022, which is approximately 39 months past the original completion or "Longstop Date" of July 31, 2019. Additional delays resulted in negotiations between the different Project parties. Negotiations resulted in an agreement related to existing Supervening Events. Under the agreement the Commonwealth is required to pay approximately $88,000,000 to pay Project completion costs resulting from certain of those existing Supervening Events. The agreement includes all Supervening Events to date with one exception. Any additional cost to the Commonwealth related to that additional Supervening Event will be determined separately through a dispute resolution mechanism that is part of the project agreement.

Senate Bill 200, adopted in the 2018 Regular Session of the Kentucky General Assembly, authorizes funding for availability payments from the General Fund in the amount of $33,387,400 for Fiscal Year 2019 and $34,268,300 for Fiscal Year 2020.

Senate Bill 200 also authorizes the Kentucky Communications Network Authority, a state agency (the "Authority"), to (i) execute contracts that utilize future revenues of the System as a source of payment of debt obligations of the Authority and (ii) enter into financing agreements with the Commonwealth, agencies of the Commonwealth, lending institutions, investors, or investing entities to provide the funds required to pay costs associated with existing Supervening Events. The total amount of debt obligations or financing agreements authorized by Senate Bill 200 may not exceed one hundred ten million dollars ($110,000,000). Senate Bill 200 also provides that, at the time any authorized debt is incurred or a financing agreement is entered into, any future System revenue may not be committed to, or expected to be used for the repayment of any other debt. A financing plan related to the authorization included in Senate Bill 200 has not yet been established.

The complete Official Statement and filings for the Next Generation Kentucky Information Highway project may be obtained from the NRMSIR and can be found on the Internet at:

http://emma.msrb.org/ES965582.pdf

2018 Commonwealth of Kentucky State Office Building project. The Certificates of Participation, Series 2018A and Taxable Series 2018B (Commonwealth of Kentucky State Office Building project) closed on February 22, 2018. The proceeds of the Series 2018A and Taxable Series 2018B Certificates provide funds to finance the demolition and renovation of an existing downtown Frankfort commercial property known as Capital Plaza and to construct, install and equip a new office building consisting of approximately 385,022 square feet, together with an approximately 1,086 space parking garage and approximately 112 space surface parking facility. The office building is designed to comfortably accommodate 1,500 Commonwealth employees. Site work commenced in December 2017 with a substantial completion anticipated for March 13, 2020.

Under a "Design/Build/Finance/Operate/Maintain" structure, the Commonwealth's Department of Facilities Management issued a request for proposals for construction of a new office building with supporting infrastructure and demolition of Capital Plaza Structures. The Commonwealth transferred state-owned property in downtown Frankfort, Kentucky to the winning proposer, CRM/D.W. Wilburn #2, LLC, a Kentucky limited liability corporation comprised of a contract developer and contractor, and executed both a management contract and facilities lease agreement. Under the management contract, the building will be managed by the developer upon completion of the project. Additionally, the lease allows the Commonwealth to use and occupy the building subject to proper management and the payment of periodic lease payments, which consists of base rent and additional rent. The Commonwealth maintains an option to purchase the entire Project on any date on or after the commencement of the lease, otherwise the Project will be conveyed back to the Commonwealth at the end of the lease term.

The Series 2018A and Taxable Series 2018B COPs are payable solely from the revenues to be derived from the rental payments of the Finance and Administration Cabinet under the lease and are additionally secured by a regular capitalized interest account and a special capitalized interest account.

The complete Official Statement for the Commonwealth State Office Building project may be obtained from the NRMSIR and can be found on the Internet at:

https://emma.msrb.org/ES1106617-ES864766-ES1265884.pdf

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EXHIBIT C

RECENT CHANGES TO STATE RETIREMENT SYSTEMS

The Kentucky Retirement Systems (KRS) include the Kentucky Employee Retirement System (KERS), County Employee Retirement System (CERS), and the State Police Retirement System (SPRS).

<u>Kentucky Employee Retirement System (KERS)</u>

Current KRS Retirees:	No Change
Current KRS Defined Benefit Member (Tier I/Tier II Members):	Members who began participating on or after July 1, 2003, but prior to September 1, 2008, shall contribute an additional 1% of pay to fund retiree health. High 3/High 5 Final Compensation: Must be complete 3 or 5 years for members retiring on or after January 1, 2019. Sick leave credit is not limited for purposes of service credit in SB 151. Members cannot use sick leave service credit for purposes of retirement eligibility or to reduce applicable actuarial penalties for retirements occurring on or after July 1, 2023. Lump-sum payments for compensatory time at retirement will not boost retirement benefits for KERS non-hazardous Tier I members retiring after July 1, 2023. Modifies KERS/CERS/SPRS inviolable contracts to exclude legislative changes that become effective on or after July 1, 2018. Participants may opt to prospectively participate in the KERS 401(a) money purchase plan by January 1, 2021. For hazardous designation members, provide that the spouse shall supersede all designated beneficiaries in case of ensuring minimum line of duty death benefits are provided to the spouse and make provisions retroactive to deaths occurring on or after January 1, 2017 .
Current KRS Cash Balance Members: (Tier III Members)	Non-hazardous: Changes the future interest credit on cash balance account balances so that contributing members will receive an annual interest credit of 85% of the plan's 10-year net return; former members (not actively employed) not contributing will receive 0% annual interest credit. Non-hazardous: Participant may opt to prospectively participate in the KERS 401(a) money purchase plan by January 1, 2021. Non-hazardous & hazardous: Removes $5,000 death benefit paid after retirement for those members with 4+ years of service credit.

