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

NEW ISSUE

In the opinion of Bond Counsel for the Series 2016 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 2016 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 2016 Bonds is exempt from Kentucky income tax and the Series 2016 Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

$10,850,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Refunding Bonds, Project No. 113

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

The Agency Fund Revenue Refunding Bonds, Project No. 113 (the "Series 2016 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 2016 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2016 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2016 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2016 Bonds will be made directly to DTC. The Series 2016 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, 2016. Principal of, premium, if any, and interest on the Series 2016 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent.

The Series 2016 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
2017	$105,000	2.000%	0.900%	QZ6	2024	$975,000	5.000%	1.900%	RG7
2018	35,000	2.000	1.000	RA0	2025	1,010,000	2.000	2.000	RH5
2019	815,000	4.000	1.050	RB8	2026	1,040,000	4.000	2.150	RJ1
2020	845,000	3.000	1.200	RC6	2027	1,085,000	2.125	2.300	RK8
2021	875,000	3.000	1.350	RD4	2028	1,105,000	2.250	2.450	RL6
2022	895,000	3.000	1.550	RE2	2029	1,135,000	3.000	2.600	RM4
2023	930,000	5.000	1.750	RF9					

The Series 2016 Bonds are subject to redemption prior to maturity as described herein.

The Series 2016 Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky River Authority (the "State Agency") pursuant to a Bond Resolution adopted March 10, 2016 to (i) refund the Commission's outstanding Agency Fund Revenue Bonds, Project No. 91 maturing on and after April 1, 2019 (the "Prior Bonds") and (ii) pay the costs of issuing the Series 2016 Bonds.

THE SERIES 2016 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2016 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 2016 BONDS" herein.

The cover page contains information for quick reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2016 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 2016 Bonds will be made on or about June 2, 2016, through the facilities of DTC, against payment therefor.

J.J.B. HILLIARD, W.L. LYONS, LLC

Dated: May 12, 2016.

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)

ERIK DUNNIGAN
Acting 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)

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This Official Statement does not constitute an offer to sell the Series 2016 Bonds to any person, or the solicitation of an offer from any person to buy the Series 2016 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, FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest" or 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 2016 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 2016 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE SERIES 2016 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 2016 BONDS ABOVE THE LEVELS WHICH WOULD OTHERWISE PREVAIL. SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Series 2016 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 2016 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 2016 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 $10,850,000 Agency Fund Revenue Refunding Bonds, Project No. 113 (the "Series 2016 Bonds").

Authority

The Series 2016 Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a resolution (the "Resolution") adopted by the Commission on March 10, 2016 (i) authorizing the issuance of the Series 2016 Bonds and (ii) approving a Second Supplemental Lease dated as of May 1, 2016 (the "Supplemental Lease") supplementing the Lease dated as of October 1, 2008 and First Supplemental Lease dated as of April 1, 2013 (collectively, the "Original Lease," and together with the Supplemental Lease, the "Lease") by and among the Commission, as lessor, and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") and the Kentucky River Authority (the "State Agency"), jointly as lessee.

Use of Proceeds

The Series 2016 Bonds are being issued to provide funds with which to (i) refund the Commission's outstanding Agency Fund Revenue Bonds, Project No. 91 (the "2016 Project") maturing on or after April 1, 2019, as described herein and (ii) pay the costs of issuing the Series 2016 Bonds.

Security

The Commission previously issued its $15,720,000 Agency Fund Revenue Bonds, Project No. 91 (the "Series 2008 Bonds"); of which $12,500,000 principal amount remain outstanding, as well as its $17,210,000 Agency Fund Revenue Bonds, Project No. 105 (the "Series 2013 Bonds"); of which $16,255,000 principal amount remains outstanding. The Series 2008 Bonds and Series 2013 Bonds were issued to pay the costs 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 Original Lease. The Supplemental Lease constitutes a "Parity Obligation" under the Original Lease and the Series 2016 Bonds constitute Additional Bonds (as defined herein) ranking on a parity as to security and source of payment with the Series 2008 Bonds and Series 2013 Bonds.

The Series 2008 Bonds, Series 2013 Bonds, Series 2016 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 or any other amounts received by the Commission for the use or occupancy of the Project. The primary source for payments under the Lease will be rental payments made by the State Agency. See "SECURITY FOR THE SERIES 2016 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 2015." 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 balance on deposit on the Reserve Fund upon issuance of the Series 2016 Bonds will equal the Reserve Fund Requirement. See "SECURITY FOR THE BONDS; ADDITIONAL BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The Series 2016 Bonds are not secured by a lien on any of the properties constituting the Project, as described herein, or any amounts derived therefrom.

THE SERIES 2016 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE SERIES 2016 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, 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.

Features of Series 2016 Bonds

The Series 2016 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 2016 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 2016 Bonds. Purchasers will not receive certificates representing their ownership interest in the Series 2016 Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2016 Bonds, payments of the principal of, premium, if any, and interest due on the Series 2016 Bonds will be made directly to DTC.

The Series 2016 Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2016. Principal of, premium, if any, and interest on the Series 2016 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the "Trustee").

The Series 2016 Bonds maturing on and after April 1, 2027 are subject to redemption at the option of the Commission on or after April 1, 2026, in whole or in part at any time, at a redemption price equal to the principal amount of the Series 2016 Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See "THE SERIES 2016 BONDS - Redemption Provisions."

It is expected that delivery of the Series 2016 Bonds will be made on or about June 2, 2016 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 2016 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 2016 Bonds is excluded from the gross income of the recipients thereof for Kentucky income tax purposes and the Series 2016 Bonds are exempt from ad valorem taxes by the Commonwealth of Kentucky and all political subdivisions thereof. See "TAX EXEMPTION" herein for a more complete discussion, and EXHIBIT D.

Additional Bonds

The Resolution authorizes the issuance of obligations ranking on a parity with the security and source of payment with the Series 2008 Bonds, Series 2013 Bonds and Series 2016 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 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 2016 Bonds is available by contacting the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924and the Commission’s Financial Advisor, FirstSouthwest, a Division of Hilltop Securities Inc., 1201 Elm Street, Suite 3500, Dallas, Texas 75270, Attention: Mr. Mike Newman (214) 953-8875.

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OFFICIAL STATEMENT
Relating to

$10,850,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Refunding Bonds, Project No. 113

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 $10,850,000 Agency Fund Revenue Refunding Bonds, Project No. 113 (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) refund the Commission's outstanding Agency Fund Revenue Bonds, Project No. 91 maturing on and after April 1, 2019 (the "Prior Bonds") and (ii) pay the costs of issuing the Series 2016 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 (collectively, the "Original Lease"), to provide the Commission with amounts to pay the principal of and interest on the Commission's outstanding $12,500,000 Agency Fund Revenue Bonds, Project No. 91 Bonds (the "Series 2008 Bonds") and $16,255,000 Agency Fund Revenue Bonds, Project No. 105 Bonds (the "Series 2013 Bonds"), the proceeds of which were used to finance the construction of public projects for the State Agency (collectively, the "Project"). The resolution authorizing the Series 2008 Bonds the ("Series 2008 Resolution") authorized the issuance of obligations having a pledge on the State Agency Revenues (as defined herein) on a parity with the lien of the Series 2008 Bonds, which may be additional bonds issued in accordance with the requirements of the Series 2008 Resolution (the "Additional Bonds") or other obligations (the "Parity Obligations") permitted by the Original Lease.

The Series 2013 Bonds were issued, and the Series 2016 Bonds are being issued, as Additional Bonds under the Series 2008 Resolution and the Series 2016 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 dated March 10, 2016 (the "Series 2016 Resolution," and together with the Series 2008 Resolution and the resolution authorizing the Series 2013 Bonds, the "Bond Resolutions") authorizing the issuance of the Series 2016 Bonds and approving the Supplemental Lease hereinafter described.

The Cabinet and the State Agency have entered into a Second Supplemental Lease dated as of May 1, 2016, with the Commission, as (the "Supplemental Lease," and together with the Original Lease, the "Lease"), to provide the Commission with additional amounts to pay the principal of and interest on the Series 2016 Bonds. The current term of the Lease ends June 30, 2016, and the Lease renews automatically (unless terminated in writing by the last business day of the preceding May by the Cabinet or the State Agency) for successive biennial periods to and including the biennial period which includes the final maturity of the Series 2008 Bonds, the Series 2013 Bonds, the Series 2016 Bonds and any Additional Bonds that hereinafter may be issued (collectively, the "Bonds").

The Lease requires the State Agency, for each biennial period of the State Agency to request legislative appropriations of "Agency Funds" in amounts sufficient to permit the State Agency to make rental payments to the Commission which amounts are required to be sufficient to pay principal of and interest on the Bonds. The Cabinet agrees under the Lease that if a deficiency exists in the Reserve Fund, or if the State Agency fails to make a request for an appropriation as described above, that the Cabinet will request a General Fund appropriation in an amount sufficient to allow the Cabinet to maintain the Reserve Fund Requirement in the Reserve Fund as required by the Resolution. The primary source for the payments due under the Lease will be payments made by the State Agency from collections of certain fees paid by the entities that withdraw water from the Kentucky River Basin (the "State Agency Revenues"). See "THE STATE AGENCY – Water Use Fees" and – "Tier II Fee Payers - Fiscal Year 2015" 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, 2016.

