Book-Entry-Only **Ratings: See "RATINGS" herein**
NEW ISSUE

In the opinion of Bond Counsel for the 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 TREATMENT," interest on the Bonds is excludible 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 Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX TREATMENT" herein for a more complete discussion, and EXHIBIT F –"FORM OF BOND COUNSEL OPINION FOR THE BONDS."

$44,555,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 114

Dated: Date of Delivery **Due: As shown on the inside cover**

The Revenue Bonds, Project No.114 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof. The 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 Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent.

The Bonds mature on the dates and in the principal amounts, bearing semiannual interest and have the prices and/or yields shown on the inside cover.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption".

The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Kentucky Community and Technical College System (the "State Agency") pursuant to a Bond Resolution adopted on April 14, 2016 (the "Resolution"), to (i) pay the costs of the Project (as defined herein) and (ii) pay costs of issuing the Bonds.

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A LEASE (AS DESCRIBED AND DEFINED HEREIN) WITH THE STATE AGENCY. See "SECURITY FOR THE 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 Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Stites & Harbison, PLLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about June 16, 2016, in New York, New York, through the facilities of DTC, against payment therefor.

Citigroup

Raymond James	**J.J.B. Hilliard, W.L. Lyons, LLC**	**PNC Capital Markets LLC**
First Kentucky Securities Corp.	**Fifth Third Securities**	**FTN Financial Capital Markets**
	Ross Sinclaire and Associates	

Dated: May 24, 2016

$44,555,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 114

Maturity October 1	Principal Amount	Interest Rate	Price	Yield	CUSIP No.**
2016	$1,925,000	2.000%	100.412	0.580%	49151F RN2
2017	1,590,000	2.500%	102.049	0.900%	49151F RP7
2018	1,630,000	2.500%	103.273	1.050%	49151F RQ5
2019	1,670,000	2.500%	104.116	1.220%	49151F RR3
2020	1,715,000	2.500%	104.522	1.410%	49151F RS1
2021	1,760,000	2.500%	104.651	1.580%	49151F RT9
2022	295,000	2.500%	104.509	1.740%	49151F RU6
2022	1,510,000	3.000%	107.476	1.740%	49151F SJ0
2023	200,000	2.500%	103.858	1.930%	49151F RV4
2023	1,675,000	5.000%	120.785	1.930%	49151F SK7
2024	550,000	3.000%	106.971	2.080%	49151F RW2
2024	1,415,000	5.000%	122.130	2.080%	49151F SL5
2025	1,050,000	3.000%	106.341	2.240%	49151F RX0
2025	1,000,000	5.000%	123.032	2.240%	49151F SM3
2026	2,145,000	5.000%	123.376	2.420%	49151F RY8
2027	2,255,000	5.000%	122.355	2.520%*	49151F RZ5
2028	2,370,000	5.000%	121.747	2.580%*	49151F SA9
2029	2,480,000	4.000%	111.800	2.680%*	49151F SB7
2030	1,175,000	3.000%	100.000	3.000%	49151F SC5
2030	1,400,000	4.000%	110.945	2.770%*	49151F SN1
2031	2,670,000	4.000%	110.191	2.850%*	49151F SD3
2032	2,795,000	5.000%	120.144	2.740%*	49151F SE1
2033	2,940,000	5.000%	119.648	2.790%*	49151F SF8
2034	3,090,000	5.000%	119.056	2.850%*	49151F SG6
2035	3,250,000	5.000%	118.565	2.900%*	49151F SH4

* Priced to October 1, 2026 optional redemption date

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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REGARDING USE OF THIS OFFICIAL STATEMENT

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS CONTAINED IN SUCH FEDERAL ACT. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION OR AUTHORITY, NOR HAS SUCH FEDERAL OR ANY STATE SECURITIES COMMISSION OR AUTHORITY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement - The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Circular 230: THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT IS NOT INTENDED TO BE USED, AND CANNOT BE USED, BY A PURCHASER OF THE BONDS FOR THE PURPOSE OF AVOIDING FEDERAL TAX PENALTIES. EACH PURCHASER OF THE BONDS IS URGED TO CONTACT AN INDEPENDENT TAX ADVISOR CONCERNING AN INVESTMENT IN THE BONDS.

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SUMMARY

The following information is furnished solely to provide limited introductory information regarding the Commission and the Bonds and does not purport to be comprehensive. Such information is qualified in its entirety by reference to the more detailed information and descriptions appearing elsewhere in this Official Statement and should be read together therewith. The terms used in this Summary and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. The offering of the Bonds is made only by means of the entire Official Statement, including the Exhibits hereto. No person is authorized to make offers to sell, or solicit offers to buy, the Bonds unless the entire Official Statement is delivered in connection therewith.

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

The Offering The Commission is offering its $44,555,000 Agency Fund Revenue Bonds, Project No.114 (the "Bonds").

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes and a Bond Resolution adopted by the Commission on April 14, 2016 (the "Resolution"), (i) authorizing the issuance of the Bonds and (ii) approving the Lease Agreement (the "Lease") dated as of May 1, 2016, by and between the Commission and the Kentucky Community and Technical College System (the "State Agency") (the "Lease").

Use of Proceeds The Bonds are being issued to provide funds with which to (i) pay costs of the Project (as defined herein) and (iii) pay costs of issuing the Bonds.

Financing Agreement The 2014 Regular Session of the General Assembly delivered House Bill 235 (the "Budget Act"), which authorized the issuance of Agency Fund supported Commission bonds in an amount of up to $145.5 million in relation to the Kentucky Community and Technical College System BuildSmart Initiative (the "BuildSmart Initiative" or the "Initiative"). The State Agency has determined via Resolution dated December 5, 2014 to enter into a Financing Agreement which provides means to issue the Budget Act authorization in multiple issues and a source of payment for the resulting bonds. The Financing Agreement between the Commission, the Finance and Administration Cabinet and the State Agency, provides for three tranches of bonds. This offering hereby represents the first tranche ($50.250 million) with the final two tranches expected to be delivered in the fall of 2016 and spring of 2017, respectively, for the remaining Budget Act authorization ($98.25 million). See "THE PROJECT" herein and "Exhibit C – THE PROJECT" for a more complete description of the BuildSmart Initiative.

Security The Bonds and the interest thereon are payable solely from (i) the Revenues to be derived from the rental payments from the State Agency to the Commission under the Lease and (ii) the lien, pledge and charge on all assets, funds and accounts of the State Agency pledged under the Lease as security for the payment obligations of the State Agency under the Lease. See "SECURITY FOR THE BONDS" and "SUMMARIES OF THE PRINCIPAL DOCUMENTS - The Lease".

THE BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE COMMISSION. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY, OR OBLIGATION OF THE COMMONWEALTH, OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE COMMONWEALTH, BUT ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM RENTAL INCOME DERIVED FROM A LEASE WITH THE STATE AGENCY.

Features of Bonds

The Bonds will be issued in denominations of $5,000 or any integral multiple thereof, at the interest rates, yields and purchase prices set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC.

The 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 Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the "Trustee").

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

It is expected that delivery of the Bonds will be made on or about June 16, 2016, in New York, New York, through the facilities of DTC, against payment therefor.

Tax Status

Subject to compliance by the Commission, the State Agency and others with certain covenants, in the opinion of Dinsmore & Shohl LLP, Bond Counsel, under present law, interest on the 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 Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof. See "TAX TREATMENT" herein and "EXHIBIT F – FORM OF BOND COUNSEL OPINION FOR THE BONDS" for a more complete description of the opinions of Bond Counsel and additional federal tax law consequences.

Continuing Disclosure

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule") prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the State Agency will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement") with the Trustee, substantially in the form of "EXHIBIT G" attached hereto. See "CONTINUING DISCLOSURE" and "EXHIBIT G - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

General

The Official Statement speaks only as of its date, and the information contained herein is subject to change. All summaries of documents and agreements in the Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available from the Office of Financial Management.

Information	Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924; or, during the initial offering period, by contacting the representative of the Underwriters, Citigroup Global Markets Inc., 390 Greenwich Street, New York, New York 10013, (212) 723-7093. This Official Statement will be posted with the Electronic Municipal Market Access ("EMMA") system.

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OFFICIAL STATEMENT

Relating to

$44,555,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 114

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 $44,555,000 Agency Fund Revenue Bonds, Project No. 114 (the "Bonds"), issued at the request of the Kentucky Community and Technical College System (the "State Agency"), to provide funds with which to (i) pay the costs of the Project (as defined herein) and (ii) pay costs of issuing the Bonds.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission adopted a Bond Resolution (the "Resolution") on April 14, 2016, authorizing the issuance of the Bonds and approving the Lease hereinafter described.

The State Agency, as lessee, has entered into the Lease Agreement dated as of May 1, 2016, with the Commission, as lessor (the "Lease"). Payments made pursuant to the Lease will provide the Commission with amounts to pay the principal of, premium, if any, and interest on the Bonds as they become due. The term of the Lease ends October 1, 2035. The Lease requires the State Agency, to seek legislative appropriations to the State Agency to make rental payments to the Commission in accordance with the Lease.

THE BONDS ARE PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE.

Brief descriptions of the Commonwealth, the Commission, the Resolution, the Bonds, the Lease, the Project, the State Agency 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 BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof and will be dated the date of their delivery. The Bonds 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 of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360 day year of twelve 30-day months. The fifteenth day of the calendar month prior to each date established for the payment of the principal, interest or premium, if any, on the Bonds, whether by maturity, acceleration or redemption, is the record date established for the Bonds. U.S. Bank National Association, Louisville, Kentucky, is the trustee for the Bonds (the "Trustee").

Redemption

Optional Redemption. The Bonds maturing on or after October 1, 2027 are subject to optional redemption at par on October 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. The Commission has directed the Trustee to notify The Depository Trust Company ("DTC"), New York, New York that in the event less than all of any 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 Bonds of a series on a pro rata basis in the event of a partial redemption as described above.

Notice of Redemption. At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Bond shall not affect the validity of the redemption of any other Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least $1,000,000 in aggregate principal amount of the Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

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

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

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

Book-Entry-Only System

The Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by DTC. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution. For additional information about DTC and the book-entry-only system, see EXHIBIT E – "BOOK-ENTRY-ONLY SYSTEM."

SECURITY FOR THE BONDS

General

The principal of, premium, if any, and interest on the Bonds and the interest thereon are payable solely from payments of the rental payments to be made by the State Agency, as lessee of the Project, to the Commission, as lessor of the Project, under the Lease. See "SUMMARIES OF THE PRINCIPAL DOCUMENTS" herein.

The State Agency, as lessee, has entered into the Lease with the Commission in order to provide the Commission, as lessor, with amounts to pay the principal of, premium, if any, and interest on the Bonds as they become due. The Commission has pledged to the payments of its obligations with respect to the Bonds, the rental payments to be received from the State Agency under the Lease. The State Agency has pledged for the benefit of the holders of the Bonds its General Receipts (as defined below) as security for its payment obligations under the Lease.

Budgetary Process in the Commonwealth

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

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

The State Agency is required to submit its budgets to the General Assembly for approval as a part of the State Budget and the pledge of General Receipts by the State Agency is subject to appropriation.

Pledge of General Receipts

In the Lease, the State Agency has pledged its General Receipts as security for its payment obligations thereunder.

"General Receipts" means, as reported in the Financial Statements (having the designations set forth in the Financial Statements or such successor designations that may hereafter be used in Financial Statements):

(a) certain operating and non-operating revenues of the State Agency, being (i) student tuition and fees, (ii) nongovernmental grants and contracts, (iii) sales and services, (iv) other operating revenues, (v) state appropriations, and (vi) investment income;

(b) but excluding (i) any receipts described in clause (a) which are contracts, grants, gifts, donations or pledges and receipts therefrom which, under restrictions imposed in such contracts, grants, gifts, donations or pledges, or, which as a condition of the receipt thereof or of amounts payable thereunder are not available for payment of Debt Service Charges, (ii) federal grants and contracts, and (iii) state and local grants and contracts;

provided, however, that General Receipts may

(c) include any other receipts that may be designated as General Receipts from time to time by a resolution of the board of the State Agency delivered to the Trustee; and

(d) exclude any receipts not heretofore pledged, which may be designated from time to time by a resolution of the board of the State Agency delivered to the Trustee;

(e) exclude any receipts heretofore pledged, which may be designated from time to time by a resolution of the board of the State Agency delivered to the Trustee and each Rating Service then rating the Bonds, but only if each such Rating Service confirms in writing to the State Agency that the exclusion of any such receipt would not cause a reduction or withdrawal of the then current rating on any Outstanding Bonds.

State Intercept

Rent and any other payments for principal, interest and redemption premium, if any, on the Bonds (the "Lessee Debt Service Charges") shall be required to be deposited with the Trustee on the earlier of (i) the date that is ten days prior to the first days of April and October of each year during the term of the Lease, commencing October 1, 2016, and the applicable payment date (such as a redemption date) for any other Lessee Debt Service Charges, as the case may be, and (ii) the last day of any Fiscal Year that the remaining unpaid rent or other Lessee Debt Service Charges for that Fiscal Year would exceed Appropriated Funds (as hereinafter defined) yet to be disbursed to the State Agency for that Fiscal Year. On the date required for the payment of rent or the date any other Lessee Debt Service Charges are required to be deposited with the Trustee in a Bonds Debt Service Payment Account (the "Payment Account"), if sufficient funds are not deposited to the Payment Account to meet the payment of rent or other Lessee Debt Service Charges next due, the Trustee shall immediately notify the State Agency, the Commission and the Secretary of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") in writing of such event and failure to make a timely payment. Under KRS Section 164A.608, the Secretary of the Cabinet is required, within five days of the default, to apply to such payment any funds that have been appropriated to the State Agency that have not been disbursed ("Appropriated Funds"). The State Agency shall provide the Trustee and the Commission a current schedule of payment dates and amounts for Appropriated Funds (the "Schedule") (i) no later than the first day of September of each Fiscal Year; (ii) within ten days of its receipt thereof, any amendments to the Schedule; and (iii) at such other times as may be required for the Trustee and the Commission to determine compliance with the deposit requirements to the Payment Account under the Lease.

General Covenants of Lease

So long as the Lease and any additional bonds, notes or other types of debt, as described in the Lease, (collectively, the "Obligations") are outstanding under the Lease, the State Agency covenants and agrees to fix, make, adjust and collect such fees, rates, rentals, charges and other items of General Receipts so that there shall inure to the State Agency's General Receipts, in view of other revenues and resources available to the State Agency, sufficient (a) to pay rent under the Lease and all Lessee Debt Service Charges then due or to become due in the current Fiscal Year; (b) to pay any other costs and expenses payable under the Lease and (c) to pay all other costs and expenses necessary for the proper maintenance and successful and continuous operation of the State Agency; and that it will include in its budget for each Fiscal Year the amount required to be paid to the Commission as rent and additional rent under the Lease and required to be paid to the Payment Account upon the issuance of any bonds secured by the General Receipts during such Fiscal Year.

The State Agency shall from time to time determine and reflect in such budgets, the amounts from respective sources of General Receipts to be applied to meet such payments, in such manner that the amounts and times of collection meet all payments required to be made under the Lease and into the Payment Account.