KRS Non-Hazardous New Members:	Establishes optional Tier IV 401(a) Money Purchase Plan; members must opt-into the 401(a) plan in lieu of the cash balance plan, within 90 days of employment. 401(a) benefit will be based upon an account balance of employee contributions, employer contributions, and investment returns. KRS board may allow investment options within KRS investment pool, contract with outside entities, or participate through Kentucky Public Employees' Deferred Compensation Authority. Members can retire under the same provisions as non-hazardous cash balance participants and annuitize their account balance. Removes $5,000 death benefit paid after retirement for those members with 4+ years of service credit .
Funding Provisions:	Requirement for level dollar financing of unfunded liabilities over a closed 30-year amortization period, using 5-year smoothed asset valuation method for all KRS systems; amortization period reset with 2019 actuarial valuation. Employer contribution on or after July 1, 2020 shall be set as dollar amount and prorated to each employer based on share of actual payroll in FY15-FY17.
Retired/Reemployed Provisions:	Non-hazardous: must have a 3-month break in employment after retirement or the retirement is voided; if a 3-month break is observed the member can work part-time and continue to receive pension benefits, but no second pension account is created; if a 12-month break is observed then the member can work full-time, continue to receive pension benefit, but no second pension account is created; if the member works full-time after a 3-month break then the pension benefit is suspended until the 12-month mark; employer must make normal cost contribution for any reemployed retiree. Hazardous members/certified peace officers: 1-month break in service required or retirement is voided; if a 1-month break is observed then the member can return to work part- or full-time; employer must contribute normal cost for any reemployed retiree.

<u>Teachers' Retirement System (TRS)</u>

New TRS Members:	Establishes a Hybrid Cash Balance System: Enrolls new teachers as of January 1, 2019 into a hybrid cash balance plan similar to the KRS hybrid cash balance system, but with different contribution rates. Non-University Contributions: Employee (9.105%) and Employer credit (8%) plus interest credit.

University Contributions: Employee (7.625%) and Employer credit (4%) plus interest credit.

Retirement Eligibility: Age 65 with 5 years of service or rule of 87 (minimum age 57 with 30 years of service credit.

Payment Options: Members may choose to annuitize their account balance at retirement and receive a lifetime payment.

Portability: Immediately vested for employee contributions and interest credits on employee contributions; fully vested for employer credit and investment returns on employer credits after 5 years.

Voluntary "Opt-in:" Members with less than 5 years of service may elect to roll over their accumulated contributions to the new hybrid cash balance plan.

Retired members in the hybrid cash balance plan will not receive a cost-of-living adjustment after retirement.

Members in the cash balance plan will not receive a $2,000 pre-retirement life insurance benefit or a $5,000 post-retirement life insurance benefit.

Inviolable contract will be limited to the account balance the member has in the cash balance plan.

Current TRS Funding Provisions:

Base Funding Formula: Non-university employers 13.105% (12.355% pension, 0.75% retiree healthcare); University employers 13.65% (10.875% pension, 2.775% retiree healthcare).

Requires employers to fund additional amount above the base funding formula to pay the ADEC for pension and life insurance funds; the amount of employers' additional contribution will be based upon FY15, 16, and 17 payrolls to TRS.

Pension and Life Insurance ADEC based upon entry age normal cost method, 30 year closed amortization period, level dollar financing of the unfunded liability by the 2021 actuarial valuation.

Payroll growth assumption will be reduced from 3.5% to 0% over a 4 year (2021) period to implement a level dollar amortization method.

Resets the unfunded liability amortization to a 30 year period with the 2018 actuarial valuation.

School districts will be required to pay an additional 2% of pay for new members enrolled in the hybrid cash balance plan.

Legislators’ Retirement Plan (LRP) & Judicial Retirement Plan (JRP)

Current LRP Members:	No Change.
Current LRP Defined Benefit Members (LRP Member prior to January 1, 2014):	Removes salary reciprocity for non-Legislative compensation earned on or after January 1, 2019. Benefit factor reduced from 2.75% to 1.97% for annual service credit accrued on or after January 1, 2019. JRP and LRP inviolable contract language modified to exclude legislative changes that become effective on or after July, 1, 2018.
LRP/JRP Cash Balance Members (In LRP/JRP on or after January 1, 2014:	Changes future interest credit on cash balance account balances so that contributing members will receive an annual interest credit of 85% of the plans 5-year net return; former members not contributing will receive 0% annual interest credit.
LRP/JRP Defined Benefit & Cash Balance Plan Members:	May opt to prospectively participate in the KERS 401(a) money purchase plan by January 1, 2021. Retired and reemployed - no second retirement accounts in LRP or JRP for any retiree of a state system who retires on or after January 1, 2019 and becomes a Legislator or a Judge.