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. Upon issuance of the Series 2016 Bonds, the balance on deposit in the Reserve Fund 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 2016 Bonds, the Lease, the 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 2016 BONDS

General

The Series 2016 Bonds are issuable only as fully registered Series 2016 Bonds. The Series 2016 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, 2016, at the interest rates set forth on the inside 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 2016 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 2016 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 2016 Bonds under the Resolution. For additional information about DTC and the book-entry-only system see "EXHIBIT C - BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The Series 2016 Bonds maturing on or after April 1, 2027, are subject to optional redemption at par on April 1, 2026, and on any Business Day thereafter, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium.

Selection of Bonds for Redemption; Notice of Redemption. The Commission has directed the Trustee to notify DTC that in the event less than all of any Series 2016 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 2016 Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Series 2016 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 2016 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 2016 Bonds shall not affect the validity of the redemption of any other Series 2016 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 2016 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 2016 Bonds, the CUSIP numbers, the date of the issue, 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 2016 Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Series 2016 Bonds to be redeemed and, in the case of Series 2016 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 2016 Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

The Trustee also shall send a copy of such notice by registered or certified mail, overnight delivery service or electronic means for receipt not less than thirty-two (32) days before such redemption date to DTC and to at least two national information services that disseminate notices of redemption of obligations such as the Series 2016 Bonds; provided however, that such mailing shall not be a condition precedent to such redemption and failure to mail any such notice shall not affect the validity of any proceedings for the redemption of Series 2016 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 2016 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 2016 Bonds receives the notice. Upon the giving of notice and the deposit of funds for redemption, interest on the Series 2016 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 2015.” 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, 2016. 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, 2016. The Lease will be automatically renewed unless written notice of the election by the Cabinet or the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

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

Cabinet or the State Agency to make rent payments under the Lease or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate any such appropriations. The only current source of funds for payment of rent under the Lease is rent received by the Cabinet from the State Agency under the Lease.

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

The Bonds are also secured by certain other funds and accounts pledged therefor and described in the Resolution, including the Reserve Fund. The Commission is required to maintain (i) an amount equal to the Reserve Fund Requirement on deposit in the Reserve Fund, as described under "SUMMARIES OF THE PRINCIPAL DOCUMENTS – The Resolution" herein. If amounts on deposit in the Reserve Fund are less than the Reserve Fund Requirement, the Cabinet and the State Agency are required to pay additional rent, under the Lease until the amount in the Reserve Fund equals the Reserve Fund Requirement. The Cabinet has covenanted under the Lease to seek a General Fund appropriation at each future session of the General Assembly if a deficiency exists in the Reserve Fund, or if the State Agency fails to make a request for an appropriation as described above, sufficient to remedy such deficiency. The balance on deposit on the Reserve Fund upon issuance of the Series 2016 Bonds will equal the Reserve Fund Requirement.

THE SERIES 2016 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 2016 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 2016 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. THE SERIES 2016 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 2016 BONDS.

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

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

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

"Revenues Available for Debt Service" or "Net Revenues" means, under the Bond Resolutions, 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, including the Additional Bonds then proposed to be issued, to make up any deficiencies in the Reserve Fund and to pay all other costs under the Bond Resolutions.

At the time of issuance, the Series 2008 Bonds, the Series 2013 Bonds and the Series 2016 Bonds will be the only Bonds outstanding payable from the rental payments under the Lease and the State Agency Revenues.

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

PLAN OF FINANCE

The proceeds of the Series 2016 Bonds will be used by the Commission to (i) refund the Commission's Outstanding Agency Fund Revenue Bonds, Project No. 91 maturing on and after April 1, 2019 (the "Prior Bonds") and (ii) pay the costs of issuing the Series 2016 Bonds. See "SOURCES AND USES OF FUNDS FOR THE SERIES 2016 BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

To provide for the refunding of the Prior Bonds, on the date of issuance of the Bonds, certain proceeds of the Series 2016 Bonds will be deposited with U.S. Bank National Association, Louisville, Kentucky, serving as escrow agent (the "Escrow Agent") under an Escrow Agreement with the Commission, and held in cash or used to purchase investments permitted by the resolution authorizing the Prior Bonds (the "Escrow Obligations"), the principal of and interest on which will be sufficient to pay principal of and interest on the Prior Bonds, when due, at their payment dates and date for prior redemption (the "Prior Bond Payment Dates"). Amounts held in the escrow fund created by the Escrow Agreement (the "Escrow Fund") will be used to pay the Prior Bonds on the applicable Prior Bond Payment Dates. The principal of and interest on the Escrow Obligations will be sufficient to pay principal of and interest on the Prior Bonds on the Prior Bond Payment Dates. There is no redemption premium applicable to the Prior Bonds. See "VERIFICATION" herein.

Neither the Escrow Obligations nor the interest earned thereon will serve as security or be available for the payment of the principal of or interest on any of the Bonds other than the Prior Bonds.

SOURCES AND USES OF FUNDS FOR THE SERIES 2016 BONDS

The following table sets forth the application of the proceeds of the Series 2016 Bonds and other funds of the State Agency.

SOURCES OF FUNDS:	
Par Amount of Series 2016 Bonds	$10,850,000.00
Net Original Issue Premium	$845,293.25
Funds of State Agency	$1,215.42
Funds from Existing Reserve Fund	$109,347.29
TOTAL SOURCES	$11,805,855.96
USES OF FUNDS:	
Deposit to Escrow Fund	$11,626,873.31
Costs of Issuance*	$178,982.64
TOTAL USES	$11,805,855.96

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

THE PROJECT

The portion of the Project to be refinanced with the proceeds of the Series 2016 Bonds consists of a full concrete cellular dam known as Dam 9, near Lexington, Kentucky (the "2008 Project"), which was installed as a security measure in connection with the then existing dam structure that was in place at the time of construction. The 2008 Project, together with the projects financed with the proceeds of the Series 2013 Bonds, consisting of (i) the renovation of Locks 1 and 2 on the Kentucky River, (ii) the construction of Dam 8, including design costs, and (iii) the construction and renovation of additional public projects for the State Agency (collectively, the "2013 Project"), constitute the Project being leased by the Cabinet and the State Agency from the Commission under the Lease. For further information on the State Agency benefiting from the Project, see "THE STATE AGENCY" herein.

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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 of, premium, if any, 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 2013 Regular Session of the General Assembly delivered House Bill 7 to the Governor on February 20, 2013 authorizing a list of capital projects for the Kentucky state universities. The Governor took final action on House Bill 7 on February 21, 2013. The bill authorized bond financing for various university capital projects totaling $363.3 million to support various capital initiatives of the state universities, which are Agency Fund supported, of which $9.6 million is still authorized to be issued.

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 due to $105 million in previously authorized debt that 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 Restricted 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 2015 Regular Session of the General Assembly delivered House Bill 298 to the Governor on March 4, 2015 authorizing a general fund bond supported project for the University of Kentucky for the financing of a Research Building totaling $132.5 million. The Governor took final action on House Bill 298 on March 9, 2015, and all of such authorization has been permanently financed.

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, 2018. The Governor took final action on both bills 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 is supported by Agency Restricted Fund appropriations. No additional Road Fund supported authorizations were appropriated.

House Bill 303 authorizes bond financing for three Agency Restricted Fund supported projects totaling $39.38 million for the Kentucky River Authority.

The balance of prior bond authorizations of the General Assembly dating from 2006 through 2016 totals $2,268.87 million. Of these prior authorizations, $1,155.93 million is General Fund supported, $915.94 million is Agency Restricted Fund supported, $137.50 million is supported by Road Fund appropriations and $59.50 million is Federal Highway Trust Fund supported.

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

State Property and Buildings Commission
Summary of Authorized but Unissued Debt by Fund Type
as of April 30, 2016

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Fund (millions)	TOTAL (millions)
2010 and prior	$43.94	$17.50	$125.00	$59.50	$245.94
2012	11.90		12.50		24.40
2013		9.60			9.60
2014	517.10	211.59			728.69
2015					0
2016	582.99	677.25			1,260.24
TOTAL	$1,155.93	$915.94	$137.50	$59.50	$2,268.87

The Kentucky General Assembly may authorize debt financing to support various capital initiatives of the Commonwealth in future sessions. Bonds may also be issued to refund outstanding Commission or Kentucky Asset/Liability Commission ("ALCo") bonds and notes.

THE FINANCE AND ADMINISTRATION CABINET

General. The Cabinet, created and governed by the provisions of KRS 12.020 and KRS Chapter 42, 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

General information

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

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

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

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

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

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

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KENTUCKY RIVER AUTHORITY BOARD MEMBERS

Member	Term Expires	Position
Mrs. Martha Clare Sipple (Chairperson) Winchester, Kentucky	September 18, 2016	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. Rodney Simpson (Vice Chairman) Frankfort, Kentucky	September 18, 2018	A member residing in a county adjacent to Locks and Dams 1-4 of the Kentucky River
Ms. Pat Banks (Secretary) Richmond, Kentucky	September 18, 2017	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. James Kay (Treasurer) Versailles, Kentucky	September 18, 2019	A member residing in a county adjacent to the main stem of 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. Mike Flynn Winchester, Kentucky	September 18, 2019	A member representing an expert in water quality
Mr. Harold Rainwater 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. Kevin Rogers Lexington, Kentucky	September 18, 2017	A member residing in a county adjacent to the main stem of the Kentucky River
Mr. 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. Warner Caines Frankfort, Kentucky	September 18, 2016	A member representing registered engineers
Mr. William M. Landrum III Secretary, Finance and Administration Cabinet Frankfort, Kentucky	Ex Officio	Secretary of Finance and Administration Cabinet
Mr. Charles G. Snavely Secretary, Energy and Environment Cabinet Frankfort, Kentucky	Ex Officio	Secretary of Energy and Environment Cabinet

The audited financial statement of the State Agency for Fiscal Year 2015 is set forth in EXHIBIT B to this Official Statement.