Additional Bonds

No additional Obligations secured by a pledge of General Receipts on a parity with the Lease shall be issued by the State Agency unless at the time of the authentication of those Obligations no event of default exists under the Lease with respect to any covenants or obligations of the State Agency contained in the Lease or in any outstanding Obligations, and the authentication and delivery of those Obligations will not result in any such event of default. The Lease does not prohibit the State Agency from (i) issuing other indebtedness secured by and payable from the General Receipts, provided that such other indebtedness constitutes subordinated indebtedness, and (ii) issuing other indebtedness payable from, but not secured by, the General Receipts.

PLAN OF FINANCE

The proceeds of the Bonds will be used by the Commission and the State Agency (i) to pay the costs of the Project and (ii) to pay costs of issuing the Bonds.

The Project financed with the proceeds of the Bonds consists of the project described in "THE PROJECT" below. The State Agency will lease the Project from the Commission under the Lease and amounts payable under the Lease will be applied to the payment of the principal of, premium, if any, and interest on the Bonds.

SOURCES AND USES OF FUNDS FOR THE BONDS

The following table sets forth the application of the proceeds of the Bonds.

	Totals
SOURCES OF FUNDS:	
Par Amount	$44,555,000.00
Net Original Issuance Premium	6,024,204.45
TOTAL SOURCES	$50,579,204.45
USES OF FUNDS:	
Deposit to the Construction Fund	$50,250,000.00
Costs of Issuance (including Underwriters' Discount)[+]	329,204.45
TOTAL USES	$50,579,204.45

[+] Includes Underwriters' discount, legal fees, rating agency fees, printing, and miscellaneous costs.

THE PROJECT

The Kentucky Community and Technical College System BuildSmart Initiative (the "BuildSmart Initiative" or the "Initiative") is the common and collective name for a long range series of capital construction projects, which were authorized via enactment of House Bill 235 of the 2014 Regular Session General Assembly (the "Budget Act"). The Budget Act approved the issuance of Agency Fund supported Commission bonds and/or Kentucky Asset and Liability Commission notes, in an amount of up to $145.5 million, for the purpose of financing sixteen discrete projects at the State Agency's various campuses around the Commonwealth. The total scope of the Initiative is $194 million, with 75 percent being Agency Fund supported bonds ($145.5 million) and the remaining 25 percent ($48.5 million) to be matched from private and other funds raised by the State Agency.

The State Agency plans to issue the Agency Fund supported bonds, as authorized by the Budget Act, in approximately three bond issues via the Commission over the next 12 – 18 months. This offering hereby represents the first tranche ($50.250 million) with the final two expected to be delivered in the fall of 2016 and spring of 2017, respectively, for the remaining authorization ($95.25 million). The Project consists of the various public projects funded by the Bonds identified in EXHIBIT C (the "Project").

The Budget Act authorized the State Agency to establish a mandatory student fee in an amount of not more than eight dollars ($8.00) per credit hour and to apply such fee to pay debt service on the Bonds. The State Agency's Board of Regents, via the Mandatory Student Fee Resolution dated December 5, 2014, authorized the assessment and collection of a mandatory student fee in the amount of four dollars ($4.00) per credit hour on each credit hour taken by a student of the State Agency during the fiscal year beginning on July 1, 2014 and ending on June 30, 2015, and in the amount of eight dollars ($8.00) per credit hour on each credit hour taken by a student of the State Agency during the fiscal year beginning on July 1, 2015 and ending on June 30, 2016, and during each fiscal year thereafter until such time as the Bonds have been retired in accordance with the Budget Act. All mandatory student fees shall be applied solely to pay debt service on bonds or notes issued for the benefit of the State Agency in accordance with the Budget Act.

For further information regarding the BuildSmart Initiative, please see buildsmartky.com.

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 State Agency 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 Bonds offered hereby represent $50.25 million of the remaining Agency Restricted Fund authorization, with $95.25 million then remaining for the BuildSmart Initiative. See "THE PROJECT" herein and "Exhibit C – THE PROJECT" for a more complete description of the BuildSmart Initiative.

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 House Bill 303 and House Bill 304 on April 27, 2016. Together, the bills authorize bond financing for projects totaling a net amount of $1,251.24 million to support various capital initiatives of the Commonwealth with $9.0 million of previously authorized debt de-authorized in House Bill 303. Of the total authorization, $582.99 million is General Fund supported and $677.25 million is supported by Agency Restricted Fund appropriations. No additional Road Fund supported authorizations were appropriated.

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.

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
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 STATE AGENCY

Kentucky Community and Technical College System ("KCTCS") is the newest postsecondary education institution in the Commonwealth. KCTCS was created by The Kentucky Postsecondary Education Improvement Act of 1997 (House Bill 1). It is comprised of 16 colleges with more than 70 campuses located throughout the Commonwealth. KCTCS colleges are strategically located to provide accessible education and workforce training that is relevant and responsive to the needs of Kentucky's students, business and industry leaders, and the communities they serve.

See additional information on KCTCS in EXHIBIT A and the audited financial statements of KCTCS for the Fiscal Years ended June 30, 2014 and June 30, 2015 in EXHIBIT B.

THE COMMONWEALTH

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

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

As indicated in the Commonwealth of Kentucky Quarterly Economic & Revenue Report for the Third 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. Kentucky personal income grew by 5.0 percent in the third quarter of Fiscal Year 2016, outpacing the national rate personal income growth of 4.4 percent. The Commonwealth appears poised to maintain its solid rate of personal income growth through the first half of Fiscal Year 2017.

Employment growth is also forecast to remain positive, although growth is anticipated to slow as firms raise wages in order to attract workers. The Kentucky unemployment rate in March 2016 was 4.9 percent, just above the national unemployment rate of 4.8 percent. Two-thirds of businesses surveyed by the Louisville office of the St. Louis Federal Reserve raised wages over the prior year and the same number expected wages to increase through the fourth quarter of Fiscal Year 2016. Wages and salaries income grew the fastest in both absolute and percentage terms in the third quarter. Wages and salaries income grew by $5.2 billion or 6.3 percent over the last year.

Kentucky has benefited from record national automobile sales over the past year and parts suppliers continue to announce new factories and/or expansions within the Commonwealth. While the rate of growth has slowed, data through March 2016 indicates that motor vehicle and vehicle parts manufacturing employment in the Commonwealth is growing. The Commonwealth's non-farm employment grew by 1.4 percent in the third quarter of Fiscal Year 2016, with information services employment growing the fastest. Kentucky's mining employment declined in the third quarter by 9.8 percent with a net decrease of 1,600 jobs since the third quarter of the previous fiscal year.

Low interest rates and decreases in the prices of lumber and other materials due to the depressed demand abroad have been helpful for the Kentucky housing market. New single-unit housing permits issued in Kentucky in February were up 51 percent from 2015, indicating a strong outlook for an increase in housing supply. The issuance of these permits is a leading indicator for construction activity and employment. The Beige Books of both the Cleveland and St. Louis branches of the Federal Reserve, which monitor economic activity in Kentucky, indicate continued growth in both commercial and residential real estate activity in the area. Current projections indicate that construction employment will grow the fastest of all the major sectors through the remainder of Fiscal Year 2016 and into the first of Fiscal Year 2017.

Financial Information Regarding the Commonwealth

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

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.

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 ("KERS"), the State Police Retirement System, the Kentucky Teachers Retirement System ("KTRS"), 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 receipts can decline 4.9 percent for the remaining two months of the fiscal year to meet the current official revenue 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 official estimate of $1,445.9 million.

Consensus Forecasting Group; Official Revenue Forecasts

The Consensus Forecasting Group ("CFG"), in conjunction with the Office of the State Budget Director ("OSBD"), is statutorily charged with the responsibility of developing budget planning reports, preliminary revenue estimates, and official revenue estimates for each branch of government and the General and Road funds, pursuant to KRS 48.120 and KRS 48.115. The CFG 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.

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 $88.1 million in Fiscal Year 2016, $87.0 million in Fiscal Year 2017 and $92.8 million in Fiscal Year 2018.

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 Bluegrass Community Bankers Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices. PFM has made its recommendations to OFM and the SIC, and most recommendations have been implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

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

At 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 A1 P1 or higher are limited to 20 percent of the investment pools. Asset-Backed Securities ("ABS") are limited to 20 percent of the investment pools. Mortgage–Backed Securities ("MBS") and Collateralized Mortgage Obligations ("CMO") are also limited to a maximum of 25 percent of the investment pools. ABS, MBS and CMO must have a weighted average life of four years or less at time of purchase. Changes have been proposed for these regulations which generally would tighten the securities eligible for purchase while allowing a larger position in certain of those security types.

State Retirement Systems

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

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 State Police Retirement System ("SPRS"). Each retirement plan is state-supported, except for the CERS plans, which have been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits ("OPEB") 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 CAFR. 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 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, vetoed in part, and signed by the Governor on April 27, 2016. Due to the duration of the budget negotiations, 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 actuarially determined employer contribution (the "ADEC") of the Kentucky Retirement Systems as well as an additional $185.767 million above the ADEC over the biennium. Similarly, the KTRS was appropriated an estimated 94 percent 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 percent of any general fund surplus in Fiscal Year 2017. Any Fiscal Year 2018 General Fund surplus is appropriated at a rate of 25 percent to the KTRS unfunded liability and 25 percent to the KERS Non-Hazardous liability.

Other Post Employment Benefits. 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 (the "Kentucky Retirement Systems Board" or the "Board")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.

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 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, administrative 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 annual retirement contribution 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 million 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 from the 2010 Regular Session of the General Assembly 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 (i) denied KERS' motion to certify a question of law to the Kentucky Supreme Court, (ii) reversed the Bankruptcy Court's determination regarding classifying KERS as a multi-employer plan and determined KERS was a multiple employer plan, (iii) affirmed the Bankruptcy Court's decision in all other aspects; and (iv) denied Seven Counties cross-appeal. On April 21, 2016 the Kentucky Retirement Systems Board voted to appeal the decision to the United States Court of Appeals for the Sixth Circuit and the Kentucky Retirement System filed this Notice of Appeal on April 29, 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. The statements regarding the Resolution and the Lease 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 under the Escrow Agreement described under "PLAN OF FINANCE" above, deposits of the proceeds of the Bonds and Revenues will be made as described below.

1. Bond Service Fund. The Resolution creates a Bond Service Fund with respect to the Bonds (the "Bond Fund"), to be held and maintained by the Trustee. There will be deposited into the Bond 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 Resolution at or before their maturity. Accrued interest on the Bonds, if any, will be deposited in the Bond Fund. The Resolution requires the Commission to deposit or cause to be deposited on or before any April 1 or October 1 with respect to the Bonds, 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 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 Fund, including proceeds from the disposition of any portion of the Project pursuant to the Resolution.

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

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

Federal Tax Covenants of the Commission. The Commission has covenanted to do and perform all acts and things permitted by law and necessary or desirable in order to assure that the interest paid on the Bonds by the Commission shall be excludible from the gross income of the Holders of such Bonds for the purposes of federal income taxation and not permit the Bonds to be or become "arbitrage bonds," as defined in the Code. The Resolution creates a Rebate Fund (the "Rebate Fund") for the Bonds to be held and maintained by the Trustee, for the deposit of any amounts which are required to be deposited therein pursuant to the Tax Exemption Certificate and Agreement between the Commission and the Trustee.

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 (i) on the part of the Commission under the Resolution or the Bonds or (ii) on the part of the State Agency under the Lease, and the continuance thereof for a period of 30 days after written notice given by the Trustee to the Commission or the State Agency, as applicable, or by the Holders of not less than 25 percent in aggregate principal amount of Bonds Outstanding, to the Commission or the State Agency, as applicable, and the Trustee; provided, however, that if such event of default can, in the opinion of the Trustee, be corrected but not within such period, it shall not constitute an event of default hereunder if corrective action is instituted by the Commission or the State Agency, as applicable, 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 percent of the principal amount of Bonds Outstanding (by notice in writing to the Commission and the Trustee) may declare the principal of all the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25 percent of the principal amount of Bonds then Outstanding to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration with respect to (a) or (b) above, all overdue installments of interest on such Bonds and the principal of all Bonds which will have matured by their terms, together with the reasonable and proper charges, expenses and liabilities of the Trustee, are either paid by or for the account of the Commission or provision satisfactory, to the Trustee is made for such payment, then and in every such case any such default and its consequences will *ipso facto* be deemed to be annulled, but no such annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25 percent 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's Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

In the enforcement of any right or remedy under the Resolution or under the law, the Trustee is entitled to sue for, enforce payment on, and receive any or all amounts then or during the continuance of any event of default becoming, and at any time remaining, due from the Commission, for principal, premium, if any, interest or otherwise under any of the provisions of the Resolution or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest borne by the Bonds then Outstanding, to the extent permitted by law together with any and all costs and expenses of collection and of all proceedings under the Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Commission, but solely as provided in the Resolution and in the Bonds, for any portion of such amounts remaining unpaid, with interest, costs, and expenses, and to collect (but solely from the moneys in the funds and accounts established by the Resolution other than the Rebate Fund) in any manner provided by law, the moneys adjudged or decreed to be payable.

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

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

Priority of Remedies. Notwithstanding anything in the Resolution to the contrary, the rights of the Trustee and the owners of the Bonds to exercise remedies under the Resolution shall be on a parity with the rights of the Trustee and the owners of any additional bonds to exercise remedies with respect to the additional bonds, in accordance with the parity of the pledges set forth in the Resolution.

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 at least 66 2/3 percent of the principal amount of Bonds Outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

In addition to the foregoing, the Commission and the Trustee may, without regard to the provisions set forth above, make any amendment or change to the Resolution (i) to cure any formal defect or ambiguity, if in the opinion of the Trustee such amendment or change is not adverse to the interest of the Holders of the Bonds, (ii) to grant to or confer on the Trustee for the benefit of the Holders of the Bonds any additional rights, remedies, powers, authority or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution as theretofore in effect, (iii) to permit the Trustee to comply with any obligations imposed on it by law, (iv) to achieve compliance of the Resolution with any federal tax law, (v) to maintain or improve any rating on the Bonds, or (vi) which in the opinion of nationally recognized bond counsel will not materially adversely affect the rights of Holders of the Bonds, and the Commission may adopt such supplemental resolution to accomplish the foregoing.

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the State Agency may, in its sole discretion, change, substitute or otherwise modify components of the Project, 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 the Holders under the Resolution.

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 Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond 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, premium, if any, 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 Fund or such escrow fund, shall be sufficient, as set forth in a verification report from a firm of independent certified public accountants, 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 Resolution, and the Trustee will and is irrevocably instructed by the Resolution to give notice thereof to the Holders of the Bonds.

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 rated in the highest rating category by S&P (as hereinafter defined) and Moody's (as 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 rated "AAA" by S&P at the time of purchase, "Aaa" by Moody's at the time of purchase and "AAA" by Fitch (as hereinafter defined) at the time of purchase (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 in a segregated trust account in the trust department separate from the general assets of such custodian; and

(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) rated "AAA" by S&P at the time of purchase, "Aaa" by Moody's at the time of purchase and "AAA" by Fitch at the time of purchase (if rated by Fitch).

The Lease

The Commission and the State Agency have entered into the Lease whereby the State Agency will lease the Project from the Commission and will pay rentals to the Commission which will provide funds sufficient to pay the amounts due on the Bonds.

The Lease has a term ending October 1, 2035.