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EXHIBIT D

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, 2017

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5481

CONTENTS

PAGE

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912
WWW.AUDITOR.KY.GOV

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 1, the financial statements present only the Authority, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 13 and the Schedule of Proportionate Share of the Net Pension Liability and Schedule of Contributions on page 43 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economical, 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 inquires, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, November 17, 2017, on our consideration of the Authority's internal control over financial reporting and on our test 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017 and June 30, 2016, 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 an ending net position totaling $39,468,864, of which $4,843,310 is classified as restricted.
- Current year operating expenses totaled $2,890,287, a decrease of $59,418 from FY 2016.
- Current year fee income totaled $4,451,934, an increase of $264,771 from FY 2016.
- Current year state appropriations totaled $253,400, an increase of $9,400 from FY 2016.
- At June 30, 2017, balances remaining on commitments total approximately $550,137 (see Note 8).

OVERVIEW OF THE FINANCIAL STATEMENTS

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as total net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Authority's total liabilities equaled $27,306,463 and include the net pension liability. The net pension liability represents the Authority's proportionate share of the Kentucky Employees Retirement System Non-Hazardous Plan's collective pension liability. The net pension liability represents the actuarial present value of projected payments for employee services rendered through June 30, 2016. This is a long term liability which will be paid over the life of the retiree.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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.

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
June 30, 2017
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $39,468,864 at the close of the most recent fiscal year. The table below presents the Authority's condensed Statement of Net Position as of June 30, 2017 and June 30, 2016, derived from the Statement of Net Position.

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

	2017	2016	Percentage Increase (Decrease)
Current Assets	$ 6,677	$ 8,779	(23.94%)
Capital Assets, Net	59,832	58,211	2.78%
Non-Current Assets	44		100.00%
Total Assets	66,553	66,990	(0.65%)
Deferred outflow of resources	387	242	59.92%
Current Liabilities	1,457	1,673	(12.91%)
Non Current Liabilities	25,849	26,860	(3.76%)
Total Liabilities	27,306	28,533	(4.30%)
Deferred Inflow of Resources	165	182	(9.34%)
Investment in Capital Assets, Net of Related Debt	35,392	32,347	9.41%
Restricted for Capital Projects	4,843	6,845	(29.25%)
Unrestricted	(766)	(675)	13.48%
Net Position	$ 39,469	$ 38,517	2.47%

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 2017, the Authority completed $3,236,800 of construction in progress, purchased 12 cylinders, two gear boxes, two Jon Boats, a rotary hammer, pump, and a mower. Depreciation expense for FY 2017 totaled $1,590,222.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Current liabilities consist primarily of general accounts payable and the current portion of leases payable. The current liabilities in the most recent fiscal year remained mostly consistent with the current liabilities in FY 2016.

Non-current liabilities represent the non-current portion of compensated absences, leases payable, and the net pension liability. 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. The net pension liability represents the Authority's portion of the total pension liability based on the employer allocation percentage.

As of June 30, 2017, the Authority's net position is primarily invested in capital assets, net of related debt in the amount of $35,391,865 and restricted for capital projects in the amount of $4,843,310. The remaining portion is unrestricted in the amount of ($766,311). The unrestricted is shown as negative due to the net pension liability shown as a non-current liability to the Authority.

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

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

	2017	2016	Percentage Increase (Decrease)
Operating Revenues:			
Fee Income	$ 4,452	$ 4,187	6.33%
Other Income	1	10	(90.00%)
State Appropriations	253	244	3.69%
Total Operating Revenues	4,706	4,441	5.97%
Operating Expenses:			
Compensation and Benefits	516	497	3.82%
Pension Expense	206	143	44.06%
Rentals	16	21	(23.81%)
Professional Fees	126	138	(8.70%)
Intergovernmental Grants	107	107	0.00%
Other Grants	138	142	(2.82%)
Repairs and Engineering Services	92	272	(66.18%)
Administrative and Other Expenses	99	89	11.24%
Depreciation Expense	1,590	1,541	3.18%
Total Operating Expenses	2,890	2,950	(2.03%)
Gain from operations	1,816	1,491	21.80%
Non Operating Revenues			
Income from Investments	40	20	100.00%
Total non operating revenues	40	20	100.00%
Non operating expenses			
Interest Expense	(904)	(1,311)	(31.05%)
Other Revenues (Expenses)		(19)	(100.00%)
Total Non Operating Expenses	(904)	(1,330)	(32.03%)
Change in Net Position	$ 952	$ 181	425.97%

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The Authority's net position increased $951,780 during the current fiscal year. During FY 2016, the Authority's net position increased $181,285.

State appropriations increased $9,400 during the current fiscal year from FY 2016.

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

	2017	2016	Percentage Increase (Decrease)
Net Cash Provided by (Used In)			
Operating Activities	$ 3,467	$ 3,088	12.27%
Capital and Related Financing Activities	(5,585)	(7,532)	(25.85%)
Investing Activities	(1,336)	20	100.00%
Net Change in Cash and Cash Equivalents	(3,454)	(4,424)	(53.03%)
Cash and Cash Equivalents, Beginning of Year	7,699	12,123	(36.49%)
Cash and Cash Equivalents, End of Year	$ 4,245	$ 7,699	(26.99%)

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(Continued)

CAPITAL ASSETS ADMINISTRATION

The following table summarizes the changes in capital assets between FY 2017 and 2016.