Water-User Fees

The operations of the State Agency are supported by the collection of water-user fees (the “Fees”) from entities that withdraw water from the Basin. There are two categories of Fees: Tier I fees, which are paid by all users for the benefit of the entire watershed (the “Tier I Fees”) and Tier II fees, which are an additional charge on water withdrawn from the “Main Stern” of the Kentucky River, and are reserved for the maintenance and replacement of the Locks and Dams on the Kentucky River (the “Tier II Fees”). Tier I water fees are currently $0.022 per thousand gallons of water withdrawn from any source within the boundaries of the Basin. The Tier II fee current rate is $0.130 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.

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Tier II Fee Payers — Fiscal Year 2015

In Fiscal Year 2015, 16 entities used 25,485,698,668 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 2015.

Kentucky River Authority
Tier II
Fee Payers Fiscal Year 2015

Users	Water Usage (Gallons)		% of Total Tier II Fees
East Kentucky Power Cooperative	108,258,277	$14,073.58	0.42%
Frankfort Electric and Water Plant Board	2,951,428,000	383,685.64	11.58%
Harrodsburg Municipal Water Works	1,087,710,817	141,402.41	4.27%
Irvine Municipal Utilities	439,948,000	57,193.24	1.73%
Kentucky-American Water Co. Pool 9	9,327,458,000	1,212,569.54	36.60%
Lancaster Municipal Water Works	521,800,000	67,834.00	2.05%
Lawrenceburg Municipal Water Works	827,666,000	107,596.58	3.25%
Buffalo Trace Distillery	63,444,536	8,247.79	0.25%
Nicholasville Water Works	1,452,553,651	188,831.97	5.70%
Richmond Water, Gas, and Sewage	2,645,300,887	343,889.12	10.38%
Versailles Municipal Water Works	1,147,260,000	149,143.80	4.50%
Wilmore Utilities System	238,155,000	30,960.15	0.93%
Winchester Municipal Utilities	1,809,838,000	235,278.94	7.10%
Bull Run Golf	9,354,800	1,216.12	0.04%
Hanson Aggregates	2,496,000	324.48	0.01%
Liter's Quarry	-	-	0.00%
Boonesboro Quarry	4,947,000	643.11	0.02%
Harrod Rock Quarry	51,120,000	6,645.60	0.20%
Kentucky American-Pool 3 Plant	2,796,959,700	363,604.76	10.97%
Total	25,485,698,668	$3,313,140.83	100.00%

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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, 2015, assuming the adjusted current Tier II Fee rate of $0.130 per 1,000 gallons of water used and the maximum annual debt service on the Bonds:

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

Period Ended June 30	Annual Water Usage (Gallons)	Tier II Fees Per 1000 gallon $0.130	Maximum Annual DS	Coverage
2006	28,487,932,629	1,709,276	1,323,463	1.29x
2007	27,881,340,169	1,672,880	1,323,463	1.26x
2008	28,163,726,347	1,689,824	1,323,463	1.28x
2009	27,641,646,669	1,658,499	1,323,463	1.25x
2010	25,752,365,384	1,545,142	1,323,463	1.17x
2011	27,874,370,965	1,672,462	1,323,463	1.26x
2012	25,370,764,705	1,522,246	1,323,463	1.15x
2013	27,109,888,044	1,626,593	1,323,463	1.23x
2014	25,228,458,438	3,279,700	2,421,994	1.35x
2015	25,485,698,668	3,313,141	2,421,731	1.37x

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

Agency Fund Appropriations

The budget of the Commonwealth is required to include all fund sources, which include General Funds, Road Funds, Federal Funds, Agency Funds and Tobacco Funds. The State Agency is required to develop and submit a balanced budget for consideration by the General Assembly during its regular session, which begins in January of each even-numbered year. Agency Funds of the State Agency are described in its financial statements included in EXHIBIT B.

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

The Kentucky General Assembly has adopted the budget for the State Agency having amounts projected to be sufficient to enable the State Agency to pay required rents through June 30, 2016. The required rent payments are designed to be sufficient to meet principal and interest requirements on the Bonds through June 30, 2016. 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, 2018, 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, 2018.

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 slightly higher than the national average, and recessionary employment declines in these sectors were more muted in Kentucky than the national equivalent. The Commonwealth's parks, horse breeding and racing industry, symbolized by the Kentucky Derby, play an important role in expanding the tourism industry in the Commonwealth.

As indicated in the Commonwealth of Kentucky Quarterly Economic & Revenue Report for the Second Quarter of Fiscal Year 2016, economic growth overall in Kentucky is projected to continue through Fiscal Year 2016 approximately in line with the national economy in terms of employment and personal income growth. The Kentucky unemployment rate in November 2015 was 4.9 percent, just below the national unemployment rate of 5.0 percent. Kentuckians' personal incomes are forecast to grow 4.9 percent for Fiscal Year 2016, the fastest rate of growth since 2008. A majority of local businesses surveyed by the Louisville Federal Reserve indicate they are increasing wages moving into the second half of Fiscal Year 2016. Wages and salary growth is projected to be 4.5 percent in Fiscal Year 2016, projected to grow at a higher percentage in Fiscal Year 2017. The index of leading economic indicators for Kentucky, as reported by the Philadelphia Federal Reserve, has remained high relative to the national average.

Kentucky has added manufacturing jobs at a higher rate than the national average and is approaching its pre-recession high for manufacturing jobs. The Commonwealth is projected to grow manufacturing jobs at eight times the national rate in Fiscal Year 2016. One of the primary reasons the Commonwealth enjoys such growth is that it is a major center for the manufacture of automobiles, automobile parts and aerospace components, which comprise approximately half of Kentucky's exports. The automotive sector was responsible for approximately 50 percent of Kentucky's manufacturing employment growth in the first quarter of Fiscal Year 2016 (per the Louisville Federal Reserve Report). In November 2015, two Kentucky automobile manufacturers announced expansions with an anticipated 2,000 additional jobs. In addition, a European automobile parts manufacturer announced a new $193 million plant in Kentucky.

Growth in the housing market in the Commonwealth is evidenced by the increase in new housing permits. Similarly, construction employment is increasing. Single-unit housing permits issued in Kentucky increased 79 percent in November 2015 as compared to the same period for the previous year. Consequently, jobs in the construction industry are forecast to increase in the next three fiscal quarters. The Louisville Federal Reserve's residential real estate survey found that more than two-thirds of real estate agents reported higher demand in the second quarter of Fiscal Year 2016 as households increased their mortgage debt year-over-year by greater than 1 percent for the first time since the last recession.

Financial Information Regarding the Commonwealth

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

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 Pension Plans. The "Statistical Section" of the CAFR includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Incorporated by Reference

The CAFR for the Fiscal Year ended June 30, 2015 is incorporated herein by reference. The Commonwealth has filed the CAFR for the Fiscal Year ended June 30, 2015 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, 2015 may be obtained from EMMA or from the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, the CAFR for the Fiscal Year ended June 30, 2015 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 hereinafter defined) in order to enable the Underwriters to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE AGREEMENT" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12.

Budgetary Process in the Commonwealth

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.

Executive Branch Budget for Fiscal Years 2017-2018. Governor Bevin presented his Executive Budget Recommendation for Fiscal Years 2017 and 2018 to a joint session of the General Assembly on January 26, 2016, resulting in the introduction of House Bill 303 and House Bill 304 on January 27, 2016.

The Executive Budget Recommendation highlighted eight priorities for the Governor's administration, which included: strengthening Kentucky's financial foundation, investing in Education and Workforce Development, keeping commitments to all public servants, safeguarding Kentucky's most vulnerable, protecting those who protect the citizens of the Commonwealth, fighting substance abuse, transforming Kentucky's healthcare delivery system, and building infrastructure for the future.

The Commonwealth's Executive Branch Budget for Fiscal Years 2017 and 2018 was enrolled by the General Assembly on April 15, 2016, vetoed in part and signed by the Governor on April 27, 2016.

Fiscal Year 2013

The Commonwealth's combined net position (governmental and business-type activities) totaled \$10.5 billion at the end of 2013, as compared to \$10.6 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$20.5 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(11.2) 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 assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net assets.

The Commonwealth received program revenues of \$11.4 billion and general revenues (including transfers) of \$11.8 billion for total revenues of \$23.2 billion during Fiscal Year 2013. Expenses for the Commonwealth during Fiscal Year 2013 were \$23.3 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$108 million, net of contributions, transfers and special items.

During the fiscal year, the change in net assets resulted in a decrease from the previous year. The decrease in net assets of governmental activities was \$240 million or 2.1 percent. Approximately 54 percent of the governmental activities' total revenue came from taxes, while 35.7 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, 2013, the Commonwealth's governmental funds reported combined ending fund balances of $2.3 billion, a decrease of $174 million in comparison with the prior year. $106.5 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $2.4 billion is restricted for certain purposes and is not available to fund current operations. The $220.2 million is considered unrestricted (committed, assigned, or unassigned), and when positive, it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2013, was $201.2 million. The balance reported reflects an increase of $104.3 million from the previously reported amount, which represents an increase of 109.7 percent. The major factor for the increase in fund balance is an increase in tax revenue of $405.3 million or 4.71 percent.

The fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of $7.3 million represents the nonspendable amount, $34.7 million is assigned and represents continuing appropriations and the remaining $159.2 million is unassigned and is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced an increase in other revenues of $68.8 million while expenditures decreased across a majority of all functions. The Transportation Fund experienced a slight increase in revenues due to increased tax receipts and a slight increase in expenditures, resulting in an increase in fund balance of $38.7 million.

The Commonwealth of Kentucky's bonded debt decreased by $128 million to $6.4 billion, a 2 percent decrease during Fiscal Year 2013. The major factor in this decrease is a result of the refunding of old issues by the Fiscal Year 2013 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2013 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2013 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2013.

Fiscal Year 2014

The Commonwealth's combined net position (governmental and business-type activities) totaled $10.058 billion at the end of 2014, as compared to $10.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net position, $21.3 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 $(12.4) 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 $13.1 billion and general revenues (including transfers) of $12 billion for total revenues of $25.1 billion during Fiscal Year 2014. Expenses for the Commonwealth during Fiscal Year 2014 were $25.6 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of $442.6 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 $774.4 million or 7.0 percent. Approximately 49.7 percent of the governmental activities' total revenue came from taxes, while 41.2 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.

At June 30, 2014 the Commonwealth's governmental funds reported combined ending fund balances of $2.2 billion, a net decrease of $42.1 million in comparison with the prior year. $74 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The $2.1 billion is restricted for certain purposes and is not available to fund current operations. The $61.9 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, 2014 was $(130.8) million. The balance reported reflects a decrease of $333 million from the previously reported amount, which represents a decrease of 164.6 percent. The major factor for the decrease in fund balance is an increase in expenditures of $458.5 million or 5.2 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 $6.5 million represents the nonspendable amount. The unrestricted had a negative balance of $137.3, therefore is not 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 $1.9 billion. Expenditures decreased across a majority of all functions, except for Health and Family Services (CHFS) which experienced an increase in expenditures of $2 billion (a 28.4 percent increase in expenditures for total federal expenditures).

The Commonwealth's bonded debt decreased by $135.9 million to $6.3 billion, a 2.1 percent decrease during Fiscal Year 2014. The major factor in this decrease is a result of the refunding of old issues by the fiscal Year 2014 new issues. Therefore, the remaining liability on the retired bonds plus the Fiscal Year 2014 principal payments on the remaining outstanding bonds were greater than the Fiscal Year 2014 issues for new projects. No general obligation bonds were authorized or outstanding at June 30, 2014.

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 (Unaudited)

As reported by the Office of the State Budget Director on May 10, 2016, the April 2016 General Fund receipts grew by 5.2 percent compared to the same month of the previous fiscal year. Total revenues for the month were $1,077.1 million, compared to $1,023.7 million during April 2015, an increase of $53.4 million. The General Fund has grown 5.0 percent year-to-date for the fiscal year ending June 30, 2016. Based on April's results, General Fund revenues can decline 4.9 percent for the remaining two months of the fiscal year to meet the current official estimate of $10,289.9 million. For the first ten months of Fiscal Year 2016, Road Fund receipts decreased by 3.8 percent. Total Road Fund receipts for April 2016 totaled $130.4 million, an increase of $15.2 million compared to April 2015. The recently released interim revenue estimate calls for Road Fund revenues to end the fiscal year at (4.3) percent. Based on year-to-date tax collections, revenues can decline 13.0 percent for the remainder of Fiscal Year 2016 to meet the estimate of $1,445.9 million.

Consensus Forecasting Group; Official Revenue Forecasts

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 receives support from the Governor's Office for Economic Analysis, an organizational unit of the OSBD, and is staffed by the Legislative Research Commission ("LRC"). 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. 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.

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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 2013 through 2018 are represented below:

General Fund

Fiscal Year	Adopted	Enacted	Revised	Actual
2013	$9,220,600,000	$9,307,839,200	N/A	$9,348,400,000
2014	9,548,400,000	9,523,900,000	$9,578,900,000	9,462,000,000
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	N/A
2017	10,617,200,000	10,616,375,000	N/A	N/A
2018	10,875,500,000	10,874,400,000	N/A	N/A

Road Fund

Fiscal Year	Adopted	Enacted	Revised	Actual
2013	$1,498,900,000	$1,539,269,400	$1,499,600,000	$1,491,623,669
2014	1,568,000,000	1,569,156,100	1,582,600,000	1,560,439,604
2015	1,546,700,000	1,584,870,600	N/A	1,526,738,658
2016	1,558,400,000	1,559,396,800	1,445,900,000	N/A
2017	1,456,900,000	1,456,900,000	N/A	N/A
2018	1,478,200,000	1,478,200,000	N/A	N/A

The CFG official revenue estimate as legislatively enacted for the Phase 1 Tobacco Master Settlement Agreement payments is $73.1 million in Fiscal Year 2015 and $88.6 million in Fiscal Year 2016.

The Office of the State Budget Director makes available on its website monthly updates to the General Fund receipts and the Road Fund receipts.

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 Independent Community Bankers Association, is charged with the oversight of the Commonwealth's investment activities. The SIC 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 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

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.

On April 30, 2016, the Commonwealth's operating portfolio was approximately $4.365 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (35%); securities issued by agencies and instrumentalities of the United States Government (12%); mortgage-backed securities and collateralized mortgage obligations (10%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (1%); and corporate and asset-backed securities, including money market securities (29%). The portfolio had a current yield of 0.64% and an effective duration of 0.71 years.

The Commonwealth's investments are currently categorized into four investment pools; the Short Term, Limited Term, Intermediate Term, and the Bridges 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 Bridges Pool consists of bond proceeds for the Louisville-Southern Indiana Ohio River Bridges capital construction project.

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 "A-1" "P-1" 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, 2015, ALCo had one interest rate swap outstanding with a total amount outstanding of $191,780,000. 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 state's retirement system, including pension plans and other post employment benefits. Capitalized terms used under this heading and not otherwise defined shall have the respective meanings given by the CAFRs, as herein defined.

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and KTRS. 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 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 Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. Most retirement benefits are subject to a statutory inviolable contract under which the benefits shall not, with limited exceptions, be reduced or impaired by alteration, amendment or repeal. KERS eligible employees hired January 1, 2014 and after are no longer party to the inviolable contract and the General Assembly can amend, suspend or reduce benefits with future legislation. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report.* For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2015* Note 8 beginning on page 88. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at http://kyret.ky.gov and http://www.ktrs.ky.gov, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans' June 30, 2015 actuarial valuation reports used in preparing the associated Pension Plans' 2015 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of $10,833 million. KTRS, assuming a 7.5 percent investment return, had a UAAL of $13,930 million. Under the GASB 67 Accounting Method and assuming a 4.88 percent blended investment rate of return, the pension UAAL would be $24,428 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2015 had funding percentages of 22.6 percent for the Kentucky Retirement Systems and 55.3 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2015 pension benefits was $580.8 million; $582.2 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2015 was $913.7 million; $559.6 million was contributed.

The Commonwealth's budget for Fiscal Years 2017 and 2018 was enrolled by the General Assembly on April 15, 2016, and vetoed in part and signed by the Governor on April 27, 2016. Due to the duration of the budget negotiation, the General Assembly did not have the ability to override the Governor's vetoes for the 2016 General Session. The enacted budget provided funding for payment of the full ADEC of the Kentucky Retirement System as well as an additional $185.767 million above the ADEC over the biennium. Similarly, the KTRS was appropriated an estimated 94% of the ADEC over the biennium. In addition to increased appropriations, the Kentucky Permanent Pension Fund was established in House Bill 238 (the proceeds of which shall only be used for contributions to the Commonwealth's pension funds). The deposits to this fund include a $125 million transfer from surplus monies in the Public Employees Health Insurance Trust Fund and it will receive 50% of any general fund surplus in Fiscal Year 2017. Any Fiscal Year 2018 General Fund surplus is appropriated at a rate of 25% to the KTRS unfunded liability and 25% to the KERS Non-Hazardous liability.

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

The Commonwealth is obligated to provide healthcare benefits to certain retired state employees and teachers. The Pension Plans administer two multi-employer defined benefit healthcare plans (collectively, the "Health Plans") for which the Commonwealth pays a portion of the cost of the benefits of the retired employees. As of January 1, 2006, the Commonwealth commenced self-funding of healthcare benefits for state employees. The Kentucky Retirement Systems also adopted, on January 1, 2006, a self-funding health care plan for Medicare Eligible Retirees. KTRS became self-insured for post retirement healthcare costs for Medicare Eligible Retirees on July 1, 1991. Beginning January 1, 1997, KTRS offered non-Medicare Eligible Retirees insurance through the state health insurance program, which has since become self-insured. Beginning January 1, 2007, KTRS offered its Medicare Eligible Retirees an insured Medicare Advantage Plan and, beginning July 1, 2010, offered this group an insured Employer Group Waiver Drug Plan. The KTRS Board requires retirees not eligible for Medicare to pay the equivalent for the Medicare Part B program towards their cost of health coverage.