The State Agency has covenanted and agreed in the Lease to preserve and protect the pledge of the General Receipts and the funds under the Lease and all the rights of the Commission under the Lease against all claims and demands of all persons. The Lease requires that there be maintained a Revenue Fund, which may be a fund in the Commonwealth's management administrative and reporting system. The Revenue Fund shall have a Student Registration Fees Account into which there shall be deposited all Student Registration Fees and a State Appropriations Account into which there shall be deposited all state appropriations due to the State Agency. In addition, the Lease requires the creation of the Payment Account, a separate trust fund in the custody of the Trustee for the purpose of deposits by the State Agency of Lessee Debt Service Charges. The Lease also requires the creation and maintenance of a Debt Service Reserve Account to be used solely for the payment of Lessee Debt Service Charges with respect to any series of Bonds. It is not anticipated that for the Bonds offered hereby there will be any debt service reserve fund required.

The State Agency has covenanted and agreed in the Lease that when appropriations bills are prepared for introduction at the various successive sessions of the General Assembly of the Commonwealth, they will cause to be included in the appropriations proposed to be made for the State Agency sufficient amounts (over and above all other requirements of the State Agency) to enable the State Agency to make rental payments under the Lease and thereby provide to the Commission moneys sufficient to pay the aggregate amounts required to be paid in respect of the Bonds on any Payment Date. The State Agency 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.

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 (or in the process of being remedied).

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 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 to any party, 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 State Agency'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 State Agency under the Lease; provided, that prior to any such subletting or reletting, the Commission shall deliver to the Trustee an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in gross income of the owners thereof for federal income tax purposes.

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 assigned the ratings of "Aa3," "A" and "A+" to the Bonds, respectively. The ratings of each respective rating agency only reflect the views of such rating agency. 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. A rating is not a recommendation to buy, sell or hold the Bonds and 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 Bonds are subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT F. Certain legal matters will be passed upon for the Commission by its counsel. Certain legal matters will be passed upon for the Underwriters by Stites & Harbison, PLLC, Louisville, Kentucky.

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 Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Bonds or due existence or powers of the Commission.

TAX TREATMENT

General

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

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The Commission has covenanted to comply with certain restrictions designed to ensure that interest on the 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 Bonds being includable in gross income for Federal income tax purposes and such inclusion could be retroactive to the date of issuance of the 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 Bonds may adversely affect the Federal tax status of the interest on the 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 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 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 Bonds is excludible from gross income for Federal income tax purposes and that interest on the 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 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 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 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 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 Bonds on the tax liabilities of the individual or entity.

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

Tax Treatment of Original Issue Discount

The Bonds that have an interest rate that is lower than the yield, as shown on the inside 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 Bonds that have an interest rate that is greater than the yield, as shown on the inside 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 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 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 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 Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

UNDERWRITING

Citigroup Global Markets Inc., as representative of the Underwriters, has agreed to purchase the Bonds for an aggregate purchase price of $50,386,062.66 (which is equal to the principal amount of such Bonds plus a net original issue premium of $6,024,204.45 and less underwriting discount of $193,141.79). The Underwriters intend to make an initial public offering of all of the Bonds at not in excess of the public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price or prices stated on the inside cover page hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Commission for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Commission.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Bonds.

CONTINUING DISCLOSURE

The State Agency and 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 State Agency will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), a form of which is attached as EXHIBIT G, 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"), and the appropriate state information depository, if any, of any of the types of events with respect to the Bonds set forth in the form attached hereto. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository ("NRMSIR") and the State Agency'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 State Agency will be providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

As identified below, there have been instances where the State Agency has not filed its continuing disclosures on a timely basis:

(1) With respect to each of (a) the $6,050,000 City of Versailles TI/KCTCS Public Properties, Inc. First Mortgage Revenue Refunding Bonds, Series 2006 (KCTCS Project) issued on June 29, 2006 (the "Series 2006A Bonds") and (b) the $1,970,000 City of Versailles TI-KCTCS Public Properties Corporation First Mortgage Revenue Bonds, Series 2006B (KCTCS Project) issued on October 31, 2006, (the "Series 2006B Bonds", which together with the Series 2006A Bonds, collectively, the "Series 2006 Bonds"), the State Agency failed to timely post its annual audited financial statements for each of the fiscal years ending June 30, 2011 through 2015 with EMMA. The State Agency posted such annual audited financial statements with EMMA on April 22, 2016 with respect to the Series 2006 Bonds. The State Agency also posted on April 29, 2016 with EMMA, a Notice of Failure to File

Annual Financial Information in connection with such delayed filing of the annual audited financial statements for the Series 2006 Bonds.

(2) With respect to the Series 2006 Bonds, the State Agency failed to timely post its annual financial information and operating data for each of the fiscal years ending June 30, 2011 through 2015 with EMMA. The State Agency posted such annual financial information and operating data with EMMA on May 2, 2016 with respect to the Series 2006 Bonds. The State Agency also posted on May 2, 2016 with EMMA, a Notice of Failure to File Annual Financial Information in connection with such delayed filing of the annual financial information and operating data for the Series 2006 Bonds.

(3) With respect to each of (a) the $7,510,000 Louisville/Jefferson County Metro Government, Kentucky Refunding Revenue Bonds, Series 2012A (Louisville Medical Center, Inc. Steam and Chilled Water Plant Project) (the "Series 2012A Bonds") and (b) the $615,000 Louisville/Jefferson County Metro Government, Kentucky Taxable Refunding Revenue Bonds, Series 2012B (Louisville Medical Center, Inc. Steam and Chilled Water Plant Project) (the "Series 2012B Bonds", which together with the Series 2012A Bonds, collectively, the "Series 2012 Plant Bonds"), the State Agency failed to timely post its annual audited financial statements for the fiscal years ending June 30, 2012 and June 30, 2015 with EMMA, which should have been posted by December 27, 2012 and December 27, 2015, respectively, in connection with the Series 2012A Bonds, and were posted April 22, 2016 and January 6, 2016, respectively. The State Agency also posted on April 25, 2016 with EMMA, (i) a Notice of Failure to File Annual Audited Financial Statements for FY2012 for each of the Series 2012 Plant Bonds and (ii) a Failure to File Annual Audited Financial Statements in connection with the delayed filing of the Annual Audited Financial Statements of the State Agency for the fiscal year ending June 30, 2015 for the Series 2012A Bonds.

(4) With respect to the Series 2012A Bonds, the State Agency failed to timely post its annual operating data for each of the fiscal years ending June 30, 2012 through 2015 with EMMA. With respect to the Series 2012B Bonds, the State Agency failed to timely post its annual operating data for the fiscal year ending June 30, 2012. The State Agency posted such annual operating data with EMMA on May 13, 2016 with respect to the Series 2012 Plant Bonds. The State Agency also posted on May 12, 2016 with EMMA, a Notice of Failure to File Annual Financial Information in connection with such delayed filing of the annual operating data for the Series 2012 Plant Bonds.

Ongoing financial disclosure regarding the State Agency will be available through the posting by the State Agency with EMMA (as required under Rule 15c2-12 and in accordance with the Continuing Disclosure Agreement) not later than 270 days following the end of the fiscal year, commencing with the fiscal year ending June 30, 2016, of (i) annual audited financial statements prepared by the State Agency, including a balance sheet, a statement of revenue and expenditure, and a statement of changes in fund balances, and (ii) operating data comprised of Enrollment, State Appropriations and Student Registration Fees (the form of which is set forth in Exhibit A hereto). The State Agency has taken necessary actions to assure compliance with Rule 15c2-12 with respect to its required filings by establishing new procedures and written guidelines. Such guidelines include a requirement to consult with the Office of Financial Management to provide guidance and assistance in complying with the State Agency's continuing disclosure obligations to ensure the complete and timely dissemination of information through the actual posting of such information or verification of its filing and completeness.

In addition, the Commission will post on an annual basis with EMMA (as required under Rule 15c2-12 and in accordance with the Continuing Disclosure Agreement) not later than 270 days following the end of the fiscal year, commencing with the fiscal year ending June 30, 2016, two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports).

OTHER MATTERS

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

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

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

THE COMMONWEALTH OF KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

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

EXHIBIT A

INFORMATION PERTAINING TO THE STATE AGENCY

GENERAL

This EXHIBIT A contains certain financial and operating information regarding the Kentucky Community and Technical College System ("KCTCS" or the "System"). Unless otherwise indicated, the source of the information set forth in this EXHIBIT A is KCTCS.

Created in May 1997 by The Kentucky Postsecondary Education Improvement Act (House Bill 1) of the Kentucky General Assembly, KCTCS unified Kentucky's community and technical college institutions to become the newest postsecondary education institution in the Commonwealth of Kentucky (the "Commonwealth"). Today, KCTCS is the largest provider of postsecondary education and workforce training in the Commonwealth. KCTCS colleges are accredited, and comprehensive institutions which provide both credit and noncredit instruction primarily to in-state residents. With sixteen (16) statewide colleges, KCTCS has more than seventy (70) campuses strategically located throughout the Commonwealth all within a thirty (30) minute drive of 95 percent of all Kentuckians. KCTCS offers the lowest tuition and charges in the Commonwealth.

KCTCS is one of the nine public state-supported institutions, which operate under the coordinating authority of the Kentucky Council of Postsecondary Education. Each KCTCS college has enhanced efficiency and service by consolidating functions, support services and programs, although the System operates as a single component unit of the Commonwealth for accounting purposes. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation and a commitment to make education accessible, relevant, and responsive to the needs of students, employers, and communities.

The Systems' colleges offer a wide range of academic, technical and cultural programs and confer five types of credentials upon students who complete credit programs. Credentials include certificates, diplomas and three kinds of associate degrees. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree at a KCTCS college and transfer those credits to any Kentucky university.

Beyond having a significant physical presence through its strategically located campuses, the System provides online education opportunities. KCTCS, through "Kentucky Online," is the largest provider of Internet-based courses in the state, offering 77 online programs with more than 9,300 online course sections annually through the Kentucky Virtual Campus. Additionally, KCTC Online offers access to Learn On Demand and Learn by Term programs, which provide 100 percent online degrees, courses and certificates as either 12 – 16 week, semester-based or module-based courses. These flexible options make KCTCS the largest provider of online learning in the Commonwealth.

In addition to traditional degrees, certificates and diplomas, KCTCS provides a variety of initiatives and services that help develop high-skilled workers for today's competitive workforce. To further workforce development and to support the economic future of the Commonwealth KCTCS develops partnerships between colleges and businesses providing Kentucky workers with specific industry skills, serving more than 5,300 businesses and training nearly 53,000 employees annually.

While continuing to emphasize its historical mission to provide general education, KCTCS is increasing its focus on occupational/technical education by offering over 700 programs. The Systems' colleges provide a variety of programs and training opportunities to many of the Commonwealth's employers, along with fire and rescue training to fire departments throughout the state. During 2015, KCTCS trained and educated 80 percent of Kentucky-trained firefighters. Similarly, the Kentucky Board of Emergency Medical Services is a component of KCTCS and certifies first responders, emergency medical technicians, and licenses paramedics and ambulance services throughout the state. KCTCS also enhances learning opportunities for all Kentuckians through noncredit continuing education. From personal improvement to cultural activities, community development programs at KCTCS institutions are tailored to meet local needs. KCTCS colleges sponsor an array of fine-arts programs that enrich their communities.

GOVERNING BOARD

The Governing Body of the System is the Board of Regents (the "Board") consisting of fourteen members. Eight (8) members are appointed by the Governor of the Commonwealth and six (6) are elected members, as follows: two members of the teaching faculty elected by faculty; two members of the nonteaching personnel elected by nonteaching personnel; and two members of the student body elected by the students. The Board was established by KRS 164.310 and its duties and responsibilities are described in KRS 164.350 et seq. Pursuant to KRS 164.321 (10), Board members may be removed by the Governor for cause, which shall include neglect of duty or malfeasance in office, after being afforded a hearing with counsel before the Council on Postsecondary Education and a finding of fact by the Council.

The list of current Board members is set forth in the following table:

Marcia L. Roth, Chair	Barry K. Martin
Gail R. Henson, Ph.D., Vice Chair	Lacey B. Parham
Carolyn E. "Betsy" Flynn, Secretary	Porter G. Peeples, Sr.
Robert G. Cooper	James Lee Stevens
Venus R. Evans	Donald R. Tarter
Angela Fultz, Ph.D.	Tammy C. Thompson
Mary Bosley-Kinney	Mark A. Wells

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KCTCS Colleges

- Ashland Community & Technical College
- Big Sandy Community and Technical College
- Bluegrass Community & Technical College
- Elizabethtown Community & Technical College
- Gateway Community & Technical College
- Hazard Community & Technical College
- Henderson Community College
- Hopkinsville Community College
- Jefferson Community & Technical College
- Madisonville Community College
- Maysville Community & Technical College
- Owensboro Community & Technical College
- Somerset Community College
- Southcentral Kentucky Community and Technical College
- Southeast Kentucky Community & Technical College
- West Kentucky Community & Technical College

FISCAL YEAR 2014-15 BUDGET

The 2014-15 fiscal year unrestricted fund budget for KCTCS is $596,963,000, an increase of $24,769,000 compared to fiscal year 2013-14. The budget increase is primarily the net result of increased usage of non-recurring revenues for planned, one-time expenditures and the projected increase in government grants and contracts.

OPERATIONS

Summary of Revenues, Expenses and Changes in Net Assets

The following is a summary of KCTCS' revenues, expenses and changes in net assets for the most recent three-year period that audited financial statements are available:

	Year Ended June 30 (Dollars in Thousands)		
	2013	2014	2015
Operating Revenue	$189,783	$188,065	$197,571
Operating Expenses	669,767	628,675	638,090
Operating loss	(479,984)	(440,610)	(440,519)
Non-operating revenue, including state appropriations	437,988	421,477	424,622
Other revenues	26,483	5,875	1,623
Change in accounting policy			17,636
Change in accounting principle (GASB 68)			(378,217)
Increase (decrease) in net assets	(15,513)	(13,258)	(374,855)

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Enrollment

The following table indicates the fall semester head count and full-time equivalent enrollment at KCTCS for each of the academic years beginning August 2005 and ending July 2006 through the academic year beginning August 2015 and ending July 2016. The full-time equivalent ("FTE") enrollment total is calculated by adding the Full-Time Headcount for the academic year to one-third of the total Part-Time Headcount for the academic year. The following equation reflects this calculation: FTE = (Full-Time Headcount) + (1/3 Part-Time Headcount).

Academic Year	Full-Time	Part-Time	Total Head Count	Full-Time Equivalent
2005-06	33,857	51,074	84,931	50,882
2006-07	32,860	53,615	86,475	50,732
2007-08	33,386	59,442	92,828	53,200
2008-09	34,897	55,045	89,942	53,245
2009-10	41,390	58,958	100,348	61,043
2010-11	44,712	61,952	106,664	65,363
2011-12	42,517	65,785	108,302	64,445
2012-13	38,771	58,143	96,914	58,152
2013-14	37,503	54,862	92,365	55,790
2014-15	35,508	51,519	87,027	52,681
2015-16	31,932	48,143	80,075	47,980

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State Appropriations

The General Assembly of the Commonwealth, based on an initial request from the Governor, approves a biennial budget which includes appropriations for all the Commonwealth's public universities. The following are the state appropriations for KCTCS for the past ten-year period from 2005-2015:

Fiscal Year	Appropriation
2005-06	201,775,697
2006-07	215,320,500
2007-08	221,843,800
2008-09	214,931,200
2009-10	200,554,700
2010-11	199,156,700
2011-12	200,744,200
2012-13	191,455,700
2013-14	191,455,700
2014-15	190,162,300

KCTCS intends to continue to seek to have funds appropriated by the General Assembly to partially support its operations.