	2017	2016	Percentage Increase (Decrease)
Capital Assets not being depreciated			
Land	$ 546,493	$ 546,493	0.00%
Land improvements			
Construction in Progress			
Dam 8		12,363,754	(100.00%)
Lock 4 lock house renovation	7,743	7,743	0.00%
Design lock and dam 10	1,652,935	645,548	156.05%
Capital Assets being depreciated			
Locks and Dams	70,938,304	56,345,137	25.90%
Lock and Dam Buildings	370,600	432,010	(14.21%)
Equipment	217,218	180,209	20.54%
Office Equipment	21,644	22,406	(3.40%)
Vehicles	114,053	114,053	0.00%
Accumulated Depreciation	(14,036,888)	(12,446,666)	12.78%
Capital Assets, net	$ 59,832,102	$ 58,210,687	2.79%

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

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During FY 2017 Tier I and Tier II rate of fees charged on water use were maintained at 2.2 cents per 1,000 gallons and 13 cents per 1,000 gallons of water withdrawn, respectively. There are some variations in water use due to weather conditions and general business trends. Tier I water use was 2.52% higher in FY 17 over the prior year. Tier II water use was 6.37% higher in FY 17 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)

Current and future activities of the Authority include:

- The Authority is in their third season of operating Kentucky River Locks 1 through 4 since rehabbing all four lock structures. Boaters utilize these locks to travel the 82-mile stretch of the Kentucky River from the Ohio River as far as Lock and Dam 5 and vice-versa. Since their reopening 18,281 people on 5,124 boats have used the Kentucky River Locks.

- The Dam 8 reconstruction project in Jessamine County was completed. The new dam replaced the existing 114 year old dam that holds the water supply for Lancaster and Nicholasville.

- The Authority's next capital project will be to replace/renovate Lock and Dam 10 near Fort Boonesborough State Park. This project is currently under design with an anticipated bid date in the spring of 2018. The project will take four years to complete. Dam 10 holds the water supply for the city of Winchester.

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, 403 Wapping Street, Suite 105, Frankfort, Kentucky, 40601.

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FINANCIAL STATEMENTS

KENTUCKY RIVER AUTHORITY
STATEMENT OF NET POSITION

June 30, 2017

Assets		
Current Assets:		
Cash and Cash Equivalents		
Unrestricted	$	576,992
Restricted		3,668,143
Accounts Receivable		1,100,202
Investments		
Unrestricted		180,606
Restricted		1,151,174
Total Current Assets		6,677,117
Capital Assets, Net		59,832,102
Non-Current Assets:		
Investments		
Unrestricted		20,192
Restricted		23,993
Total Non Current Assets		44,185
Total Assets		66,553,404
Deferred Outflows of Resources		387,197
Liabilities		
Current Liabilities:		
Accounts Payable		82,317
Accrued Payroll		53,689
Compensated Absences		73,678
Lease Payable		1,247,500
Total Current Liabilities		1,457,184
Non-Current Liabilities:		
Net Pension Liability		2,629,039
Lease Payable		23,182,500
Compensated Absences		37,740
Total Non Current Liabilities		25,849,279
Total Liabilities		27,306,463
Deferred Inflows of Resources		165,274
Net Position		
Invested in Capital Assets, Net of Related Debt		35,391,865
Restricted for Capital Projects		4,843,310
Unrestricted		(766,311)
Total Net Position	$	39,468,864

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

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

For The Year Ended June 30, 2017

Operating Revenues:		
Fee Income	$	4,451,934
Other Income		1,250
State Appropriation		253,400
Total Operating Revenue		4,706,584
Operating Expenses:		
Compensation and benefits		515,831
Pension expense		206,321
Rentals		15,785
Professional fees		126,033
Intergovernmental grants		106,736
Other grants		138,147
Repairs and engineering services		92,061
Administrative and other expenses		99,151
Depreciation expense		1,590,222
Total Operating Expenses		2,890,287
Income from Operations:		1,816,297
Non-Operating Revenues (Expenses)		
Investments income		40,355
Interest expense		(904,872)
Total Non-Operating Revenues (Expenses):		(864,517)
Change in net position		951,780
Net Position at July 1, 2016		38,517,084
Net Position at June 30, 2017	$	39,468,864

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

KENTUCKY RIVER AUTHORITY
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2017