The Pension Plans commissioned actuarial studies which provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five year experience study was completed for the period ending June 30, 2013 for the Kentucky Retirement Systems which was dated April of 2014. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. 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, 2015 was estimated to not exceed $1,729 million for the Kentucky Retirement Systems and $2,889 million for KTRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2015. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities increased from the $1,661.8 million reported in the Kentucky Retirement Systems' 2014 CAFR. The actuarial estimates for KTRS increased from the $2,687 million reported in their 2014 CAFR.

The Kentucky Retirement Systems' state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2015 was $153.3 million; $161.2 million was contributed. The KTRS state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2015 was $107.7 million; $169.1 million was contributed. The state supported portion of the OPEB for Fiscal Year ended June 30, 2015 had funding percentages of 43.2 percent for the Kentucky Retirement Systems and 20.3 percent for KTRS.

Recent Changes to State Retirement Systems. On December 3, 2015 the Kentucky Retirement Systems Board of Trustees was presented with the reports on the annual actuarial valuation of KERS, CERS and the SPRS, as prepared by Cavanaugh Macdonald as of June 30, 2015. The assumptions employed in the report included a reduction in the actuarially assumed investment rate of return from 7.75

percent to 7.50 percent. The Kentucky Retirement Systems board also adopted Resolution No. 4-2015, effective July 1, 2015. This resolution further reduced the assumed rate of return on investments for the KERS Non-Hazardous and SPRS plans from 7.5 percent to 6.75 percent. The new rate of 6.75 percent will be utilized for the annual valuation conducted as of June 30, 2016 on the KERS Non-Hazardous and SPRS plans. According to Cavanaugh Macdonald, the 6.75 percent investment rate of return assumption would have resulted in a combined increase in UAAL for the KERS Non-Hazardous and SPRS plans of approximately $983 million had the assumption been applied to June 30, 2015 results. However, KRS 61.565(3)(a) requires the Kentucky Retirement Systems board to determine the normal contribution and actuarially accrued liability contribution rates on the basis of the most recent annual actuarial valuation preceding the July 1 of each even numbered year. As a result of KRS 61.565(3)(a), the 7.5 percent rate was applied to the Board's determination of the normal contribution and actuarially accrued liability contribution rates for Fiscal Years 2017 and 2018. Additionally, KRS 61.565(3)(c) provides in effect that the Kentucky Retirement Systems board has no authority to amend contribution rates as of July 1 of an odd numbered year. The 2016 Kentucky General Assembly convened in a regular legislative session that began in January 2016 and ends in April 2016.

House Bill 62 from the 2015 Regular Session of the General Assembly, which was signed by the Governor on March 20, 2015, provides that certain employers participating in KERS and CERS may elect to voluntarily cease participation in the system. The law further details and establishes requirements for voluntary cessation of participation by the employer including requirements to (i) adopt a resolution ceasing participation, which shall apply to all employees of the employer, and submission of the resolution to the Kentucky Retirement Systems' board; (ii) pay for an actuarial cost study to determine the cost to the employer for discontinuing participation; (iii) offer an alternative retirement plan to impacted employees; and (iv) pay the Kentucky Retirement Systems for the full actuarial cost of discontinuing participation either in a lump-sum payment or in installments under the terms established by the board. Any employees hired after the employer ceases participation will not participate in KERS or CERS, and existing employees participating in the Kentucky Retirement Systems will not earn benefits after the employer has ceased participation, but will be vested for those benefits accrued prior to the employer's cessation date. The same rules apply to any agency required to involuntarily cease participation in KERS or CERS in the event the board has determined the employer is no longer eligible to participate in a governmental plan or has failed to comply with the provisions of KRS 61.510 to 61.705 or 78.510 to 78.852. This legislation does not have a retroactive effect on any pending litigation.

Senate Bill 2 from the 2013 Regular Session of the General Assembly, which 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 states that new employees hired after January 1, 2014 will be placed in a Hybrid Cash Balance Plan. This plan has a guaranteed rate of return of 4.0 percent for both hazardous and non-hazardous employees, plus 75 percent of the investment return in the plan in excess of 4.0 percent to the employee. Hazardous employees' employer contribution is set at 7.5 percent of salary and non-hazardous employees have an employer contribution of 4.0 percent. The bill further provides for a 1.5 percent COLA only if it is prefunded and appropriated by the General Assembly or if the pension plan is 100 percent funded. New employees as of January 1, 2014 are no longer party to the inviolable contract, and the General Assembly has the right to amend, suspend or reduce benefits with future legislation. The bill additionally makes provisions for a Health Savings Account as an insurance option for retirees, requires the General Assembly to start fully funding the ARC beginning in Fiscal Year 2015, and resets to a 30 year amortization beginning in 2015.

Financing and Refinancing of Certain KTRS Obligations. On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of "funding notes" and authorizing funding notes to be issued by ALCo for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the "Funding

Obligation"). This authorization, together with certain authorizations in the Budget Act, permits ALCo to issue funding notes in an amount not to exceed $875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its $467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its $269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. Pursuant to authorization granted in the State Budget for Fiscal Years 2013-2014, ALCo issued its $153.290 Funding Notes General Fund First Series (Taxable) in February, 2013 to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2013 and 2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

Litigation Potentially Impacting KERS. 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 on 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. As a result of the issues pending on appeal, KERS did not file a proof of claim. On October 6, 2014, Seven Counties filed a formal reorganization plan with the Bankruptcy Court. On October 10, 2014, KERS filed a direct appeal of the May 30, 2014 ruling with the United States Sixth Circuit Court of Appeals. On December 30, 2014, the Sixth Circuit determined that a direct appeal was not warranted and remanded the matter to the U.S. District Court for the Western District of Kentucky (the "District Court") for consideration. 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 District Court, 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 1. Denied KERS' motion to certify a question of law to the Kentucky Supreme Court, 2. Reversed the Bankruptcy Court's Determination regarding classifying KERS as a multi-employer plan and determined KERS was a multiple employer plan, 3. Affirmed the Bankruptcy Court's decision in all other aspects; and 4. Denied Seven Counties cross-appeal. On April 21, 2016 the KRS Board of Trustees voted to appeal the decision to the United States Court of Appeals for the Sixth Circuit and KRS expects to file this Notice of Appeal by May 2, 2016.

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.

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 was established by the Series 2008 Bond Resolution and the Resolution maintains a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into the Bond Service Fund all or such portion of the Revenues as will be sufficient to pay when due the principal of, premium, if any, and interest on all Bonds Outstanding under the Bond Resolutions at or before their maturity. Accrued interest on the Series 2016 Bonds, if any, will be deposited to a Project No. 113 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 2016 Bonds to be held and maintained by the Trustee. From the proceeds of the Series 2016 Bonds and other available moneys, if any, deposited by the Commission at the time of delivery of the Series 2016 Bonds, there will be deposited therein an amount sufficient to pay certain expenses in connection with the issuance of the Series 2016 Bonds. On payment of all duly authorized expenses incident to the issuance

of such Series 2016 Bonds, any remaining balance in the Cost of Issuance Fund will be transferred to the Bond Fund.

3. Debt Service Reserve Fund. The Resolution maintains the Reserve Fund established under the Series 2008 Resolution, in which there shall be maintained a balance equal to the Reserve Fund Requirement as of the date of issuance of the Series 2016 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 2016 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 2016 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, 2016. The Commission has granted the Lessee (or the Cabinet or the State Agency) the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the Lease relating to the Bonds ends June 30, 2034 (the final maturity date permissible for any Series 2016 Bonds to be issued by the Commission for the Project being April 1, 2033) and for each such renewal term, if renewed therefor, the State Agency is obligated to pay, and agrees under the Lease that in the event of such renewal must pay or cause to be paid, to the Commission, as rent for such biennium each Debt Servicing Obligation which comes due on each payment date during the renewal term for such period, secured by amounts paid by the State Agency from Revenues Available for Debt Service; provided, that the State Agency shall cause such rent to be deposited on the dates and in the manner set forth in the Lease. In the event that either the Cabinet or the State Agency elects to renew the Lease for an ensuing renewal term, but not the other, then the renewing entity shall be considered to be the sole Lessee thereunder; provided, however, that if the State Agency elects not to renew the Lease, then the Cabinet shall have the right under the Bond Resolutions to substitute another state agency of the Commonwealth as co-Lessee under the Lease or to enter into a sublease or another agreement with any such state agency.

Payments for the rent becoming due during the term ending June 30, 2016, and for each renewal term, if the Lease shall be renewed for any such renewal term, shall be made or caused to be made by the State Agency to the Commission on each debt servicing date during each such term, in such minimum amounts as will enable the Commission, solely from such source, to pay its Debt Servicing Obligation for the Project; provided, that the Lessee shall cause such rent to be deposited on the dates and in the manner set forth in the Lease. The primary source of the payment of rent shall be from payments made by the State Agency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Events of Default and Remedies. Events of default under the Lease include a default in the due and punctual payment of any rent or a default in the performance of any covenants therein not remedied within 30 days (but the Lessee shall not be deemed to be in default if the Lessee commences to remedy said defaults within said thirty (30) day period, and proceeds to and does remedy said default with due diligence).