On March 31, 2016, the Governor issued an Executive Order reducing the remainder of Fiscal Year 2015 and 2016 public higher education institutions' appropriations by 4.5 percent. For KCTCS, the amount of the reduction was $8,557,300. On April 19, 2016, the Governor issued an executive order revising the March 31, 2016 reduction downward to 2.0 percent of 2015-2016 appropriations. At its March 10, 2016 meeting, the KCTCS Board, in anticipation of the budget reduction, authorized up to $8,557,300 to be moved from KCTCS' Budget Reserve into its operating budget to address the reduction. The budget reduction is currently in litigation as the Kentucky State Attorney General on April 11, 2016 filed a lawsuit which questioned the Governor's authority to impose the budget reduction. On April 20, 2016, the Governor restored some state funding to public colleges and universities through revision of the executive order cuts from 4.5 percent by 2.5 percent, for a total adjustment of 2 percent.

In the current version of House Bill 303 as of April 19, 2016, the General Assembly enacted a 2016-18 state biennial budget that reduces base funding to all postsecondary education institutions by 4.5 percent beginning in Fiscal Year 2016-17 and diverts an additional 5 percent of that adjusted base funding into a performance funding pool in Fiscal Year 2017-18. For KCTCS, the amount of that reduction would equate to $8,557,300 and reduce the total state appropriation base for KCTCS to $181,605,000 in Fiscal Year 2016-17. KCTCS base funding would be further reduced to $172,524,700 in Fiscal Year 2017-18 with up to $9,080,300 available to be earned back through institutional performance outcomes. KCTCS plans to take appropriate action to reduce the recurring operating budgets in order to accommodate these reductions in state appropriations.

Pension System Obligations

As a public university, KCTCS is a participating agency in the Commonwealth's two multi-employer defined benefit plans, the Kentucky Retirement System and the Kentucky Teachers Retirement System. See "THE COMMONWEALTH – State Retirement Systems" herein for a more complete description of the State Retirement Systems.

Pension Payments of KCTCS. The following are the employer contributions paid by KCTCS to KTRS and KERS for the years indicated:

Fiscal Year	KTRS Payment	KERS Payment	Total
2011-12	$6,579,570	$5,183,463	$11,763,033
2012-13	6,706,781	7,001,184	13,707,965
2013-14	6,832,170	8,638,825	15,470,995
2014-15	6,668,442	11,721,713	18,390,155
2015-16*	6,900,000	12,300,000	17,075,479

*Projected Payment

Summary of Income from Student Registration Fees

The following table shows student registration fees collected by Fiscal Year, without adjustment for tuition and scholarship discounting required by GASB 34, *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*, the provisions of which the Commonwealth, as a state government, elected to use in such financial statements as *The Kentucky Comprehensive Annual Financial Report*. Under this alternative method the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense.

Fiscal Year	Fees Collected
2003-04	$99,269,000
2004-05	133,680,000
2005-06	137,695,000
2006-07	151,741,000
2007-08	168,470,000
2008-09	183,479,000
2009-10	223,576,000
2010-11	245,761,000
2011-12	242,969,000
2012-13	238,705,000
2013-14	237,230,000
2014-15	234,716,000

Private Donations

The following table shows private donations or contributions collected by Fiscal Year for the most recent five-year period available.

Fiscal Year	Number of Donors Participating	Total Voluntary Support
2010-11	1,263	4,721,057
2011-12	1,023	6,888,558
2012-13	981	3,490,860
2013-14	849	3,086,596
2014-15	1,320	8,501,316

Student Registration Fees

The KCTCS Board, with the approval of the Kentucky Council on Postsecondary Education, has established a schedule of Student Registration Fees to be imposed, charged and collected from all students attending KCTCS. The schedules of fees, effective for the periods beginning July 1, 2013, July 1, 2014, and July 1, 2015, are as follows:

Registration Fee Per Semester Full Time	Schedule of Fees Fiscal Year 2013-2014	Schedule of Fees Fiscal Year 2014-2015	Schedule of Fees Fiscal Year 2015-2016
In-State Tuition Per Credit Hour	$144	$147	$147
Out-of-State Students:			
On-Line Courses Per Credit Hour	$144	$147	$147
With Reciprocity Per Credit Hour	$144	$147	$147
From Contiguous Counties Per Credit Hour*	$288	$294	$294
All Other Out-of-State Students Per Credit Hour	$504	$515	$515
Mandatory Student Fee Per Credit Hour** (all students)	$0	$4	$8

*Contiguous counties are those which border Kentucky.
**KCTCS Mandatory Student Fee is a general receipt of KCTCS, which use has been restricted by Resolution of the KCTCS Board for the purpose of repaying the obligations associated with the Buildsmart Project.

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Comparative Report of Student Financial Aid

A summary of KCTCS' student financial aid is presented for the most recent three Fiscal Years available:

	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15
Scholarships & Grants			
Federal Grants			
Pell	$53,442,602	$48,725,476	$71,235,343
Supplemental Educational Opportunity	3,811,402	2,597,563	1,833,387
College Work Study	3,154,679	2,653,457	2,524,146
Subtotal Federal Grants	$60,408,683	$53,976,496	$75,592,876
Institutional Scholarships and Awards	$15,360,561	$17,415,690	$18,191,943
Aid from Outside Agencies			
State Grants	$24,979,161	$25,782,562	$18,808,680
Loans			
Federal Direct Student Loans	$225,881,300	$196,232,040	$147,691,015
TOTAL STUDENT FINANCIAL AID	$326,629,705	$293,406,788	$260,284,514

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ESTIMATED LONG-TERM LEASE REQUIREMENTS AS OF MARCH 2, 2016

The following table sets forth the KCTCS debt as of the fiscal year ended June 30, 2015, which consists of 139 capital leases totaling $27.3 million. Among the capital leases for which lease requirements are set forth in the table below are (a) the $6,050,000 City of Versailles TI/KCTCS Public Properties, Inc. First Mortgage Revenue Refunding Bonds, Series 2006 (KCTCS Project) issued on June 29, 2006 and (b) the $1,970,000 City of Versailles TI-KCTCS Public Properties Corporation First Mortgage Revenue Bonds, Series 2006B (KCTCS Project) issued on October 31, 2006.

Lease Requirements [(1)]

Fiscal Year Ending June 30	Principal	Interest	Total
2016	$3,033,665	$594,957	$3,628,622
2017	2,425,541	1,004,194	3,429,735
2018	3,048,029	662,798	3,710,827
2019	2,646,169	560,832	3,207,001
2020	1,858,010	483,657	2,341,667
2021	2,019,004	416,317	2,435,321
2022	2,093,412	342,394	2,435,806
2023	2,170,205	265,601	2,435,806
2024	1,659,441	199,686	1,859,127
2025	1,048,868	152,289	1,201,157
2026	907,182	127,875	1,035,057
2027	930,261	104,796	1,035,057
2028	953,926	81,131	1,035,057
2029	978,194	56,863	1,035,057
2030	1,003,079	31,978	1,035,057
2031	511,069	6,460	517,529
Total	$27,286,055	$5,091,828	$32,377,883

(1) Long-term leases include energy savings renovations, building leases, computer equipment and copiers.

EXHIBIT B

2014-2015 ANNUAL FINANCIAL REPORT OF
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

2014-15 ANNUAL FINANCIAL REPORT

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

CONTENTS

DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

Report of Independent Auditors

Members of the Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Kentucky Community and Technical College System (the System) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that 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 aspects, the financial position of Kentucky Community and Technical College System, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 48 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2015 on our consideration of Kentucky Community and Technical College System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 System's internal control over financial reporting and compliance.

Dean Dorton Allen Ford, PLLC

September 30, 2015
Lexington, Kentucky

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2015 and 2014. This discussion has been prepared by management and should be read in conjunction with the financial statements and the related notes thereto, which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Financial Highlights

- KCTCS' financial position remained solid at June 30, 2015, with assets and deferred outflows of $946.4 million and liabilities and deferred inflows of $478.4 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was $468.0 million or 49.4 percent of total assets and deferred outflows. Net position at June 30, 2014 were 90.5 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased $15.2 million or 1.6 percent. The increase is primarily deferred outflows. Total liabilities and deferred inflows increased by $390.0 million or 441.2 percent. The principal item of increase was net pension liability.
- Total net position decreased $374.9 million or 44.5 percent due to recording the pension liability.
- Operating revenues were $197.6 million and operating expenses were $638.1 million, resulting in a loss from operations of $440.5 million. When nonoperating revenues of $424.6 million (including $190.2 million in state appropriations), other revenues of $1.6 million, the cumulative effect of change in accounting principle of ($378.2) million and the cumulative effect of change in accounting policy of $17.6 million are added; this resulted in a decrease of $374.9 million in net position for fiscal year 2015.

Using the Financial Statements

The Financial Statements consist of Statements of Net Position (Balance Sheets), Statements of Revenues, Expenses and Changes in Net Position (Income Statements), Statements of Cash Flows, and Notes to the Financial Statements. These financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Accordingly, the accrual basis of accounting is used whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

Reporting Entity

The Kentucky Community and Technical College System is a component unit of the Commonwealth of Kentucky. KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth. KCTCS colleges provide both credit and noncredit instruction primarily to state residents. In fact, for most Kentuckians the journey to higher education begins at one of KCTCS' 16 colleges located on more than 70 locations across the state. KCTCS colleges are committed to making education accessible, relevant, and responsive to the needs of students, employers, and communities. While focusing on quality, KCTCS colleges are the best value in postsecondary education in Kentucky. Year in and year out, tuition and charges are the lowest in the Commonwealth. Students at KCTCS colleges benefit from a single, simple tuition and charge structure.

KCTCS' colleges offer a variety of certificate, diploma, and associate degree programs. In addition, the colleges provide a variety of programs and training opportunities to many of the Commonwealth's employers along with fire and rescue training to fire departments throughout the state. Similarly, the Kentucky Board of Emergency Medical Services is a component of KCTCS and certifies first responders, emergency medical technicians, and licenses paramedics and ambulance services throughout the state. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation as consolidated comprehensive community and technical colleges.

The KCTCS campuses are strategically located across the Commonwealth, from Ashland to Paducah, from Covington to Bowling Green. KCTCS is the largest provider of Internet-based courses in the state offering more than 9,300 on-line course sections annually through the Kentucky Virtual Campus. KCTCS colleges confer five types of credentials -- certificates, diplomas and three kinds of associate degrees -- upon students who complete credit programs. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree at a KCTCS college and transfer those credits to any Kentucky university. While continuing to emphasize its historical mission to provide general education, KCTCS is increasing its focus on occupational/technical education. KCTCS colleges offer over 700 programs.

KCTCS also views postsecondary education as a crucial resource for workforce development. To further workforce development KCTCS develops partnerships between colleges and businesses to provide Kentucky workers with the skills required today and to help industries and individuals develop the capabilities they will need tomorrow.

KCTCS also enhances learning opportunities for all Kentuckians through noncredit continuing education. From personal improvement to cultural activities, community development programs at KCTCS institutions are tailored to meet local needs. KCTCS colleges sponsor an array of fine-arts programs that enrich their communities.

Statements of Net Position

The Statements of Net Position present the financial condition of KCTCS at the end of the fiscal year and include all assets, deferred outflows, liabilities and deferred inflows. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition. Assets and liabilities are generally reported at cost. The major exception is investments which are reported at fair value. A summary of the assets and deferred outflows, liabilities and deferred inflows and net position of KCTCS at June 30, 2015, 2014 and 2013, is as follows:

Condensed Statements of Net Position (amounts in thousands)

	2015	2014	2013
Assets and Deferred Outflows			
Current assets	$ 222,227	$ 240,059	$ 246,897
Noncurrent assets	705,783	691,159	699,749
Deferred outflows	18,390	0	0
Total assets and deferred outflows	946,400	931,218	946,646
Liabilities and Deferred Inflows			
Current liabilities	40,741	55,270	59,255
Noncurrent liabilities	420,020	33,140	31,325
Deferred inflows	17,686	0	0
Total liabilities and deferred inflows	478,447	88,410	90,580
Net Position			
Net investment in capital	577,295	584,655	570,366
Restricted	107,610	93,808	114,915
Unrestricted	(216,952)	164,345	170,785
Total net position	$ 467,953	$ 842,808	$ 856,066

Assets and Deferred Outflows: As of June 30, 2015, total assets and deferred outflows amounted to $946.4 million. Of this amount, investment in capital assets (net of depreciation) of $604.6 million, or 63.9 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to $216.9 million or 22.9 percent, and endowments amounted to $51.4 million or 5.4 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by $15.2 million, primarily in deferred outflows.

Liabilities and Deferred Inflows: As of June 30, 2015, total liabilities and deferred inflows amounted to $478.4 million. Net pension liability amounted to $384.0 million or 80.3 percent of total liabilities and deferred inflows. Capital leases and other long-term obligations amounted to $28.1 million, or 5.9 percent.

Net Position: The fund balance of KCTCS of $467.9 million as of June 30, 2015 is reported on the Statements of Net Position in three net position categories: net investment in capital, $577.3 million (123.4 percent); restricted $107.6 million (23.0 percent); and unrestricted, $(217.0) million (-46.4 percent).

Restricted net position is subject to externally imposed restrictions governing their use. Although unrestricted net position is not subject to externally imposed provisions, substantially all of the unrestricted net position has been designated for support of instructional programs and initiatives and working capital requirements.

Total net position decreased by $374.9 million during the year ended June 30, 2015. This decrease was primarily due to the recording of the pension liability.

2014 Versus 2013

- As of June 30, 2014, total assets amounted to $931.2 million. Of this amount, capital assets is $605.3 million (65.0 percent) of total assets, represented the largest asset class. Cash and cash equivalents amounted to $225.8 million (24.2 percent), and endowments amount to $49.5 million (5.3 percent) of total assets. During the year, total assets decreased by $15.4 million, primarily cash.

- As of June 30, 2014, total liabilities amounted to $88.4 million. Capital leases and other long-term obligations amounted to $21.9 million (24.8 percent) of total liabilities.

- Total net position of $842.8 million is recorded in three categories: net investment in capital, $584.7 million (69.4 percent); restricted $93.8 million (11.1 percent); and unrestricted $164.3 million (19.5 percent).

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position is prepared using the accrual basis of accounting. The change in net assets is an indicator of whether the overall financial position has improved or declined during the year. All items that increase or decrease net assets must appear on the Statements of Revenues, Expenses and Changes in Net Position as revenues, expenses, gains or losses.

Financial activities are reported as either operating or nonoperating. State appropriations, certain grants, gifts, investment and endowment income are required to be classified as nonoperating revenues because these funds are non-exchange revenues provided to KCTCS without direct commensurate value (goods and services) for those revenues. Accordingly, KCTCS reports an operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition is reduced by scholarships. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances. A summary of the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2015, 2014, and 2013 is presented on the following page.