Cash flows from operating activities:		
Cash received from customers	$	4,433,340
Cash payments for personnel expenses		(769,422)
Cash payments for goods and services		(376,924)
Cash payments from other sources		253,400
Cash payments to other sources		(73,165)
Net cash provided by (used in) operating activities:		3,467,229
Cash flows from capital and related financing activities:		
Construction related to capital assets		(3,441,656)
Principal paid on debt service		(1,238,750)
Interest paid on debt service		(904,872)
Net cash provided by (used in) capital and related financing activities:		(5,585,278)
Cash flows from investing activities:		
Purchase of investments		(1,375,967)
Income from investments		40,355
Net cash provided by (used in) investing activities		(1,335,612)
Net change in cash and cash equivalents		(3,453,661)
Cash and cash equivalents at July 1, 2016		7,698,796
Cash and cash equivalents at June 30, 2017	$	4,245,135
Reconciliation of income from operations to net cash flows from operating activities:		
Gain from operations	$	1,816,297
Depreciation		1,590,222
(Increase) Decrease in operating assets:		
Accounts Receivable		(19,845)
Disposal of asset		62,171
Deferred outflows of resources		(144,716)
Increase (decrease) in operating liabilities:		
Accounts payable not capital		(55,861)
Accounts payable payroll		6,023
Compensated absences		10,182
Pension liabilities		219,866
Increase (Decrease) deferred inflows of resources		(17,110)
Net cash used by operating activities:	$	3,467,229

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

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 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, 2017
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

As required by 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 financial statement purposes, the Authority considers all highly liquid investments with maturity of three months or less to be 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.

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, 2017
(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:

Major Renovations of the Locks and Dams	50 years
Lock and Dams	20 years
Vehicles	5 years
Equipment	3 - 10 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. See Note 4 for additional information on compensated absences.

Financial Statements

The Statement of Net Position presents the Authority's non-fiduciary assets and liabilities with the difference between the two shown as total net position. Net position is 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 for capital projects** - 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** - 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.

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

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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 position.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense, information about the fiduciary net position of the Kentucky Retirement System (KRS) and additions to/deductions from KRS' fiduciary net position have been determined on the same basis as they are reported by KRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Cash and Cash Equivalents

The Authority participates in the Commonwealth's cash and investment pool, which is available for use by all funds and component units under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. Therefore, it follows the Commonwealth's policies for all pooled cash and investments. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Comprehensive Annual Financial Report. As of June 30, 2017, the carrying value of the Authority's pooled cash and cash equivalents totaled $4,245,135, and the fair value of the Authority's investments was $1,375,965. Please refer to the Commonwealth's CAFR for information and disclosure.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2017, is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets not being depreciated:				
Land	$ 546,493	$	$	$ 546,493
Construction in Progress				
Dam 8	12,363,754	2,229,413	(14,593,167)	
Dam 10	645,548	1,007,387		1,652,935
Lock 4 lock house Renovation	7,743			7,743
Total capital assets not being depreciated:	13,563,538	3,236,800	(14,593,167)	2,207,171
Other Capital Assets:				
Lock and Dams 5, 7-9, 11-14	12,000,000			12,000,000
Dam 3	16,134,038			16,134,038
Locks 3 & 4	4,379,055			4,379,055
Lock and dam 6	1,500,000			1,500,000
Dam 9	16,423,312			16,423,312
Lock and Dam 10	1,500,000			1,500,000
Lock and Dam buildings	432,010		(61,410)	370,600
Locks 1 & 2*	4,408,732			4,408,732
Dam 8		14,593,167		14,593,167
Vehicles	114,053			114,053
Equipment	202,615	37,008	(761)	238,862
Total other capital assets	57,093,815	14,630,175	(62,171)	71,661,819
Total Capital assets	70,657,353	17,866,975	(14,655,338)	73,868,990
Accumulated Depreciation	(12,446,666)	(1,652,393)	62,171	(14,036,888)
Capital Assets, net	$ 58,210,687	$ 16,214,582	$ (14,593,167)	$ 59,832,102

*Lock 1 & 2 improvements were restated from construction in progress to a completed capital asset at June 30, 2016.

Locks and Dams 1 through 4 are not the property of the Authority but instead are leased per an agreement between the Secretary of the Army and the Commonwealth for the use and benefit of the Authority for a term of 25 years, beginning March 1, 2002, and ending February 28, 2027. The consideration for this lease is the operation and maintenance of the premises by the Authority for the benefit of the United States and the general public. Per the agreement, the Authority has the right to erect such structures and to provide such equipment upon the premises as may be necessary to furnish the facilities and services authorized. Those structures and equipment shall be and remain the property of the Authority.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(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 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, 2017, the Authority's estimated liability for accrued annual and compensatory leave was $111,418.

The estimated liability and change in the estimated liability for compensated absences for the Authority as of June 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Compensated Absences	$ 101,236	$ 112,653	$ 102,471	$ 111,418	$ 73,678	$ 37,740

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 leased office space on a monthly basis from the Office of Capital Plaza Operations within the Commonwealth's Finance and Administration Cabinet. Rent expense during fiscal year 2017 under this rental agreement totaled $14,196. This lease was terminated subsequent to the end of fiscal year 2017.

Note 6 - Retirement Plans

Plan Description

The employees of the Authority participate in the Kentucky Employees Retirement Systems (KERS) Non-Hazardous Plan administered by the Board of Trustees of KRS, 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. KRS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. For fiscal year 2017, the Authority is required by statute to contribute 48.59% of the covered employees' salaries.

At June 30, 2017, the Authority reported a liability of $2,629,039 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of the same date. The Authority's proportionate share of the net pension liability is 0.023063%. This percentage is based on the long-term share of contributions of the Authority to the total of all contributions from employers of qualifying participants.