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the Cabinet and the State Agency terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the Lessee's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the Lessee under the Lease. The owners have no security interest in any properties constituting the Project or any amounts derived therefrom.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Series 2016 Bonds the ratings of "A1", "A" and "A+," respectively. Such ratings reflect only the views of the respective rating agencies. An explanation of the significance of the ratings given by Moody's may be obtained from Moody's Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 553-0300; an explanation of the ratings given by S&P may be obtained from Standard & Poor's Ratings Services at 55 Water Street, New York, New York 10041, (212) 438-2124; and an explanation of the rating given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500. There is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Series 2016 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 D. Certain legal matters will be passed upon for the Commission by their counsel.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Series 2016 Bonds, or in any way contesting or affecting the validity of the Series 2016 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 2016 Bonds or due existence or powers of the Commission.

TAX EXEMPTION

General

In the opinion of Bond Counsel for the Series 2016 Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Series 2016 Bonds is excludible from gross income for federal income tax purposes and interest on the Series 2016 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 2016 Bonds is of the opinion that interest on the Series 2016 Bonds is exempt from income taxation by the Commonwealth and the Series 2016 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 2016 Bonds is set forth in EXHIBIT D.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Series 2016 Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the Series 2016 Bonds will not be or become includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Series 2016 Bonds being includable in gross income for Federal income tax purposes and such inclusion could be retroactive to the date of issuance of the Series 2016 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 2016 Bonds may adversely affect the Federal tax status of the interest on the Series 2016 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 2016 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 2016 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 2016 Bonds is excludible from gross income for Federal income tax purposes and that interest on the Series 2016 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 2016 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 2016 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 2016 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 2016 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 2016 Bonds on the tax liabilities of the individual or entity.

The Commission has not designated the Series 2016 Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

Tax Treatment of Original Issue Discount

The Series 2016 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 sold as a Discount 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 excludible 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 2016 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 2016 Bond the interest on which is excludible from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that Series 2013 Bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining Bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Series 2016 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 2016 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

SALE BY COMPETITIVE BIDDING

The Series 2016 Bonds were awarded by competitive sale on May 12, 2016 to J.J.B. Hilliard, W.L. Lyons, LLC (the "Underwriter") at an aggregate purchase price of $11,607,337.72 (which is equal to the principal amount of the Bonds plus net original issue premium of $845,293.25 and less underwriting discount of $87,955.53). The Underwriter has advised the Commission that it intends to make a public offering of the Bonds at the initial public offering yields set forth on the cover page hereof, provided, however, that the Underwriter has reserved the right to make concessions to dealers and to change such initial public offering prices as the Underwriter shall deem necessary in connection with the marketing of the Bonds.

FINANCIAL ADVISOR

FirstSouthwest is employed as financial advisor to the Commission in connection with the issuance of the Series 2016 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2016 Bonds is contingent upon the issuance and delivery of the Series 2016 Bonds. FirstSouthwest has agreed, in its financial advisory contract, not to bid for the Series 2016 Bonds, either independently or as a member of a syndicate organized to submit a bid for the Series 2016 Bonds. FirstSouthwest, 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 2016 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

VERIFICATION

Grant Thornton LLP (the "Verifier"), has verified, from the information provided to them, the mathematical accuracy, as of the date of the closing of the Series 2016 Bonds, of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriters' schedules, to be held in escrow, will be sufficient to pay the principal of, premium, if any, and interest on the Prior Bonds, when due, and (ii) the computations of yield on both the securities and the Series 2016 Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Series 2016 Bonds is excludible from gross income of the owners thereof for federal income tax purposes. The Verifier will express no opinion on the assumptions provided to them, nor as to the exemption from taxation n of the interest on the Series 2016 Bonds.

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 2016 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 2016 Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Bondholders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the securities, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person); (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository and the Commission's filings with the MSRB will be in accordance with the MSRB's Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The Commonwealth is providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities, including timely notices of changes in the Commission's underlying ratings affecting its outstanding securities. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12. The Commonwealth and the Commission have recently learned that in some instances prior rating changes on certain securities issued by the Commonwealth and its agencies, including the Commission, resulting from rating downgrades on certain bond insurers, were not the subject of material event notices, due, in part, to the lack of any direct notification to the Commonwealth of the specific rating impact on such particular securities of the Commonwealth and its agencies. The Commonwealth and the Commission have taken necessary actions to assure compliance with Rule 15c2-12 with respect to such events. Additionally, the Commonwealth and the Commission are putting procedures in place to assure that future material event notices will be timely filed with respect to such events.

OTHER MATTERS

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

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

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

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: /s/ Ryan Barrow
Ryan Barrow
Executive Director
Office of Financial Management
(Secretary to the Commission)

KENTUCKY RIVER AUTHORITY

By: /s/ Martha Clare Sipple
Martha Clare Sipple
Chairperson

EXHIBIT A

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY COMMONWEALTH DEBT MANAGEMENT

Management

The Office of Financial Management ("OFM"), Finance and Administration Cabinet, has central responsibility for the issuance, management, review and approval of all debt issued by the Commonwealth and its agencies. Table I lists active issuing entities. OFM is also responsible for the coordination and monitoring of cash needs relative to debt activity, debt service payments and the development of a comprehensive long-term debt plan. OFM serves as primary staff to the Commission, ALCo, 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 issues covenant that in the event of a shortfall the issuer will request from the Governor and the General Assembly sufficient amounts to pay debt service. Certain Kentucky Higher Education Student Loan Corporation bonds, Kentucky Housing Corporation Multi-Family conduit bonds, Kentucky Infrastructure Authority Governmental Agencies Program bonds, and Kentucky Infrastructure Authority Wastewater and Drinking Water Revolving Fund Revenue bonds are not moral obligation debt.

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS*
State Property and Buildings Commission ("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.	Aa3/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	Aa2/AA-/A+
The State Universities (consisting of nine)	**KRS 56.495** Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation ("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.	Aa3/A/A+ (Appropriation) Aaa/AAA/AAA (Leverage Loan)
Kentucky Higher Education Student Loan Corporation ("KHESLC")	**KRS 164A** Make guaranteed student loans to residents of the state to attend postsecondary institutions and to make loans to students attending postsecondary schools within the state.	Limited to $5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission ("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.	Aa3
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//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.

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 Series 2010A and Series 2012A 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 from "Aa3" to "A1" 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 from "A1" to "A2" and changed the outlook from negative to stable.

- On September 3, 2015, Standard & Poor's downgraded the Commonwealth's issuer credit rating to "A+" from "AA-" and its rating on the Commonwealth's appropriation debt to "A" from "A+". At the same time, Standard & Poor's has lowered its rating on debt backed by the commonwealth state intercept programs for schools and university to "A" from "A+" and on lease debt issued by various Kentucky county public property corporations backed by the appropriations from Administrative Office of the Courts to "A-" from "A". The outlook for all is stable.
- On March 4, 2016 , Standard & Poor's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations from "AA" to "AA-" and changed the outlook from Negative to Stable

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EXHIBIT B

FINANCIAL STATEMENTS OF KENTUCKY RIVER AUTHORITY

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REPORT OF THE AUDIT OF THE KENTUCKY RIVER AUTHORITY

For The Fiscal Year Ended June 30, 2015

ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

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, 2015, 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

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

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.

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, 2015, 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.

Change in Accounting Principle

As discussed in Note 12, the Authority implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* during fiscal year 2015. The implementation of this standard resulted in a prior period adjustment to the Authority's Net Position at July 1, 2014. 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.

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

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015, 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,

Adam H. Edelen
Auditor of Public Accounts

October 28, 2015

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

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, 2015 and June 30, 2014, 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 $38,335,799, of which $11,040,546 is classified as restricted.
- Current year operating expenses totaled $2,777,778, an increase of $174,126 from FY 2014.
- Current year fee income totaled $4,234,600, an increase of $31,633 from FY 2014.
- Current year state appropriations totaled $251,195, an increase of $4,474 from FY 2014.
- At June 30, 2015, balances remaining on commitments total approximately $7,252,521 (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 $29,254,792 and include the net pension liability. This is the first year the pension liability has been shown on the Statement of Net Position, as required by Governmental Accounting Standards Board Statement No. 68, effective for fiscal years beginning after June 15, 2014. 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, 2014. 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, 2015
(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 $38,335,799 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, 2015 and June 30, 2014, derived from the Statement of Net Position for the respective years with restatement to June 30, 2014, for implementation of Governmental Accounting Standards Board Statement No. 68.

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

	2015	2014 (As Restated)	Percentage Increase (Decrease)
Current assets	$ 13,208	$ 18,303	(27.84%)
Capital assets, net	54,295	50,682	7.13%
Total assets	67,503	68,985	(2.15%)
Deferred Outflows of Resources	119	80	48.75%
Current liabilities	1,661	2,509	(33.80%)
Non-current liabilities	27,594	28,631	(3.62%)
Total liabilities	29,255	31,140	(6.05%)
Deferred Inflows of Resources	31		
Investment in capital assets, net of related debt	27,686	22,083	25.37%
Restricted for capital projects	11,040	16,180	(31.77%)
Unrestricted	(390)	(338)	(15.38%)
Net Position	$ 38,336	$ 37,925	1.08%

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 2015, the Authority completed $5,144,668 of construction in progress, purchased one additional capital asset, and disposed of two capital assets. Depreciation expense for FY 2015 totaled $1,537,188.

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Current liabilities consist primarily of general accounts payable and the current portion of leases payable. The decrease of $847,649 from 2014 is the result of a decreased current portion of accounts payable. A large portion of two ongoing capital projects was completed.