Condensed Statements of Revenues, Expenses and Changes in Net Position
(amounts in thousands)

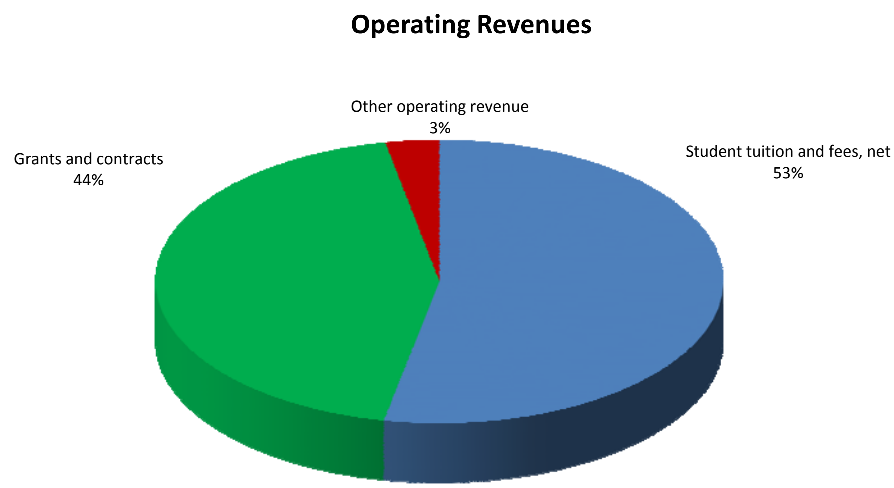
	2015	2014	2013
Operating revenues			
Student tuition and fees, net	$ 104,978	$ 83,684	$ 83,781
Grants and contracts	86,562	92,618	92,053
Other operating revenue	6,031	11,763	13,949
Total operating revenues	197,571	188,065	189,783
Operating expenses			
Educational and general, excluding depreciation	606,103	598,419	640,690
Depreciation	31,987	30,256	29,077
Total operating expenses	638,090	628,675	669,767
Operating loss	(440,519)	(440,610)	(479,984)
Nonoperating revenues (expenses)			
State appropriations	190,162	191,456	191,456
Federal and state grants and contracts	208,478	217,270	225,691
Other nonoperating revenues	25,982	12,751	20,841
Total nonoperating revenues	424,622	421,477	437,988
Income (loss) before other revenues, expenses, gains or losses	(15,897)	(19,133)	(41,996)
Capital construction appropriations	1,175	(193)	23,348
Net realized gain (loss) on disposal of capital assets	(186)	(380)	(682)
Additions to endowments	634	6,448	3,817
Total other revenues	1,623	5,875	26,483
Decrease in net position before cumulative effect of change	(14,274)	(13,258)	(15,513)
Cumulative effect of change in accounting principle	(378,217)	0	0
Cumulative effect of change in accounting policy	17,636	0	0
Total decrease in net position	(374,855)	(13,258)	(15,513)
Net position, beginning of year	842,808	856,066	871,579
Net position, end of year	$ 467,953	$ 842,808	$ 856,066

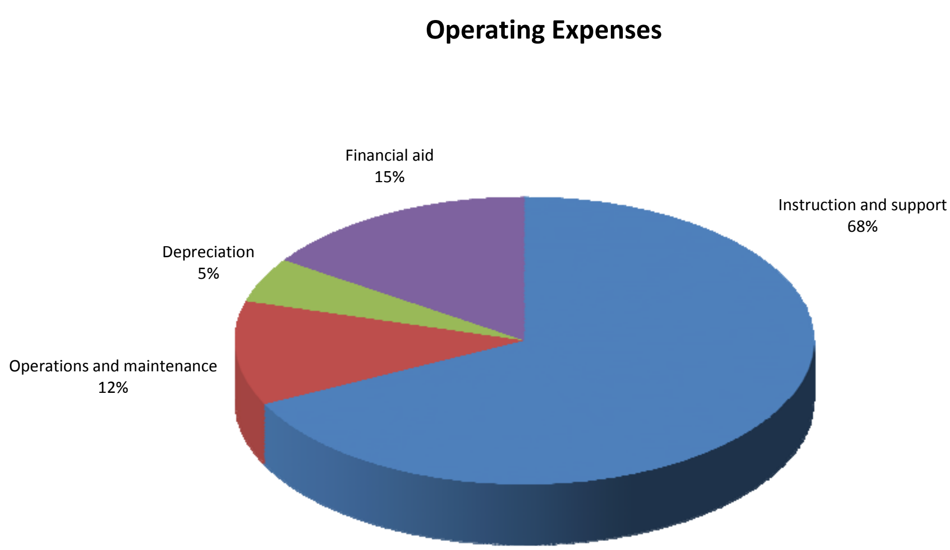
Total operating revenues were $197.6 million for the year ended June 30, 2015. Included in KCTCS' operating revenues are net student tuition and fees of $105.0 million (53.1 percent), and grants and contracts of $86.6 million (43.8 percent). Tuition and fees are presented net of scholarship allowances, gift scholarships and institutional scholarships. A scholarship allowance is the difference between the stated charges for goods and services provided by KCTCS and the amount that is billed to the students and third parties making payments on behalf of students. Any excess aid disbursed to the student is recognized as a student financial aid expense.

Operating expenses totaled $638.1 million. Of this amount, $606.1 million (95.0 percent of total operating expenses) was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, and operations and maintenance (excluding depreciation).

The loss from operations for the year amounted to $440.5 million. Nonoperating and other revenues, net of related expenses, amounted to $426.2 million, the cumulative effect of change in accounting principle amounted to $(378.2) million and the cumulative effect of change in accounting policy amounted to $17.6 million, resulting in a decrease in net assets of $374.9 million for the year.

The following charts depict operating revenues and operating expenses. State appropriations are not accounted for as operating revenues, and are therefore excluded from the chart below:





2014 Versus 2013

Total operating revenues were $188.1 million for the year ended June 30, 2014, including net student tuition and fees of $83.7 million (44.5 percent) and grants and contracts of $92.6 million (49.2 percent).

Operating expenses totaled $628.7 million. Of this amount, $598.4 million (95.2 percent of total operating expenses) was expended for educational and general programs, including instruction, libraries, academic support, public service, student services, institutional support, and operations and maintenance (excluding depreciation).

The loss from operations for the year amounted to $440.6 million. Nonoperating and other revenues, net of related expenses, amounted to $427.3 million, resulting in a decrease in net assets of $13.3 million for the year. Nonoperating revenues include state appropriations of $191.5 million (44.8 percent of total nonoperating and other revenues).

Statements of Cash Flows

The Statements of Cash Flows present information, related to KCTCS' cash inflows and outflows, summarized by operating, capital, financing, and investing activities. The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and cash payments made by KCTCS during the year that will allow financial statement readers to assess:

- The ability to generate future net cash flows,
- The ability to meet obligations as they become due, and
- The possible need for external financing.

A comparative summary of KCTCS' Statements of Cash Flows for the years ended June 30, 2015, 2014, and 2013 is as follows:

Condensed Statements of Cash Flows (amounts in thousands)

	2015	2014	2013
Cash (used in) provided by:			
Operating activities	$ (402,797)	$ (401,260)	$ (462,139)
State appropriation	190,162	191,456	191,456
Other noncapital financing activities	228,062	227,519	112,858
Capital and related financing activities	(24,472)	(45,991)	(7,879)
Investing activities	222	919	132,292
Net decrease in cash and cash equivalents	(8,823)	(27,357)	(33,412)
Cash and cash equivalents, beginning of year	225,767	253,124	286,536
Cash and cash equivalents, end of year	$ 216,944	$ 225,767	$ 253,124

Major sources of cash received from operating activities are student tuition and fees ($105.1 million) and grants and contracts ($86.8 million). Major uses of cash for operating activities were payments to employees for salaries and benefits ($367.5 million), payments to vendors and contractors ($137.1 million) and student financial aid ($96.6 million).

Noncapital financing activities include federal, state and local grants, contracts and appropriations of $208.5 million.

2014 Versus 2013

Major sources of cash received from operating activities for the year ended June 30, 2014 are student tuition and fees ($84.2 million) and grants and contracts ($91.8 million). Major uses of cash for operating activities were payments to employees for salaries and benefits ($384.9 million), student financial aid ($81.4 million) and payments to vendors and contractors ($123.4 million).

Capital and related financing activities include cash of $44.4 million was expended for construction and acquisition of capital assets and $10.1 million was expended for principal and interest payments on debt.

Investing activities include $2.3 million used to purchase additional investments and interest and dividends on investments of $2.6 million.

Capital Assets and Debt Administration

Capital assets, net of accumulated depreciation, totaled $604.6 million at June 30, 2015, a decrease of $0.7 million. Capital assets as of June 30, 2015, 2014, and 2013, and significant changes in capital assets during those years are shown below (in thousands):

Capital Assets (amounts in thousands)

	Balance June 30, 2013	Net Additions FY 2014	Balance June 30, 2014	Net Additions FY 2015	Balance June 30, 2015
Land and land improvements	$ 43,563	$ 1,711	$ 45,274	$ 2,619	$ 47,893
Buildings and infrastructures	718,546	12,844	731,390	19,751	751,141
Equipment, autos and campus improvements	118,793	9,001	127,794	(1,187)	126,607
Library materials	59,868	1,043	60,911	(139)	60,772
Construction in progress	40,930	9,533	50,463	5,553	56,016
Energy saving assets	9,341	4,631	13,972	-	13,972
Total assets	991,041	38,763	1,029,804	26,597	1,056,401
Accumulated depreciation	(398,209)	(26,297)	(424,506)	(27,314)	(451,820)
Capital assets, net	$ 592,832	$ 12,466	$ 605,298	$ (717)	$ 604,581

At June 30, 2015, KCTCS had capital construction projects in progress totaling $56.0 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

Debt

At June 30, 2015, debt consisted of 139 capital leases totaling $27.3 million.

Economic Factors Impacting Future Periods

The following are existing conditions and circumstances that will affect future financial results:

- The KCTCS state appropriation has decreased approximately $38.5 million since fiscal year 2008 – down from the original (pre-budget cut) $228.7 million in FY 2008 to $190.2 million for FY 2016. The FY 2016 KCTCS state appropriation has remained the same as FY 2015 KCTCS state appropriation at $190.2 million. Federal funds are expected to remain marginally flat or decrease slightly with reductions resulting in changes in sponsored project activity as a result of the federal budget situation.

- The KCTCS Board of Regents approved a 2015-16 operating budget totaling $888.1 million and a 2015-16 capital budget totaling $310.5 million. The 2015-16 operating budget includes an unrestricted non-recurring budget reserve of $21.2 million. The reserve funds include each college, the Kentucky Fire Commission, the Kentucky Board of Emergency Medical Services and for systemwide operations and support programs.

- Tuition rates for 2015-16 remained the same as 2014-15 tuition rates at $147 per credit hour for resident students. Nonresident students from counties contiguous to Kentucky will pay $294 per credit hour. Other nonresident students will pay $515 per credit hour. Students taking online courses will pay $147 per credit hour.

- Official fall 2014 enrollment was 87,027 students. This was a decline of roughly 5.8 percent from fall 2013 when enrollment was 92,365. Enrollment for fall 2015 is expected to moderately decline. Historically KCTCS's enrollment is counter cyclical to changes in the economy – an improving economy has resulted in lower enrollment whereas an economy in decline acts as a catalyst for persons to return to college to improve their education and work skills.

- Dr. Jay Box was selected KCTCS President by the Board of Regents in late fall 2014. In cooperation with the Board of Regents he has established the following goals for FY 2015-16:

  Goal I: Institutional Leadership/Management: Engage internal and external constituents so as to further the advancement of the KCTCS vision, mission, and goals.

  Goal II: Educational Leadership/Internal Relations: Bring "balance" to the System by establishing clear expectations of college presidents in meeting System-wide initiatives while understanding and encouraging the role of the college president in meeting local needs.

  Goal III: External Relations: Advocate for the System at the local, regional, state, and national levels.

  Goal IV: Board and Governance Relations: Enhance Board/President relations.

Goal V: Special Priorities:

Objective 1: Work with Vice President Gloria McCall in a comprehensive overhaul of the System's financial aid program.

Objective 2: Work with Vice President McCall and the college presidents on developing a strategic enrollment management plan that will result in increased enrollment, retention, and completion.

Objective 3: Work with the President's Leadership Team (PLT) to initiate career development/job placement centers at each college.

- Effective for fiscal years beginning after June 15, 2014 the Governmental Accounting Standards Board issued Statement 68, *Accounting and Financial Reporting for Pensions.* With the issuance of Statement 68 KCTCS's financial statements include KCTCS' proportionate share of the net pension liability for the Kentucky Employees Retirement System (KERS) and the Kentucky Teacher Retirement System (KTRS) and the additional components associated with recording the pension liability. The financial impact for FY 2014-15 to KCTCS is $378.2 million.

- "KCTCS BuildSmart Initiative" is a public-private partnership designed to provide an investment in Kentucky's competitive future. Agency bonds will be issued by the Commonwealth of Kentucky to pay for 75 percent of the total project scope of $194.0 million (i.e., $145.5 million in agency bonds). The remaining 25 percent ($48.5 million) will be matched from private and other funds raised by the KCTCS colleges.

- In 2015, the KCTCS Other Post-Employment Benefits Trust conducted an actuarial valuation study to determine if any outstanding liability exists for KCTCS' employees covered by the Governmental Accounting Standards Board (GASB) Statement 45 regarding post-employment benefits. In December 2012, the KCTCS Board of Regents approved the establishment of a KCTCS Other Post-Employment Benefits Trust. In March 2013, KCTCS funded the Trust to substantially offset the calculated actuarial accrued liability. Reflective of the financial markets having recently reached historic heights, as of July 1, 2015, the Trust's assets ($178.6 million) exceeded its liabilities by approximately $9.9 million or 5.9 percent. As of July 1, 2015 the actuarial accrued liability of KCTCS's other post-employment benefits stood at $168.7 million.

- KCTCS continues to maintain its firm commitment to the vision and goals of the Postsecondary Education Improvement Act of 1997 (House Bill 1). During FY 2015-16 KCTCS will update its strategic plan. In June 2015, the KCTCS Board of Regents approved a proposed vision, along with goals and values for the 2016-22 KCTCS Strategic Plan. The vision, goals, and values were derived from statewide engagement sessions conducted by KCTCS President Box during the spring of 2015. Additional work has begun, drafting System-wide success measures for each of the proposed goals, based on input and direction from the 16 KCTCS college presidents. All KCTCS colleges and the System Office will develop local strategic plans in alignment with the proposed goals and measures, while each will be free to create additional local goals and/or measures. These plans will be developed in parallel with the development of a System-wide plan.

  To help bring local and regional focus, all plans will be further refined by the outcomes of a series of nine regional stakeholder roundtables to be conducted in fall 2015 by KCTCS and supported by the Bill and Melinda Gates Foundation. College and System Office plans are expected to be substantially complete by early spring 2015 with a draft of the System-wide Strategic Plan presented to the KCTCS Board of Regents in March, 2016. The final Strategic Plan will be presented to the Board of Regents for approval in

June 2016. Approval of the Strategic Plan will be followed by the creation of a 2016-18 Business Plan, a two-year implementation roadmap that prioritizes specific strategies in pursuit of established strategic targets. Biennial strategy development efforts will follow in 2018 and 2020 to keep implementation efforts aligned with the Strategic Plan and responsive to changing conditions. Progress toward strategic targets will be reported to the KCTCS Board of Regents regularly throughout the life of the 2016-22 Strategic Plan.