Tier I 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 2.0% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the 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.

On June 27, 2008 House Bill 1, the Pension Reform legislation, was signed into law. This legislation significantly impacted retirement benefits for employees who begin participating with KERS on or after September 1, 2008 (Tier II employees). 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.

Note 6 - Retirement Plans (Continued)

Plan Description (Continued)

Covered employees hired after December 31, 2013 (Tier III employees), are eligible to participate in a cash balance plan which requires employees to pay a pre-tax 5% rate based on creditable compensation. The employee's account is also credited with a 4% employer pay credit. In addition to the 5% contribution, all active employees participating on or after January 1, 2014, pay a 1% pretax contribution to KERS Insurance Fund. At the end of each fiscal year, interest is paid into the employee's account. The account is guaranteed 4% interest credit on the employee's account balance as of June 30 of the previous year. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4%. At the time of termination, the employee is eligible to either take a refund of the accumulated account balance if vested (five or more years of service), or annuitize their account balance, if eligible for retirement. If the employee terminates employment and requests a refund prior to vesting, the employee is eligible only for the employee's contributions and associated interest, and forfeits the employer pay credit and associated interest.

Ten-year historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the KERS' annual financial report (which is a matter of public record). KERS' annual financial report can be obtained at kyret.ky.gov. The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the KERS.

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. 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's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 6 - Retirement Plans (Continued)

Plan Description (Continued)

Kentucky Employees' Retirement System Non-Hazardous
Governance KRS 61.510 through KRS 61.705

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
Benefit Formula:	Final Compensation × Benefit Factor × Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97%, or 2.0% for those retiring with service for all months between 1/1998 and 1/1999.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 6 - Retirement Plans (Continued)

Actuarial Valuation

State Contribution	48.59%
Member Contribution	5.00% Tier 1 6.00% Tier 2 and 3
Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed
Remaining Amortization Period	27 years
Asset Valuation Method	Five-year smoothed market
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Inflation Rate	3.25%
Project Salary Increases	4.00%, average, including inflation
Mortality Tables	The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
Date of Experience Study	The period July 1, 2008 - June 30, 2013

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 6 - Retirement Plans (Continued)

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as described below:

- The assumed investment rate of return was decreased from 7.50% to 6.75%.
- The assumed rate of inflation remained the same at 3.25%.
- Payroll growth assumptions remained the same at 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 6 - Retirement Plans (Continued)

Actuarial Valuation (Continued)

The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Kentucky Retirement Systems

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined Equity	50%	5.30%
Combined Fixed Income	22%	4.33%
Core Real Estate	5%	4.25%
Diversified Hedge Funds	10%	4.00%
Private Equity	2%	8.00%
Diversified Inflation Strategies	8%	3.15%
Cash Equivalent	3%	(0.25%)
Total	100%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

The actuarial valuation date is June 30, 2015 upon which the total pension liability is based. The pension liability was determined as of June 30, 2016 using standard roll forward techniques. The roll forward calculation adds the annual normal cost, subtracts the actual benefit payments and refunds for the plan year and then applies the expected investment rate of return for the year. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used. Projected future benefit payments for all current plan members were projected through 2117.

The following presents the net pension liability of the Authority, calculated using the discount rate of 6.75%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%):

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Kentucky River Authority's Proportionate Share	$ 2,961,798	$ 2,629,039	$ 2,349,380

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 6 - Retirement Plans (Continued)

Deferred Inflows/Outflows of Resources

For the year ended June 30, 2017, the Authority recognized pension expenses of $206,321 and deferred outflows and deferred inflows related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,746	$
Changes in assumptions	199,145	
Net difference between projected and actual earnings on investments	40,366	
Change in proportionate share		165,274
Contributions subsequent to the measurement date	144,940	
Total	$ 387,197	$ 165,274

The $144,940 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2018	$ 44,671
2019	$ 8,799
2020	$ 15,074
2021	$ 8,439

KERS Non-Hazardous Membership

	2016 KERS Non-Hazardous
Retirees and beneficiaries receiving benefits	40,099
Inactive plan members	43,929
Active plan members	38,121
Total	122,149

Note 6 - Retirement Plans (Continued)

Pension Plan Fiduciary Net Position

The Authority's fiduciary net position has been determined on the same basis used by KERS. KERS' combining financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. See Note D of KERS' annual financial report previously referenced for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gain (loss) on investments includes KERS' gains and losses on investments bought and sold as well as held during the fiscal year.

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, 2017, six customers accounted for approximately 83.7% of the Tier II fees earned during the year. One of these six customers accounted for approximately 39.3%.

Note 8 - Commitments

Prior to year-end, the Authority had ongoing projects on Lock and Dams 8 and 10. The balance remaining on these commitments as of year-end totaled approximately $550,137.

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. Loss to buildings and equipment are self-insured through the Commonwealth's Fire and Tornado Fund.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

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 5.75% at the final maturity date.