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. In total (both the current and non-current portions), the compensated absences liability increased slightly during FY 2015. The net pension liability represents the Authority's portion of the total pension liability based on the employer allocation percentage.

As of June 30, 2015, the Authority's net position is primarily invested in capital assets, net of related debt in the amount of $27,685,577 and restricted for capital projects in the amount of $11,040,546. The remaining portion is unrestricted in the amount of ($390,324). 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, 2015
(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

	2015	2014 (As Restated)	Percentage Increase (Decrease)
Operating revenues:			
Fee income	$ 4,235	$ 4,203	0.76%
Other income	12	10	20.00%
State appropriations	251	247	1.62%
Total operating revenues	4,498	4,460	0.85%
Operating expenses:			
Compensation and benefits	566	586	(3.41%)
Pension expense	183		
Rentals	22	25	(12.00%)
Professional fees	104	36	188.89%
Intergovernmental grants	88	99	(11.11%)
Other grants	142	152	(6.58%)
Repairs and engineering services	41	12	241.67%
Administrative and other expenses	95	74	28.38%
Depreciation expense	1,537	1,541	(0.26%)
Total operating expenses	2,778	2,525	10.02%
Gain from operations	1,720	1,935	(11.11%)
Non-operating revenues			
Income from investments	13	25	(48.00%)
Other revenues		13	(100.00%)
Total non-operating revenues	13	38	(65.79%)
Non-operating expenses			
Interest expense	1,322	1,267	4.34%
Total non-operating expense	1,322	1,267	4.34%
Change in net position	$ 411	$ 706	(41.78%)

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015
(Continued)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The Authority's net position increased $411,295 during the current fiscal year. During FY 2014, the Authority's net position increased $627,041.

State appropriations increased $4,266 during the current fiscal year from FY 2014.

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

	2015	2014	Percentage Increase (Decrease)
Net cash provided by (used in)			
Operating Activities	$ 3,355	$ 2,954	13.57%
Capital and related financing activities	(8,462)	(6,457)	31.05%
Investing Activities	13	24	(45.83%)
Net change in cash and cash equivalents	(5,094)	(3,479)	46.42%
Cash and cash equivalents, beginning of year	17,217	20,696	(16.81%)
Cash and cash equivalents, end of year	$ 12,123	$ 17,217	(29.59%)

KENTUCKY RIVER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015
(Continued)

CAPITAL ASSETS ADMINISTRATION

The following table summarizes the changes in capital assets between FY 2015 and 2014.

	2015	2014	Percentage Increase (Decrease)
Capital Assets not being depreciated			
Land	$ 546,493	$ 546,493	0.00%
Construction in Progress			
Dam 8	8,089,258	5,676,001	42.52%
Locks 1 and 2	3,913,587	1,189,919	228.90%
Lock 4 Lock House Renovation	7,743		100%
Capital Assets being depreciated			
Locks and Dams	51,936,405	51,936,405	0.00%
Lock and Dam Buildings	432,010	432,010	0.00%
Equipment	174,731	170,577	2.44%
Office Equipment	22,406	22,406	0.00%
Vehicles	78,567	78,567	0.00%
Accumulated Depreciation	(10,905,829)	(9,370,662)	16.38%
Capital Assets, net	$ 54,295,371	$ 50,681,716	7.13%

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

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During FY 2015 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 0.337% lower in FY 15 over the prior year. Tier II water use was 1% higher in FY 15 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:

- Kentucky River Locks 1 through 4 opened for navigation to recreational boaters on May 22, 2015. Boaters can travel unimpeded from the Ohio River, up the Kentucky River as far as Lock and Dam 5 and vice-versa. In all, 82 miles of the Kentucky River are once again navigable from the Ohio River.

- The Dam 8 reconstruction project in Jessamine County is ongoing but due to abnormal amounts of rainfall in the past two years, the days working on the river have been limited. The estimated completion date is December 25, 2015. The new dam will replace the existing 114 year old dam that holds the water supply for Lancaster and Nicholasville.

- The Authority started the process to renovate an existing lockmaster house at Lock and Dam 4 in Frankfort, Kentucky. The Authority has received the approval for the renovation from the Army Corps of Engineers and the Kentucky Heritage Council. The Authority plans to have all operations centrally located at the Lock and Dam 4 property.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

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FINANCIAL STATEMENTS

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KENTUCKY RIVER AUTHORITY
STATEMENT OF NET POSITION

June 30, 2015

Assets		
Current Assets:		
Cash and cash equivalents		
Unrestricted	$	1,082,811
Restricted		11,040,546
Accounts receivable		1,084,297
Total Current Assets		13,207,654
Capital assets, net		54,295,371
Total Assets		67,503,025
Deferred Outflows of Resources		118,599
Liabilities		
Current Liabilities:		
Accounts payable		418,548
Accrued payroll		60,479
Compensated absences		72,202
Lease Payable		1,110,000
Total Current Liabilities		1,661,229
Non-Current Liabilities:		
Net pension liability		2,414,676
Lease payable		25,139,046
Compensated absences		39,841
Total Non-Current Liabilities		27,593,563
Total Liabilities		29,254,792
Deferred Inflows of Resources		31,033
Net Position		
Invested in capital assets, net of related debt		27,685,577
Restricted for capital projects		11,040,546
Unrestricted		(390,324)
Total Net Position	$	38,335,799

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, 2015

Operating Revenues:	
Fee income	$ 4,234,600
Other income	11,989
State appropriations	251,195
Total Operating Revenues	4,497,784
Operating Expenses:	
Compensation and benefits	566,431
Pension Expense	182,491
Rentals	21,528
Professional fees	104,214
Intergovernmental grants	87,805
Other grants	142,380
Repairs and engineering services	41,280
Administrative and other expenses	94,461
Depreciation expense	1,537,188
Total Operating Expenses	2,777,778
Income from Operations:	1,720,006
Non-Operating Revenues (Expenses)	
Investments income	13,293
Interest expense	(1,322,004)
Total Non-Operating Revenues:	(1,308,711)
Change in Net Position	411,295
Net Position at July 1, 2014 (As Restated - Note 12)	37,924,504
Net Position at June 30, 2015	$ 38,335,799

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

KENTUCKY RIVER AUTHORITY
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	$ 4,248,141
Cash payments for personnel expenses	(759,864)
Cash payments for goods and services	(286,859)
Cash payments from other sources	251,195
Cash payments to other sources	(97,022)
Net cash provided by (used in) operating activities:	3,355,591
Cash flows from capital and related financing activities:	
Construction related to capital assets	(6,066,461)
Principal paid on debt service	(1,073,750)
Interest paid on debt service	(1,322,004)
Net cash provided by (used in) capital and related financing activities:	(8,462,215)
Cash flows from investing activities:	
Income from investments	13,293
Net cash provided by (used in) investing activities	13,293
Net change in cash and cash equivalents	(5,093,331)
Cash and cash equivalents at July 1, 2014	17,216,688
Cash and cash equivalents at June 30, 2015	$ 12,123,357
Reconciliation of income from operations to net cash flows from operating activities:	
Gain from operations	$ 1,720,006
Depreciation	1,537,188
(Increase) decrease in operating assets:	
Accounts receivable	1,552
(Increase) decrease in deferred outflows of resources	(38,709)
Increase (decrease) in operating liabilities:	
Accounts payable not capital	6,277
Accrued payroll	(7,981)
Compensated absences	34,657
Net pension liability	71,568
Increase (decrease) in deferred inflows of resources	31,033
Net cash provided by (used in) operating activities:	$ 3,355,591

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

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KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

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, 2015
(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 purposes of the statement of cash flows, the Authority considers all funds on deposit with the Commonwealth's State Treasury to be cash and cash equivalents.

Accounts Receivable

Accounts receivable consist of revenues earned as of year-end, but not yet received. The direct write-off method is used for uncollectible fee accounts. This method is not in accordance with generally accepted accounting principles, but the departure does not have a material effect on the financial statements. Based on historical collection experience and a review of existing receivables, two fee accounts receivable totaling $1,266 were written-off during FY 2015.

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, 2015
(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.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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

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

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

At June 30, 2015, the fair market value of Kentucky River Authority's pooled deposits with the Commonwealth totaled $12,123,357.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital Assets not being depreciated:				
Land	$ 546,493	$	$	$ 546,493
Construction in Progress				
Dam 8	5,676,001	2,413,257		8,089,258
Locks 1 & 2	1,189,919	2,723,668		3,913,587
Lock 4 lock house renovation		7,743		7,743
Total capital assets not being depreciated:	7,412,413	5,144,668		12,557,081
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			432,010
Vehicles	78,567			78,567
Equipment	192,983	6,175	(2,021)	197,137
Total other capital assets	52,639,965	6,175	(2,021)	52,644,119
Total Capital assets	60,052,378	5,150,843	(2,021)	65,201,200
Accumulated Depreciation	(9,370,662)	(1,537,188)	2,021	(10,905,829)
Capital Assets, net	$ 50,681,716	$ 3,613,655	$	$ 54,295,371

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 3 - Capital Assets (Continued)

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.

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, 2015, the Authority's estimated liability for accrued annual and compensatory leave was $112,043.