The current KCTCS Strategic Plan 2010-16 envisions KCTCS to be the nation's premier community and technical college system. The Plan's design called for more Kentucky citizens on the path to a postsecondary credential (certificate, diploma and/or associate degree) and a successful career path. The plan includes five goals with specific performance indicators and six-year targets creating an effective way to measure success. The goals are:

- Advance excellence and innovation in teaching, learning, and service.
- Cultivate diversity, multiculturalism, and inclusion.
- Increase student access, transfer, and success.
- Enhance the economic and workforce development of the Commonwealth.
- Promote the recognition and value of KCTCS.

In summary, although KCTCS has and continues to face many economic challenges, KCTCS management believes that its past and current financial management practices have positioned KCTCS for long-term financial health.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Net Position

June 30, 2015 and 2014

(amounts in thousands)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 190,254	$ 210,543
Loans, accounts and pledges receivable, net of bad debt	27,279	25,105
Other current assets	4,694	4,411
Total current assets	222,227	240,059
Noncurrent Assets		
Restricted cash and cash equivalents	26,690	15,224
Loans and other receivables	6,209	4,529
Endowment investments	51,423	49,474
Other long-term investments	16,880	16,634
Capital assets, net	604,581	605,298
Total noncurrent assets	705,783	691,159
DEFERRED OUTFLOWS		
Deferred outflows - KERS	11,722	0
Deferred outflows - KTRS	6,668	0
Total deferred outflows	18,390	0
Total assets and deferred outflows	946,400	931,218
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	10,631	6,236
Employee withholdings and deposits	16,231	16,305
Compensated absences - current	1,214	1,594
Unearned revenue	9,631	27,982
Leases payable - current	3,034	3,153
Total current liabilities	40,741	55,270
Noncurrent Liabilities		
Leases payable - noncurrent	24,252	17,490
Compensated absences - noncurrent	10,928	14,349
Net pension liability - KERS	174,855	0
Net pension liability - KTRS	209,139	0
Other long-term obligations	846	1,301
Total noncurrent liabilities	420,020	33,140
DEFERRED INFLOWS		
Deferred inflows - KERS	2,247	0
Deferred inflows - KTRS	15,439	0
Total deferred inflows	17,686	0
Total liabilities and deferred inflows	478,447	88,410
NET POSITION		
Net investment in capital	577,295	584,655
Restricted	107,610	93,808
Unrestricted	(216,952)	164,345
Total net position	$ 467,953	$ 842,808

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Revenues, Expenses, and Changes in Net Position

June 30, 2015 and 2014

(amounts in thousands)

	2015	2014
OPERATING REVENUES		
Student tuition and fees	$ 234,716	$ 237,230
Less: Scholarship allowances	(129,738)	(153,546)
Net tuition and fees	104,978	83,684
Federal grants and contracts	45,420	47,308
State and local grants and contracts	41,096	45,107
Nongovernmental grants and contracts	46	203
Indirect cost recoveries	2,781	2,615
Sales and services	5,976	5,522
Other operating revenues, net	(2,726)	3,626
Total operating revenues	197,571	188,065
OPERATING EXPENSES		
Educational and General:		
Instruction	213,312	225,162
Public service	34,425	36,371
Libraries	7,448	7,490
Academic support	34,971	29,453
Student services	58,997	61,896
Institutional support	82,859	89,683
Operation and maintenance of physical plant	74,689	63,969
Depreciation	31,987	30,256
Student financial aid	99,402	84,395
Total operating expenses	638,090	628,675
Operating loss	(440,519)	(440,610)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	190,162	191,456
Federal and local appropriations	40	72
Federal and state grants and contracts	208,478	217,270
Gifts	17,485	3,679
Investment income	1,775	3,389
Interest expense - capital debt	(834)	(873)
Other nonoperating revenues	7,516	6,484
Net nonoperating revenues	424,622	421,477
Loss before other revenues, expenses, gains or losses	(15,897)	(19,133)
Capital construction proceeds from state	1,175	(193)
Net realized loss on disposal of capital assets	(186)	(380)
Additions to endowments	634	6,448
Total other revenues	1,623	5,875
Decrease in net position before cumulative effect of changes	(14,274)	(13,258)
Cumulative effect of change in accounting principle	(378,217)	0
Cumulative effect of change in accounting policy	17,636	0
Decrease in net position	(374,855)	(13,258)
NET POSITION		
Net position - beginning of year	842,808	856,066
Net position - end of period	$ 467,953	$ 842,808

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flow

June 30, 2015 and 2014

(amounts in thousands)

	2015	2014
Cash flows from operating activities:		
Tuition and fees	**$ 105,107**	$ 84,182
Grants and contracts	**86,831**	91,836
Indirect cost recoveries	**2,781**	2,615
Sales and services	**5,976**	5,522
Payments to vendors and contractors	**(137,130)**	(123,350)
Student financial aid	**(96,586)**	(81,432)
Salaries, wages and benefits	**(367,532)**	(384,852)
Other receipts	**(2,244)**	4,219
Net cash used in operating activities	**(402,797)**	(401,260)
Cash flows from noncapital financing activities:		
State appropriations	**190,162**	191,456
Federal state and local grants, contracts and appropriations	**208,518**	217,342
Gifts and pledges received for non-capital purposes	**12,028**	3,693
Other nonoperating receipts	**7,516**	6,484
Net cash provided by noncapital financing activities	**418,224**	418,975
Cash flows from capital and related financing activities:		
Capital appropriations	**1,175**	(193)
Proceeds from disposal of capital assets	**1,776**	1,259
Purchase of capital assets	**(33,232)**	(44,361)
Principal paid on leases	**(10,420)**	(9,240)
Proceeds from leases	**17,063**	7,417
Interest paid on leases	**(834)**	(873)
Net cash used in capital and related financing activities	**(24,472)**	(45,991)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	**287**	604
Interest on investments	**2,212**	2,636
Purchase of investments	**(2,277)**	(2,321)
Net cash provided by investing activities	**222**	919
Net change in cash	**(8,823)**	(27,357)
Cash-beginning of year	**225,767**	253,124
Cash-end of year	**$ 216,944**	$ 225,767

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flow

June 30, 2015 and 2014

(amounts in thousands)

	2015	2014
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	**$ (440,519)**	$ (440,610)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	**31,987**	30,256
Actuarially calculated pension expense	**23,008**	0
Increase (decrease) in cash due to change in:		
Loans and accounts receivable, net	**1,595**	2,070
Deferred outflows	**(18,390)**	0
Other assets	**(283)**	7,371
Accounts payable and accrued liabilities	**4,395**	(2,367)
Employee withholdings and deposits	**(74)**	(162)
Compensated absences	**(3,801)**	3,943
Unearned revenue	**(715)**	(1,761)
Net cash used in operating activities	**$ (402,797)**	$ (401,260)

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

The Kentucky Community and Technical College System (KCTCS) is a component unit of the Commonwealth of Kentucky and is included in the basic financial statements of the Commonwealth.

KCTCS has considered whether several organizations (e.g. system and colleges' foundations) for which KCTCS is not financially accountable have met the criteria for inclusion as component units based on the nature and significance of their relationship with KCTCS. Currently, KCTCS believes none of these organizations are component units.

Basis of Presentation

KCTCS prepares its financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of KCTCS assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange transactions are recognized when the exchange transaction takes place, while those from non-exchange transactions are recognized when all applicable eligibility requirements are met. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. KCTCS reports as a Business Type Activity (BTA). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

Cash and Cash Equivalents

KCTCS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Noncurrent cash and cash equivalents represent cash restricted for capital construction and endowment fund cash pending transfer to the custodian for investment by the endowment fund managers. Cash and cash equivalents held by the KCTCS endowment fund managers are included in noncurrent endowment investments.

Cash and cash equivalents consist of deposits in local banks of $58.3 million, and with the Commonwealth of Kentucky of $158.6 million. Deposits with local banks and investment in repurchase agreements are covered by federal depository insurance or collateralized by securities held in KCTCS' name by its agents. Deposits with the Commonwealth are covered by federal depository insurance or collateralized by securities held by the Commonwealth in the Commonwealth's name.

1. Organization and Summary of Significant Accounting Policies (continued)

Pooled Endowment Funds

KCTCS employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends, interest, and realized and unrealized gains or losses, in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gain/loss on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

The *Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, as adopted by the Commonwealth of Kentucky, permits KCTCS to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return of the endowment is determined using the total return philosophy. The philosophy recognizes a prudent amount of the increase in the fair value of investments (realized and unrealized gains) as spendable return in addition to interest and dividends earned. Distribution of investment earnings for expenditure by participating funds is supported first by interest and dividends and, if necessary and available, a transfer from the endowment of any accumulated realized and unrealized gains on investments.

If a donor has not provided specific instructions, state law permits KCTCS to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, KCTCS is required to consider the "long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." The amount of earnings to be distributed is determined annually based on these factors. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

At June 30, 2015, net appreciation of $6.4 million is available to spend, of which $6.1 million is restricted for specific purposes.

Investments

Investments in marketable securities are stated at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses and Changes in Net Position.

Loans, Accounts and Pledges Receivable

Accounts receivable consist of tuition and fee charges to students. Accounts receivable also include amounts due from the federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to KCTCS' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. KCTCS determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy as a whole. KCTCS writes off specific accounts receivable when they are assessed as uncollectible. Pledges receivable are unconditional commitments from donors to give stated amounts over a specific period of time in the future. KCTCS records pledges at the present value of the net realizable amount.

1. Organization and Summary of Significant Accounting Policies (continued)

Loans, Accounts and Pledges Receivable (continued)

The Fire Commission is authorized to make low interest loans for the purchase of major equipment and construction of facilities to properly trained volunteer fire departments which do not have other sources of funds at rates which are favorable given their financial resources.

Capital Assets

Capital assets are stated at cost at the date of acquisition or, in the case of gifts, at fair market value at the date of the gift.

Equipment with a unit cost of $5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings and land improvements, 25 years for infrastructure, 10 years for library volumes and 3 to 10 years for equipment. Assets under vendor financing agreements are amortized on the straight-line basis over the estimated useful life of the asset, or the term of the lease, whichever is shorter.

Compensated Absences

The liability and expense incurred for employee vacation and sick pay are recorded as accrued compensated absences in the Statements of Net Position and as a component of operating expenses in the Statements of Revenues, Expenses and Changes in Net Position.

Unearned Revenue

Unearned revenue consists primarily of unearned tuition and fees related to the summer session, and amounts from grant and contract sponsors that have not yet been earned under the terms of the agreements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and Kentucky Teachers' Retirement System (KTRS) and additions to/deductions from KERS's and KTRS's fiduciary net position have been determined on the same basis as they are reported by KERS and KTRS. 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.

1. Organization and Summary of Significant Accounting Policies (continued)

Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- **Net investment in capital:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**
  Nonexpendable - Net assets of $36.6 million are subject to externally imposed stipulations maintained permanently by KCTCS. Such assets include permanent endowment funds.
  Expendable - Net assets of $71.0 million whose use by KCTCS is subject to externally imposed stipulations that can be fulfilled by actions of KCTCS pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets whose use by KCTCS is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Student Tuition and Fees

Student tuition and fees are presented net of scholarships and other financial aid applied to student accounts. Payments made directly to students are presented as student financial aid expenses.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students are reported net of scholarship allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship allowances are the difference between the stated charge for goods and services provided and the amount that is paid by students or third parties making payments on the students' behalf. Certain governmental grants and other Federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in the financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, they are recorded as scholarship allowances.

Federal and State Grants and Contracts

Pell Grants, Supplemental Educational Opportunity Grants (SEOG), College Access Program (CAP) Grants and Kentucky Educational Excellence Scholarship (KEES) are considered nonexchange transactions and are recorded as nonoperating revenues in the accompanying financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Operating Activities

KCTCS defines operating activities, as reported on the Statements of Revenues, Expenses and Changes in Net Position, as those that result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of KCTCS' expenses are from exchange transactions. Certain significant revenues relied on for operations, such as state appropriations, certain grants, gifts and investment income, are recorded as nonoperating revenues.

Income Taxes

KCTCS is an agency and instrumentality of the Commonwealth of Kentucky, pursuant to Kentucky Revised Statutes sections 164.580 through 164.600. Accordingly, KCTCS is generally exempt from federal income taxes as an organization described in Section 115 of the Internal Revenue Code of 1986.

Restricted Asset Spending Policy

KCTCS' policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions. The accompanying financial statements include estimates for items such as bad debt allowances, fair value of investments, useful lives of capital assets, accrued expenses (vacation, sick, long-term disability, postemployment benefits, workers compensation and unemployment) and other liability accounts. Actual results could differ from those estimates.

Cumulative Effect of Change in Accounting Principle

In fiscal year 2015, KCTCS adopted GASB Statement 68 *Accounting and Financial Reporting for Pensions.* The primary objective of GASB's Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. The financial statements include the accrued actuarial pension liability for the Kentucky Employees Retirement System (KERS) and Kentucky Teachers' Retirement System (KTRS) and the additional components associated with recording the pension liability. The effect of this change was an increase to operating expenses of $22.9 million. Management has determined that restatement of all prior periods presented is not practical; therefore the financial statements for fiscal year 2014 have not been restated, and the cumulative effect of the change, totaling $378.2 million is shown as a one-time decrease to net assets in the Statement of Revenues, Expenses, and Changes in Net Position.

1. Organization and Summary of Significant Accounting Policies (continued)

Cumulative Effect of Change in Accounting Policy

In fiscal year 2015, KCTCS changed its method of reporting for the KY TRAINS and Kentucky Coal Academy programs. These programs were recorded as deferred revenue when the appropriations were received. It was determined that revenue should be recognized when received for these programs. As a result the effect of this change was a decrease to deferred revenue $17.6 million. Management has determined that restatement of all prior periods presented is not practical; therefore the financial statements for fiscal year 2014 have not been restated, and the cumulative effect of the change, totaling $17.6 million is shown as a one-time increase to net assets in the Statement of Revenues, Expenses, and Changes in Net Position.

Recent Accounting Pronouncements

In February 2015 the GASB approved Statement 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value of measurement for financial report purposes and guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments will be required to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. This Statement establishes a three-leveled hierarchy of inputs to valuation techniques used to measure fair value. Investments will generally be required to be measured at fair value. This Statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. KCTCS is currently evaluating the effects of this Statement on its financial statements.

Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through September 30, 2015, the date that the financial statements were available to be issued.

Reclassifications

Certain reclassifications to fiscal 2014 comparative amounts have been made to conform to the 2015 classifications, with no impact on net position or change in net position.

2. Loans, Accounts and Pledges Receivable

Loans, accounts and pledges receivable (net of allowances) as of June 30, 2015 and 2014, are as follows (amounts in thousands):

	2015	2014
Student (net of allowances of $3,888 and $4,371)	$ 10,397	$ 11,798
Other receivables	997	400
Reimbursement receivable – grants and contracts	11,655	11,964
Pledges receivable	6,754	1,297
Accrued interest receivable	58	66
Bridge loans	300	350
Loans receivable from fire districts	3,327	3,759
Total	33,488	29,634
Current portion	27,279	25,105
Non-current portion	$ 6,209	$ 4,529

2. Loans, Accounts and Pledges Receivable (continued)

Pledges receivable of $6.8 million are expected to be collected primarily over the next ten years, as follows (amounts in thousands):

2016	$	3,584
2017		1,379
2018		643
2019		1,299
2020		33
2021-2025		86
		7,024
Present value discount		270
	$	6,754

KCTCS is required to record operating, endowment and capital pledges as revenue when all eligibility requirements have been met.