On March 19, 2013, the SPBC adopted a resolution authorizing the issuance of $17,210,000 in Series 2013 Agency Fund Revenue Bonds (Project No. 105). The bonds were issued at a premium in the amount of $1,386,657. 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. The Authority approved a lease agreement with SPBC, effective April 1, 2013, to act as a mechanism for financing the principal and interest payments of the bonds. The bonds have a delivery date of May 15, 2013, with interest payable on April 1 and October 1 each year, commencing on October 1, 2013 and ending with the final maturity of the term bonds due April 1, 2033. Interest rates range from 2.0% to 4.75% at the final maturity date.

On March 10, 2016 the SPBC adopted a resolution authorizing the refunding of Series 2008 Agency Fund Revenue Bonds (Project No. 91) in the amount of $10,555,000 and the issuance of $10,850,000 in Series 2016 Agency Fund Revenue Bonds (Project No. 113). The bonds were issued at a premium on May 12, 2016 in the amount of $843,293. The bonds have a delivery date of June 2, 2016 with interest payable April 1 and October 1 each year, commencing October 1, 2016 with final maturity April 1, 2029. Interest rates range from 2.0% to 5.0%. The final payment on SPBC Project 91 bonds will be April 1, 2018.

The Series 2013 Agency Fund Revenue Bonds (Project No. 105) have a debt service reserve fund of $2,450,000 and that cash will be used towards the principal balance in 2032 and 2033.

Changes in long-term liabilities for the year ended June 30, 2017, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Lease Payable Total	$ 25,668,750	$	$ (1,238,750)	$ 24,430,000	$ 1,247,500	$ 23,182,500

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	Credit	Total Payments
6/30/2018	$ 510,000	$ 26,137	$	$ 536,137

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 10 - Long-Term Obligations (Continued)

KENTUCKY RIVER AUTHORITY
PROJECT 105 REVENUE BONDS DTD 5/3/2013
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	Credit	Total Payments
6/30/2018	$ 507,500	$ 595,456	$ (60,760)	$ 1,042,196
6/30/2019	517,500	585,306	(60,760)	1,042,046
6/30/2020	530,000	572,331	(60,760)	1,041,571
6/30/2021	550,000	551,131	(60,760)	1,040,371
6/30/2022	568,750	530,544	(60,760)	1,038,534
6/30/2023	583,750	514,931	(60,760)	1,037,921
6/30/2024	597,500	503,070	(60,760)	1,039,810
6/30/2025	610,000	489,050	(60,760)	1,038,290
6/30/2026	632,500	469,188	(60,760)	1,040,928
6/30/2027	661,250	443,888	(60,760)	1,044,378
6/30/2028	683,750	419,138	(60,760)	1,042,128
6/30/2029	1,032,500	396,888	(60,760)	1,368,628
6/30/2030	2,061,250	360,700	(60,760)	2,361,190
6/30/2031	2,133,750	289,631	(33,190)	2,390,191
6/30/2032	1,513,750	188,278	(12,000)	1,690,028
6/30/2033		82,294		82,294
	$ 13,183,750	$ 6,991,824	$ (835,070)	$ 19,340,504

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017
(Continued)

Note 10 - Long-Term Obligations (Continued)

KENTUCKY RIVER AUTHORITY
PROJECT 113 REVENUE BONDS DTD 06/02/2016
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	Credit	Total Payments
6/30/2018	$ 230,000	$ 350,594	$	$ 580,594
6/30/2019	822,500	341,919		1,164,419
6/30/2020	852,500	311,131		1,163,631
6/30/2021	880,000	285,556		1,165,556
6/30/2022	903,750	259,156		1,162,906
6/30/2023	941,250	227,394		1,168,644
6/30/2024	983,750	180,331		1,164,081
6/30/2025	1,017,500	138,719		1,156,219
6/30/2026	1,051,250	113,169		1,164,419
6/30/2027	1,090,000	76,205		1,166,205
6/30/2028	1,112,500	52,697		1,165,197
6/30/2029	851,250	25,538		876,788
6/30/2030				
6/30/2031				
6/30/2032				
6/30/2033				
	$ 10,736,250	$ 2,362,408	$	$ 13,098,658

Note 11 - Net Position Restricted For Capital Projects

The Authority has a Net Position Restricted for Capital Projects of $4,843,310. This amount consists of restricted cash and investments. The restricted cash and investments consists of accounts restricted for the maintenance and construction of capital assets.

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REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RIVER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Schedule of Proportionate Share of the Net Pension Liability*

	2017-a	2016-b	2015-c
Proportion of the Net Pension Liability (Asset)	0.023063%	0.024015%	0.026914%
Proportionate Share of the Net Pension Liability	$ 2,629,039	$ 2,409,173	$ 2,414,676
Covered-employee Payroll	$ 376,160	$ 370,848	$ 424,567
Proportionate Share of the Net Pension Liability as a Percentage of its Covered-employee Payroll	698.91%	649.64%	568.74%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	14.8%	33.78%	22.32%

Schedule of Contributions*

	2017	2016	2015
Actuarially Required Contribution	$ 146,540	$ 118,237	$ 125,106
Contribution in Relation to the Actuarial Contribution	(144,346)	(118,332)	(125,284)
Contribution Deficiency (Excess)	$ 2,194	$ (95)	$ (178)
Covered-employee Payroll	$ 364,165	$ 376,160	$ 370,848
Contribution as a Percentage of Covered-employee Payroll	39.64%	31.46%	33.78%

[a] This column is based on the measurement date as of June 30, 2016.
[b] This column is based on the measurement date as of June 30, 2015.
[c] This column is based on the measurement date as of June 30, 2014.
* These will be 10 year schedules. Years will be added to these schedules in future fiscal years until 10 years of information is available.