The estimated liability and change in the estimated liability for compensated absences for the Authority as of June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	$ 77,386	$ 119,934	$ 85,277	$ 112,043	$ 72,202

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.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 5 - Intergovernmental Activity

The Authority leases office space on a monthly basis from the Office of Capital Plaza Operations within the Commonwealth's Finance and Administration Cabinet. Rent expense during FY 2015 under this rental agreement totaled $18,441. The lease can be terminated on 30 days notice either by the Authority or the Office of Capital Plaza Operations.

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. KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature. For FY 2015, the Authority is required by statute to contribute 38.77% of the covered employees' salaries.

At June 30, 2015, the Authority reported a liability of $2,414,676 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2014, 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 0.026914%. 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 KRS 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.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

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, 2015
(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, 2015
(Continued)

Note 6 - Retirement Plans (Continued)

Actuarial Valuation

State Contribution	26.79%
Member Contribution	5.00% Tier 1 6.00% Tier 2 and 3
Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed
Remaining Amortization Period	29 years
Asset Valuation Method	Five-year smoothed market
Investment Rate of Return	7.75%
Inflation Rate	3.50%
Project Salary Increases	4.50%
Mortality Tables	1983 Group Annuity Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Table for all other members. The Group Annuity Mortality Table set forward five years is sued for the period after disability retirement.
Date of Experience Study	The period July 1, 2005 - June 30, 2008

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 2005 through 2008, is outlined in a report dated August 25, 2009. 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, 2015
(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 Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.5%
Private Equity	7%	11.25%
Real Estate	5%	7.0%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non U.S. Fixed Income	5%	5.5%
Commodities	5%	7.75%
Treasury Inflation Protected Securities	5%	5.0%
Cash	1%	3.25%
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 29 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.

June 30, 2014, is the actuarial valuation date upon which the total pension liability is based. No update procedures were used to determine the total pension liability. 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 2116.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 6 - Retirement Plans (Continued)

Actuarial Valuation (Continued)

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.75%, 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 (6.75%) or one percentage point higher (8.75%) :

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Kentucky River Authority's Proportionate Share	$2,716,442	$2,414,676	$2,142,606

Deferred Inflows/Outflows of Resources

For the year ended June 30, 2015, the Authority recognized pension expenses of $182,491 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	$	$
Changes in assumptions		
Net difference between projected and actual earnings on investments		31,033
Change in proportionate share		
Contributions subsequent to the measurement date	118,599	
Total	$ 118,599	$ 31,033

The $118,599 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, 2016. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows:

2016	$110,841
2017	(7,758)
2018	(7,758)
2019	(7,758)

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 6 - Retirement Plans (Continued)

KERS Non-Hazardous Membership

	2014 KERS Non-Hazardous
Retirees and beneficiaries receiving benefits	38,022
Inactive plan members	41,213
Active plan members	40,500
Total	119,735

Pension Plan Fiduciary Net Position

KRS' fiduciary net position has been determined on the same basis used by KRS. KRS' 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 KRS' 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 KRS' 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, 2015, six customers accounted for approximately 82.3% of the Tier II fees earned during the year. One of these six customers accounted for approximately 36.6%.

Note 8 - Commitments

Prior to year-end, the Authority had ongoing projects on Lock and Dams 1, 2, and 8. The balance remaining on these commitments as of year-end totaled approximately $7,252,521.

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.

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.

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 10 - Long-Term Obligations (Continued)

The Series 2008 Agency Fund Revenue Bonds (Project No. 91) have a rate stabilization fund and a debt service reserve fund in the amount of $1,609,623. The cash in these two funds will be used towards the principal balance in 2028 and 2029.

The Series 2013 Agency Fund Revenue Bonds (Project No. 105) have a debt service reserve fund of $1,101,331 and that cash will be used towards the principal balance in 2033.

Changes in long-term liabilities for the year ended June 30, 2015, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lease Payable Total	$ 27,322,796	$	$ 1,073,750	$ 26,249,046	$ 1,110,000

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
6/30/2016	$ 626,250	$ 696,100	$ (65,440)	$ 1,256,910
6/30/2017	653,750	665,950	(65,440)	1,254,260
6/30/2018	688,750	633,050	(65,440)	1,256,360
6/30/2019	725,000	596,634	(65,440)	1,256,194
6/30/2020	766,250	554,947	(65,440)	1,255,757
6/30/2021	811,250	510,888	(65,440)	1,256,698
6/30/2022	857,500	464,241	(65,440)	1,256,301
6/30/2023	907,500	414,934	(65,440)	1,256,994
6/30/2024	958,750	362,753	(65,440)	1,256,063
6/30/2025	1,013,750	307,625	(65,440)	1,255,935
6/30/2026	1,070,000	249,334	(55,080)	1,264,254
6/30/2027	1,131,250	187,809	(24,000)	1,295,059
6/30/2028	525,377	122,763	(24,000)	624,140
6/30/2029		53,907	(18,000)	35,907
	$ 10,735,377	$ 5,820,935	$ (775,480)	$ 15,780,832

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(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
6/30/2016	$ 483,750	$ 615,081	$ (38,400)	$ 1,060,431
6/30/2017	497,500	605,406	(38,400)	1,064,506
6/30/2018	507,500	595,456	(38,400)	1,064,556
6/30/2019	517,500	585,306	(38,400)	1,064,406
6/30/2020	530,000	572,331	(38,400)	1,063,931
6/30/2021	550,000	551,131	(38,400)	1,062,731
6/30/2022	568,750	530,544	(38,400)	1,060,894
6/30/2023	583,750	514,931	(38,400)	1,060,281
6/30/2024	597,500	503,070	(38,400)	1,062,170
6/30/2025	610,000	489,050	(38,400)	1,060,650
6/30/2026	632,500	469,188	(38,400)	1,063,288
6/30/2027	661,250	443,888	(38,400)	1,066,738
6/30/2028	683,750	419,138	(38,400)	1,064,488
6/30/2029	1,032,500	396,888	(44,400)	1,384,988
6/30/2030	2,061,250	360,700	(62,400)	2,359,550
6/30/2031	2,133,750	289,631	(62,400)	2,360,981
6/30/2032	2,231,250	188,278	(751,114)	1,668,414
6/30/2033	631,169	82,294	(713,463)	
	$ 15,513,669	$ 8,212,311	$ (2,132,977)	$ 21,593,003

KENTUCKY RIVER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015
(Continued)

Note 11 - Net Position Restricted For Capital Projects

The Authority has a Net Position Restricted for Capital Projects of $11,040,546. This amount consists of solely restricted cash. The restricted cash consists of accounts restricted to maintenance and construction of capital assets.

Note 12 - Prior Period Adjustment

The Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions for the current reporting period, fiscal year ended June 30, 2015. This statement establishes standards for reporting deferred outflows, deferred inflows, pension expense, and net pension liability for the Kentucky River Authority's proportionate share of the KERS Non-Hazardous Plan. The effect of this implementation was a decrease of $2,263,218 in Net Position as of July 1, 2014.

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KENTUCKY RIVER AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

Schedule of Proportionate Share of the Net Pension Liability

	2015
Proportion of the net pension liability (asset)	0.026914%
Proportionate share of the net pension liability	$ 2,414,676
Covered-employee payroll	$ 424,567
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	568.74%
Plan fiduciary net position as a percentage of the total pension liability	22.32%

Schedule of Contributions

	2015
Actuarially required contribution	$ 140,159
Contribution in relation to the actuarial contribution	(79,890)
Contribution deficiency (excess)	$ 60,269
Covered-employee payroll	$ 424,567
Contribution as a percentage of covered-employee payroll	18.82%

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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*

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Adam H. Edelen
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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report thereon dated October 28, 2015.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. 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.

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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*
(Continued)

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*.

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,

Adam H. Edelen
Auditor of Public Accounts

October 28, 2015

EXHIBIT C

BOOK-ENTRY-ONLY SYSTEM

The Series 2016 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 2016 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 2016 Bonds under the Resolution.

The following information about the book-entry-only system applicable to the Series 2016 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 2016 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 2016 Bond certificate will be issued for each maturity of the Series 2016 Bonds, in the aggregate principal amount of the Series 2016 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 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 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 2016 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 2016 Bonds, except in the event that use of the book-entry-only system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 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 2016 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 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 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 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2016 Bond documents. For example, Beneficial Owners of Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 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 2016 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

The Commission cannot and does not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute payments of debt service on the Series 2016 Bonds made to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

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

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EXHIBIT D

FORM OF BOND COUNSEL OPINION FOR THE SERIES 2016 BONDS

[Date of Delivery]

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

Re: $10,850,000 Commonwealth of Kentucky State Property and Buildings Commission Agency Fund Revenue Refunding Bonds, Project No. 113

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 Refunding Bonds, Project No. 113 in the aggregate principal amount of $10,850,000 (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"), , and in accordance with the bond resolution of the Commission adopted on March 10, 2016 (the "Resolution") for the purpose of (i) refunding the Commission's Outstanding Agency Fund Revenue Bonds, Project No. 91 (the "Project"); and (ii) 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 Second Supplemental Lease Agreement dated as of May 1, 2016 (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 Refunding Bonds, Project No. 113 (the "Series 2016 Bonds").

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

We have also examined records relating to the authorization and original issuance of the Bonds, including a specimen Bond and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied on certificates of officials of the Commonwealth of Kentucky (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, 2016, with the right to renew the Lease for additional successive terms of two years until the Bonds and the interest thereon have been paid and discharged.

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

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

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

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

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

Very truly yours,

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