Fire commission receivables of $3.3 million are expected to be collected primarily over the next ten years as follows (amounts in thousands):

2016	$	588
2017		566
2018		541
2019		477
2020		382
2021-2025		773
	$	3,327

3. Investments

All investments are stated at fair value. Investments acquired by gift are stated at fair value at the date of the gift if a fair value is available, and otherwise at an appraised or nominal value.

KCTCS had the following investments as of June 30, 2015 and 2014 (amounts in thousands):

Investment Type	Fair Value 2015	Fair Value 2014
Bond funds	$ 21,059	$ 20,891
Money market funds	386	82
Equities and equity funds	44,057	43,296
Other	2,801	1,839
	$ 68,303	$ 66,108

KCTCS has an investment management agreement with the Commonfund. The Commonfund managed $68.3 million of KCTCS' investments at June 30, 2015. The Commonfund was founded in 1969 to serve higher education and not for profit organizations. It currently serves more than 1,400 organizations and has $25 billion in assets under management. The Commonfund is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. KCTCS does not have a formal policy for concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2015, all of KCTCS' U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCTCS' investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

4. Capital Assets, Net

Capital assets as of June 30, 2015 and 2014 and the changes therein for the years then ended are summarized as follows (in thousands):

	2015			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	$ 30,647	$ 1,853	$ 12	$ 32,488
Land improvements	14,627	778	-	15,405
Infrastructure	47,408	-	-	47,408
Buildings and structures	683,982	20,010	259	703,733
Construction in progress	50,463	5,553	-	56,016
Vehicles	9,949	856	243	10,562
Equipment, furniture, etc.	108,357	4,182	5,071	107,468
Leasehold improvements	7,379	-	-	7,379
Library materials	60,911	-	139	60,772
Energy saving assets	13,972	-	-	13,972
Equine	10	-	-	10
Computer software	2,099	-	911	1,188
Total	1,029,804	33,232	6,635	1,056,401
Less accumulated depreciation				
Land improvements	5,996	297	-	6,293
Infrastructure	15,066	1,878	-	16,944
Buildings and structures	261,913	16,112	17	278,008
Vehicles	7,641	860	241	8,260
Equipment, furniture, etc.	64,800	10,195	4,079	70,916
Leasehold improvements	6,508	73	-	6,581
Library materials	55,978	1,281	-	57,259
Energy saving assets	5,332	1,171	-	6,503
Computer software	1,272	120	336	1,056
Total accumulated depreciation	424,506	31,987	4,673	451,820
Capital assets, net	$ 605,298	$ 1,245	$ 1,962	$ 604,581

	2014			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land	$ 30,586	$ 61	$ -	$ 30,647
Land improvements	12,977	1,650	-	14,627
Infrastructure	47,408	-	-	47,408
Buildings and structures	671,138	13,529	685	683,982
Construction in progress	40,930	9,533	-	50,463
Vehicles	8,907	1,280	238	9,949
Equipment, furniture, etc.	100,875	12,157	4,675	108,357
Leasehold improvements	7,379	-	-	7,379
Library materials	59,868	1,043	-	60,911
Energy saving assets	9,341	4,631	-	13,972
Equine	10	-	-	10
Computer software	1,622	477	-	2,099
Total	991,041	44,361	5,598	1,029,804
Less accumulated depreciation				
Land improvements	5,735	261	-	5,996
Infrastructure	13,187	1,879	-	15,066
Buildings and structures	246,667	15,761	515	261,913
Vehicles	6,996	856	211	7,641
Equipment, furniture, etc.	59,633	8,400	3,233	64,800
Leasehold improvements	6,434	74	-	6,508
Library materials	54,552	1,426	-	55,978
Energy saving assets	4,012	1,320	-	5,332
Computer software	993	279	-	1,272
Total accumulated depreciation	398,209	30,256	3,959	424,506
Capital assets, net	$ 592,832	$ 14,105	$ 1,639	$ 605,298

Of the total capital construction projects at June 30, 2015 of $85.1 million, there is $29.1 million remaining to complete the projects.

5. Unearned Revenue

Unearned revenue as of June 30, 2015 and 2014 is as follows (amounts in thousands):

	2015	2014
Unearned summer tuition revenues	$ 6,320	$ 6,995
Grants and contracts	3,311	20,987
	$ 9,631	$ 27,982

Included in grants and contracts for 2014 are monies deferred for the Kentucky Workforce Investment Network System (KY WINS) program and the Kentucky Coal Academy.

6. Noncurrent Liabilities

Noncurrent liabilities as of June 30, 2015 and 2014 are summarized as follows (amounts in thousands):

	2015					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non Current Portion
Leases payable						
Capital leases payable	$ 20,643	$ 17,063	$ 10,420	$ 27,286	$ 3,034	$ 24,252
Total leases payable	20,643	17,063	10,420	27,286	3,034	24,252
Other liabilities						
Compensated absences	15,943	9,660	13,461	12,142	1,214	10,928
Long-term disability	1,462	-	532	930	84	846
Total other liabilities	17,405	9,660	13,993	13,072	1,298	11,774
Total noncurrent liabilities	$ 38,048	$ 26,723	$ 24,413	$ 40,358	$ 4,332	$ 36,026

	2014					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Non Current Portion
Leases payable						
Capital leases payable	$ 22,466	$ 7,417	$ 9,240	$ 20,643	$ 3,153	$ 17,490
Total leases payable	22,466	7,417	9,240	20,643	3,153	17,490
Other liabilities						
Compensated absences	12,000	19,339	15,396	15,943	1,594	14,349
Long-term disability	1,462	-	-	1,462	161	1,301
Total other liabilities	13,462	19,339	15,396	17,405	1,755	15,650
Total noncurrent liabilities	$ 35,928	$ 26,756	$ 24,636	$ 38,048	$ 4,908	$ 33,140

6. Noncurrent Liabilities (continued)

Capital leases consist of the following leases at June 30, 2015 and 2014 (amounts in thousands):

	2015	2014
Computer equipment capitalized leases, all with 1 to 4 year remaining terms with total annual payments ranging from $1,154 to $60,308 and interest rates from 2.0% to 16.50%.	$ 1,077	$ 998
Two energy savings capitalized leases with 8 to 15 year remaining terms with total annual payments ranging from $517,529 to $664,402 and interest rates from 2.53% to 4.65%.	16,732	5,393
Building capitalized leases with 5 to 8 year remaining terms with total annual payments ranging from $18,600 to $637,020 and an interest rate ranging from 4.0% to 4.04%.	5,006	9,989
Copier leases, with 1 to 5 year remaining terms with total annual payments ranging from $53 to $368,053 and interest rates from 4.00% to 16.50%.	4,471	4,263
	$ 27,286	$ 20,643

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2015 are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2016	$ 3,034	$ 595	$ 3,629
2017	2,426	1,004	3,430
2018	3,048	663	3,711
2019	2,646	561	3,207
2020	1,858	484	2,342
2021-2025	8,990	1,376	10,366
2026-2031	5,284	409	5,693
	$ 27,286	$ 5,092	$ 32,378

6. Noncurrent Liabilities (continued)

Operating Leases

KCTCS is obligated under several operating leases for office equipment, classroom space, and office space with expirations through June 2021. Rent expense was $2.7 million and $4.4 million for 2015 and 2014, respectively. Future minimum lease payments as of June 30, 2015 are as follows (amounts in thousands):

2016	$ 1,477
2017	993
2018	531
2019	276
2020	244
Thereafter	33
	$ 3,554

7. Risk Management

KCTCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by (1) the State Fire and Tornado Insurance Fund (the Fund), (2) Sovereign Immunity and the State Board of Claims, or (3) in the case of risks not covered by the Fund and Sovereign Immunity, commercial insurance.

The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between $500 and $1.0 million. Losses in excess of $1.0 million are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of $1.25 billion per occurrence.

The Commonwealth of Kentucky is covered by sovereign immunity. Per KRS 44.073, state institutions of higher education, including KCTCS, under KRS Chapter 164 are considered agencies of the state. As such, KCTCS is covered by the Board of Claims for acts of negligence up to $0.2 million for a single claim and an aggregate of $0.35 million per negligent act. The Board has primary and exclusive jurisdiction over all acts of negligence for state institutions of higher education.

For risks not covered by sovereign immunity, KCTCS has purchased commercial insurance policies covering risks of loss due to damage to property and automobiles, general and automobile liability claims, employee dishonesty, and student accidents. KCTCS has general liability insurance with an aggregate total limit of $3.0 million and a per occurrence limit of $1.0 million without a deductible. An umbrella policy extends the liability aggregate total limit to $10.0 million with a per occurrence limit of $10.0 million without a deductible.

7. Risk Management (continued)

Educator's Legal Liability coverage has been secured through commercial insurance to insure KCTCS faculty and staff against claims arising from actions undertaken within the scope of their job responsibilities. This coverage also extends to the KCTCS Board of Regents. The limit is $2.0 million without a deductible. There have been no significant reductions in insurance coverage from 2014 to 2015. Settlements have not exceeded insurance coverage during the past three years.

Employees hired at the community colleges prior to January 14, 1998 (the date the KCTCS Board of Regents accepted management of the community colleges from the University of Kentucky) that have not opted to the KCTCS personnel system and have the University of Kentucky benefits plan, are covered under a self-insured long-term disability income program. This program is funded through a trust established by the University of Kentucky and now funded by KCTCS for the purpose of paying claims and establishing necessary reserves. KCTCS makes payments to the fund on a pay-as-you-go basis for long-term disability payments made to its employees who have the University of Kentucky benefit plan covered by long-term disability. The estimated liability for long-term disability claims at June 30, 2015 totals $0.9 million of which $0.8 million is included in "Other long-term obligations" and $0.1 million is included in "Employee withholdings and deposits".

8. Natural Classification

The operating expenses for KCTCS by natural classification were as follows for the years ended June 30, 2015 and 2014 (amounts in thousands):

	2015	2014
Salaries and wages	$ 267,672	$ 283,876
Employee benefits	100,603	104,757
Student scholarships and financial aid	96,586	81,432
Depreciation	31,987	30,256
Professional services	22,139	23,629
Equipment not capitalized	19,718	2,706
Utilities	16,295	15,887
Supplies	14,204	16,038
Repairs and maintenance	13,308	13,575
Fire commission incentive	11,582	11,463
Fire commission state aid	5,758	5,616
Travel	4,604	4,799
Fire commission pension	3,781	3,879
Communications	3,522	3,114
Bad debts	3,376	3,787
Rental/lease	2,739	4,360
Fire commission workers compensation	2,719	3,489
Grants administrative cost	2,524	3,267
Dues & subscriptions	2,513	2,507
Other, various	12,460	10,238
	$ 638,090	$ 628,675

9. Pension Plans

Regular full-time employees of KCTCS, faculty and staff, are required to participate in a retirement plan.

Regular full-time employees subject to KCTCS personnel policies had the opportunity to choose between a defined benefit plan and a defined contribution 403(b) plan prior to January 1, 2014. Effective January 1, 2014, regular full-time and some part-time employees (staff employees who work in 100 hours or more per month and faculty who work 70% or more of a full-time workload in a fiscal year) only have the option to elect participation in the defined contribution 403(b) plan due to a change in Board of Regents Policy. For new employees, the election to participate in the defined contribution 403(b) plan is made in the first 30 days of regular full-time employment or if they meet the criteria of part-time employees as outlined above, within the first 30 days of employment or after a 90 day look-back period to determine if the eligibility criteria has been satisfied. Employees hired with an effective date of July 1, 2009 or after who choose the 403(b) plan option of retirement have a five year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions. These employees are immediately vested for employee accrued contributions. Other employees already enrolled in the 403(b) plan option prior to July 1, 2009 do not have the vesting period requirement and are vested with employee and employer contributions from the date of initial employment. Employees that have a break in service and are rehired with an effective date of July 1, 2009 or after default to having the five year vesting period (60 months) of continuous service to be eligible to receive the employee's accrued benefits derived from employer contributions from the date of rehire. These employees are immediately vested for employee accrued contributions.

KCTCS has authorized four 403(b) retirement plan carriers as follows:

American Century Investors, Inc.
Fidelity Investments
Voya Financial
Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

Regular full-time employees that were employed by antecedent organizations prior to the creation of KCTCS' personnel policies and benefits, either from a community or technical college, that voluntarily elect to join the KCTCS personnel system may choose a retirement option based on each employee's eligibility criteria. The defined benefit plans, KTRS or KERS, have a 5-year vesting period. Employer contributions that are forfeited by employees prior to vesting are used to reduce future employer contributions.

Regular full-time employees who have not opted for KCTCS personnel policies and benefits and who were employed before January 14, 1998 at a community college are subject to the personnel policies of the University of Kentucky personnel system and are participants of the University of Kentucky Retirement Plan. Participants contribute 5 percent and KCTCS contributes 10 percent of the participant's eligible compensation to the retirement plan. The University of Kentucky has authorized two retirement plan carriers, as follows:

Fidelity Institutional Services Company
Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

9. Pension Plans (continued)

Regular full-time employees who have not opted for KCTCS personnel policies and benefits who were employed at a technical college before June 30, 1998 are participants in either KTRS (Kentucky Teachers Retirement System) or KERS (Kentucky Employees Retirement System) depending on the requirements of the position. Both KTRS and KERS are cost-sharing multiple employer plans.

KCTCS contributions and costs for all of its retirement plans for 2015 and 2014 were $50.9 million and $48.0 million, respectively; the employees contributed $17.2 million and $17.5 million for 2015 and 2014, respectively. KCTCS total payroll costs were $267.7 million and $283.8 million for 2015 and 2014, respectively.

Kentucky Teachers Retirement System (KTRS)

Pursuant to the provisions of KRS 161.250 the Board of Trustees of KTRS is vested with the responsibility for the general administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system as needed. The applicable provisions of the Kentucky Revised Statutes (state law) shall control if any inconsistency exists between state law and this policy. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teacher's Retirement Systems, 479 Versailles Road, Frankfort, Kentucky 40601 or by calling (502)848-8500.

Benefits Provided

KTRS provides retirement, disability, and death benefits. Each employee covered by KTRS is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 3 based on date of participation) upon attainment of KTRS specified age (or age and service combinations). Participants have a fully vested interested after the completion of 60 months of service, 12 of which are current service.

Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 5 years of continuous service are eligible to retire at age 60 or at any age with 27 years of service. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Service and disability retirees are covered by a $5,000 life insurance benefit.

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. For the fiscal year ended June 30, 2015 employees were required to contribute 7.680 percent or 12.105 percent, depending on the participant's personnel classification; KCTCS contributes 15.360 percent or 15.355 percent, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from KCTCS were $6,668,442 and $6,832,170 million for the years ended June 30, 2015 and 2014.

9. Pension Plans (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, KCTCS reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to KCTCS. The amount recognized by KCTCS as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with KCTCS are as follows:

KCTCS' proportionate share of the net pension liability	$209,139,224
State's proportionate share of the net pension liability associated with KCTCS	36,216,846
Total	$245,356,070

At June 30, 2015, KCTCS reported a liability of $209,139,224 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. KCTCS' proportion of the net pension liability was based on a projection of KCTCS' long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations and the State, actuarially determined liability. At June 30, 2015, KCTCS' proportion was 1.04 percent.