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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*

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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*

Independent Auditor's Report

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

We have audited, 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, the financial statements of the Kentucky River Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*
(Continued)

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency as identified as finding 2017-KRA-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements 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*.

Authority's Response to the Finding

The Authority's response to the finding identified in our audit are described in the accompanying schedule of financial statement findings and recommendations. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

Mike Harmon
Auditor of Public Accounts

November 17, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

KENTUCKY RIVER AUTHORITY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2017

2017-KRA-01: The Kentucky River Authority Failed To Properly Account For Completed Capital Assets And The Related Depreciation Expense

The Kentucky River Authority (KRA) is tasked with the mission of protecting and improving the waters of the Kentucky River, which includes maintaining 14 locks and dams. Over the last several years, KRA has initiated several construction projects to improve and build new lock and dam structures along the Kentucky River. During fiscal year 2017, KRA failed to properly track and record the completion of its capital assets and appropriately recognize the associated depreciation. Supporting documentation identified improvements on locks 1 and 2 and new construction of dam 8 were substantially complete but were never reclassified from construction in progress to the completed capital asset. Additionally, locks 1 and 2 were completed and in service at June 30, 2016; however, KRA failed to recognize the associated depreciation expense during fiscal year 2017.

Over the last two fiscal years, KRA has experienced substantial turnover of key personnel charged with compiling information necessary for preparation of the financial statements which has increased the likelihood of error. Additionally, adequate policies and procedures have not been formally developed to ensure key processes related to financial reporting are not overlooked. Failure by KRA to accurately track and record its capital assets resulted in depreciation expense being understated by $220,437 during fiscal year 2017, which was recognized with an adjusting journal entry.

Governmental Accounting Standards Board (GASB) Statement 34, paragraph 22 states, “Depreciation expense should be measured by allocating the net cost of the depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner.” KRA indicated it recognizes a capital asset for construction projects at June 30 when the project is 90 percent complete and in service.

Recommendation

We recommend KRA strengthen policies, procedures, and internal controls over the tracking and recording of construction in progress to ensure capital assets are recognized in accordance with accounting requirements and established policy. KRA should develop procedures to assist new personnel tasked with providing information necessary for financial statement compilation to ensure key information is not overlooked or omitted.

Management’s Response and Planned Corrective Action

1. *Due to the state fiscal crisis the agency has suffered significant reduction & turnover in the fiscal department that is tasked with monitoring these activities.*
2. *The agency plans to develop and implement a report that better tracks percentage of completion to allocated budgets for capital projects.*
3. *Once an employee has been hired the agency will set-up capital asset training with the Finance and Administration Cabinet Capital Asset Liaison*

EXHIBIT E

BOOK-ENTRY-ONLY SYSTEM

The Series 2018 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 2018 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 2018 Bonds under the Resolution.

The following information about the book-entry-only system applicable to the Series 2018 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 2018 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 2018 Bond certificate will be issued for each maturity of the Series 2018 Bonds, in the aggregate principal amount of the Series 2018 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 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2018 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 2018 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 2018 Bonds, except in the event that use of the book-entry-only system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 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 2018 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 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 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 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2018 Bond documents. For example, Beneficial Owners of Series 2018 Bonds may wish to ascertain that the nominee holding the Series 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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 2018 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 2018 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

Each Beneficial Owner for whom a Direct Participant or Indirect Participant acquires an interest in the Series 2018 Bonds, as nominee, may desire to make arrangements with such Direct Participant or Indirect Participant to receive a credit balance in the records of such Direct Participant or Indirect Participant, to have all notices of redemption or other communications to or by DTC which may affect such Beneficial Owner forwarded in writing by such Direct Participant or Indirect Participant, and to have notification made of all debt service payments.

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 2018 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 E 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 F

FORM OF BOND COUNSEL OPINION FOR THE SERIES 2018 BONDS

[Date of Delivery]

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

Re: $28,945,000 Commonwealth of Kentucky State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 118

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. 118 in the aggregate principal amount of $28,945,000 (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 303 of the General Assembly of the Commonwealth of Kentucky (the "Commonwealth"), 2016 Regular Session, as enacted and vetoed in part (the "Budget Act"), and in accordance with the bond resolution of the Commission adopted on April 12, 2018 (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 Third Supplemental Lease Agreement dated as of May 1, 2018 (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 and Agency Fund Revenue Refunding Bonds, Project No. 113.

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 not 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,

EXHIBIT G

FORM OF SPECIMEN BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] | Policy No: ____

MEMBER: [NAME OF MEMBER]

BONDS: $_________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: ________

Risk Premium: $_________
Member Surplus Contribution: $ ________
Total Insurance Payment: $________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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