For the year ended June 30, 2015, KCTCS recognized pension expense of $10,248,174. At June 30, 2015, KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Changes in assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	12,609,060
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	0	2,829,940
KCTCS contributions subsequent to the measurement date	6,668,442	0
Total	$ 6,668,442	$ 15,439,000

$6,668,442 reported as deferred outflows of resources related to pensions resulting from KCTCS 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 of resources and deferred inflows of resources related to pensions will be recognized in pension expense as presented on the following page:

9. **Pension Plans** (continued)

Years ended June 30:

2016	$	3,741,830
2017		3,741,830
2018		3,741,830
2019		3,741,830
2020		471,680
	$	15,439,000

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.0 – 8.2% percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation
Mortality table	RP 2000 Group Mortality Table

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
Total	100%	

9. Pension Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of KCTCS, calculated using the discount rate of 5.23%, as well as what KCTCS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
KCTCS' proportionate share of the Collective Net Pension Liability	$262,703,674	$209,139,224	$164,916,567

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued KTRS financial reports.

9. Pension Plans (continued)

Kentucky Employees Retirement System (KERS)

The employees provided with pensions through the Kentucky Employees Retirement System (KERS) are in a defined benefit pension plan administered by the Kentucky Retirement System (KRS). Kentucky Revised Statute 61.645 grants the Board of Trustees of Kentucky Retirement System (KRS) the authority to administer KERS. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502)696-8800.

Benefits Provided

KERS provides retirement, disability, and death benefits. Each employee covered by KERS is entitled to a monthly benefit based upon their months of service multiplied by the average of 5 full fiscal years of salary (highest 5 or last 5 based on date of participation) upon attainment of KERS specified age (or age and service combinations). Participants have a fully vested interested after the completion of 60 months of service.

Retirement benefits are determined as a percent of the employee's final 5-year average compensation times the employee's years of service. Employees hired prior to September 1, 2008 can retire at any age with 27 years of service or at age 65 with 4 years of service. Employees hired after September 1, 2008 can retire when their age plus years of service equal 87 (must be at least age 57) or at age 65 with 5 years of service. Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined based on your participation date. Death benefits are based on age, months of service and whether you were active or retired.

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation; KCTCS contributes 38.77 percent. KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation; KCTCS contributes 38.77 percent. These amounts were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from KCTCS were $11,721,713 and $8,638,825 for the year ended June 30, 2015 and 2014.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, KCTCS reported a liability of $174,855,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. KCTCS' proportion of the net pension liability was based on a projection of KCTCS' long-term share of contributions to the pension plan relative to the projected contributions of all participating organizations, actuarially determined. At June 30, 2015, KCTCS' proportion was 1.95 percent.

9. Pension Plans (continued)

For the year ended June 30, 2015, KCTCS recognized pension expense of $13,215,000. At June 30, 2015, KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 0	$ 0
Changes in assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	2,247,000
Changes in proportion and differences between KCTCS contributions and proportionate share of contributions	0	0
KCTCS contributions subsequent to the measurement date	11,721,713	0
Total	$ 11,721,713	$ 2,247,000

$11,721,713 reported as deferred outflows of resources related to pensions resulting from KCTCS 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 of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2016	$ 449,400
2017	449,400
2018	449,400
2019	449,400
2020	449,400
	$ 2,247,000

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

9. Pension Plans (continued)

The rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for 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 the Systems. 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.

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

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
Domestic Equity	30%	8.45%
International Equity	22%	8.85%
Emerging Market Equity	5%	10.50%
Private Equity	7%	11.25%
Real Estate	5%	7.00%
Core U.S. Fixed Income	10%	5.25%
High Yield U.S. Fixed Income	5%	7.25%
Non U.S. Fixed Income	5%	5.50%
Commodities	5%	7.75%
TIPS	5%	5.00%
Cash	1%	3.25%
Total	100%	

9. Pension Plans (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of KCTCS' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents KCTCS' proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what KCTCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
KCTCS' proportionate share of the Collective Net Pension Liability	$196,703,000	$174,855,000	$155,150,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plans' fiduciary net position is available in the separately issued KERS financial reports.

10. Postemployment Benefits

As discussed in Note 9, KCTCS offers a defined contribution 403(b) retirement plan (the Plan). The Plan provides postemployment medical benefits to eligible retirees that were hired with an effective date prior to July 1, 2009. Employees hired or rehired with an effective date of July 1, 2009 or after who choose the defined benefit plan option of retirement are not eligible for the postemployment health benefit. During the year ended June 30, 2013 KCTCS created an irrevocable IRS Section 115 trust and contributed $163.7 million to fund the Plan.

KCTCS' annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 34.

The actuarial valuation is completed bi-annually and utilizes beginning of year amounts. The latest valuation was performed using July 1, 2015 amounts. The actuarial accrued liability for benefits for the July 1, 2015 valuation date was $168.7 million and the actuarial value of assets was $178.6 million, resulting in a funded actuarial accrued liability (AAL) of $9.9 million.

The following table shows the components of KCTCS' annual OPEB cost for the year, the amount actually contributed to the Plan and the changes in KCTCS' net OPEB (prepaid) obligation for the years ended June 30, 2015 and 2014 (amounts in thousands), as determined based on the July 1, 2015 valuation:

	2015	2014
Annual required contribution	$ 254	$ 7,986
Interest	(101)	(635)
Amortization	1,780	1,555
Annual OPEB cost	1,933	8,906
Contributions made	0	0
Increase in net OPEB obligation	1,933	8,906
Net (prepaid) OPEB obligation, beginning of year	(1,679)	(10,585)
Net (prepaid) OPEB obligation, end of year	$ 254	$ (1,679)

10. Postemployment Benefits (continued)

KCTCS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015 and 2014 are as follows (amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 1,933	0.0%	$ 254
June 30, 2014	$ 8,906	0.0%	$ (1,679)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The July 1, 2015 actuarial valuation calculation used the projected unit credit (PUC) and normal cost (NC) methods. The PUC is based on costs attributable to past service and current years' service determined by prorating the present value of benefits over all years of service that benefits are expected to be paid from the plan. The NC is the portion of the present value which is allocated to the valuation year. The actuarial assumptions include a 6.0 percent discount rate as of July 1, 2015. Assumptions also include an annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 4.0 percent after twenty years.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded AAL	Funded Ratio	Covered Payroll	Funded AAL as a Percentage of Covered Payroll
July 1, 2015	$178,552	$168,682	($9,870)	105.9%	$ 143,621	-6.9%
July 1, 2014	$179,920	$172,278	($7,642)	104.4%	$ 19,473	-6.4%

10. Postemployment Benefits (continued)

During the year ended June 30, 2015, the value of the plan assets held within the KCTCS Other Postemployment Benefits Trust increased to $178.6 million. The actuarial accrued liability for benefits is estimated to be $168.7 million as of June 30, 2015. The impact of the net increase in the plan assets over the actuarial accrued liability will be included in the valuation report prepared using a July 1, 2017 valuation date.

11. Contingencies

KCTCS is a defendant in various lawsuits. However, management is of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of KCTCS.

KCTCS receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. KCTCS has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of KCTCS at June 30, 2015.

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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*

Report of Independent Auditors

Members of the Board of Regents
Kentucky Community and Technical College System
Versailles, Kentucky

We have audited, in accordance with the 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 Kentucky Community and Technical College System (the System), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dorton Allen Ford, PLLC

September 30, 2015
Lexington, Kentucky

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Officers of the KCTCS Board of Regents, KCTCS Board of Regents and KCTCS President's Cabinet

Officers of the KCTCS Board of Regents
Porter G. Peeples, Sr., Chair
Marcia L. Roth, Vice Chair
Carolyn E. "Betsy" Flynn, Secretary

KCTCS Board of Regents
Elijah Buell, Jr.
Ginger M. Carroll
Robert G. Cooper
John P. Dove
Angela Fultz, Ph.D.
Gail R. Henson, Ph.D.
Barry K. Martin
Tiffany Quinlan
Donald R. Tarter
Doris C. Thomas
Ebenezer Yankey

KCTCS President's Cabinet
Jay K. Box, Ed.D., President
Timothy R. Burcham, CFRE
Paul B. Czarapata, Ed.D.
Wendell A. Followell
Beth R. Hilliard
Gloria S. McCall, Ed.D.
Rhonda R. Tracy, Ph.D.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Schedule of Funding Progress for the Retiree Medical Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ Funded AAL	Funded Ratio	Covered Payroll	Unfunded/ Funded AAL as a Percentage of Covered Payroll
July 1, 2013	$ 157,652	$ 158,357	$ 705	99.6%	$ 124,650	0.6%
July 1, 2015	$ 178,552	$168,682	($ 9,870)	105.9%	$ 143,621	-6.9%

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Teacher's Retirement System
(amounts in thousands)

		2015
KCTCS' porportion of the net pension liability (asset)	$	209,139
KCTCS' porportionate share of the net pension liability (asset)		0.97%
State's proportionate share of the collective net pension liability	$	36,216
KCTCS' covered-employee payroll	$	43,865
KCTCS' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		476.78%
Plan fiduciary net position as a percentage of the total pension liability		45.59%

Schedule of KCTCS Contribution
Kentucky Teacher's Retirement Plan
(amounts in thousands)

		2015
Contractually required contribution	$	6,668
Contributions in relation to the contractually required contribution	$	6,668
Contribution deficiency (excess)	$	0
KCTCS covered-employee payroll	$	43,865
Contributions as a percentage of covered-employee payroll		15.20%

Schedule of KCTCS' Proportionate Share of the Net Pension Liability
Kentucky Employees Retirement System
(amounts in thousands)

	2015
KCTCS' porportion of the net pension liability (asset)	$ 174,855
KCTCS' porportionate share of the net pension liability (asset)	1.95%
KCTCS' covered-employee payroll	$ 30,409
KCTCS' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	575.00%
Plan fiduciary net position as a percentage of the total pension liability	22.32%

Schedule of KCTCS Contribution
Kentucky Employees Retirement Plan
(amounts in thousands)

	2015
Contractually required contribution	$ 11,722
Contributions in relation to the contractually required contribution	$ 11,722
Contribution deficiency (excess)	$ (0)
KCTCS covered-employee payroll	$ 30,409
Contributions as a percentage of covered-employee payroll	38.55%

EXHIBIT C

THE PROJECT

Project	Authorized Amount
Construct Postsecondary Education Center - Madisonville CC	$15,000,000
Construct Carrollton Campus Phase I – Jefferson CTC	12,000,000
Construct Urban Campus – Gateway CTC	11,250,000
Construct 2D Arts School Phase I – West Kentucky CTC	7,500,000
Renovate Campus Wide Facilities – Henderson CC	3,750,000
Renovate Owen Classroom Building – Elizabethtown CTC	750,000

The State Agency will lease all of the Projects described above. To the extent proceeds of the Bonds are not applied to pay the costs of such Projects (portions of which costs may be paid from the proceeds of Commission bonds to be issued in the future), proceeds of the Bonds may be applied to pay the costs of the Projects described below, in which case, the State Agency will lease the Projects described below, if Bond proceeds are so applied.

Project	Authorized Amount
Renovate Main Building – College Drive – Ashland CTC	$7,500,000
Expansion of Pikeville Campus – Big Sandy CTC	1,500,000
Newton Campus Expansion – Bluegrass CTC	18,000,000
Construct Community Intergenerational Center – Lees–Hazard CTC	1,500,000
Construct Agriculture Health and Career Technology Center Phase I – Hopkinsville CC	11,250,000
Construct MCTC/MSU Postsecondary Center of Excellence – Phase I – Maysville CTC	21,000,000
Construct Advanced Technology Center Phase II – Owensboro CTC	9,000,000
Construct Arts and Humanities Building — Somerset CC North	1,500,000
Construct Instructional Complex – Southcentral CTC	16,500,000
Construct Educational Alliance Center – Middlesboro Campus – Southeast Kentucky CTC	7,500,000

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EXHIBIT D

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 and Administration Cabinet is required to intercept any funds appropriated to the State Agency but not yet disbursed and to remit those funds to the Trustee to remedy the default.

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

Default Record

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

TABLE I
ACTIVE DEBT ISSUING ENTITIES

ENTITY	STATUTORY AUTHORITY/PURPOSE	DEBT LIMITATIONS	RATINGS*
State Property and Buildings Commission ("SPBC")	**KRS 56.450** Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	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 to "A1" from "Aa3" with a negative outlook. On June 16, 2014, Moody's downgraded certain GARVEEs, issued by the Kentucky Asset/Liability Commission, backed by appropriations from the Federal Highway Trust Fund to "A2" from "A1" and changed the outlook from negative to stable.
- On 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 to "AA-" from "AA" and changed the outlook from negative to stable.

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EXHIBIT E

BOOK-ENTRY-ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company ("DTC"), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (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 Bonds under the Resolution.

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such

Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on 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 Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

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

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

The information in this EXHIBIT E concerning DTC and DTC's book-entry-only system has been obtained from sources that the Commission believes to be reliable, but neither the Commission nor the Underwriters take any responsibility for the accuracy thereof.

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EXHIBIT F

FORM OF BOND COUNSEL OPINION FOR THE BONDS

June 16, 2016

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

Re: $44,555,000 Agency Fund Revenue Bonds, Project No. 114

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 $44,555,000 Agency Fund Revenue Bonds, Project No. 114 (the "Bonds"), dated the date hereof.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (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 April 16, 2016 (the "Resolution") for the purpose of (i) paying costs of a project (the "Project") and (ii) paying costs of issuing the Bonds. The Project and projects have been leased to the Kentucky Community and Technical College System (the "State Agency") pursuant to a Lease Agreement dated as of May 1, 2016 by and between the Commission, as lessor, and the State Agency, as lessee (the "Lease").

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

We have also examined records relating to the authorization and original issuance of the Bonds, including a specimen Bond and other relevant matters. We have also made such investigation as we have deemed necessary for the purposes of such opinions, and relied on certificates of officials of the Commonwealth, the Commission 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 State Agency 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 limited and special obligations of the Commission enforceable in accordance with their terms. The Bonds are payable as to principal of, premium, if any, 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 principal of, premium, if any, and interest on the Bonds as the same become due.

4. The Lease has been duly authorized, executed and delivered by the State Agency. The Lease is the legal, valid and binding obligation of the State Agency. The Lease is enforceable in accordance with its respective 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 State Agency or any other agency or political subdivision of the Commonwealth.

6. The Bonds are payable as to principal of, premium, if any, and interest solely and only from and are secured by a pledge of the General Receipts as set forth under the Lease.

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

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

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

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

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

Very truly yours,

EXHIBIT G

FORM OF KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM CONTINUING DISCLOSURE AGREEMENT AND ACKNOWLEDGEMENT BY TRUSTEE

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$44,555,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 114

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of May 1, 2016, by the Kentucky Community and Technical College System (the "State Agency"), the Kentucky State Property and Buildings Commission (the "Issuer") and acknowledged by U.S. Bank National Association, as trustee (the "Trustee") under a Bond Resolution adopted by the Issuer on April 14, 2016 (the "Resolution"), is executed and delivered in connection with the issuance of the Issuer's $44,555,000 principal amount of Agency Fund Revenue Bonds, Project No. 114 (the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

ARTICLE I

THE UNDERTAKING

SECTION 1.1. Purpose. This Agreement constitutes a written undertaking of the State Agency and, to a limited extent as set forth in this Agreement, the Issuer, providing for the disclosure of certain information concerning the Bonds on an on-going basis as set forth herein for the benefit of Holders and beneficial owners of the Bonds in accordance with the provisions of the Rule.

SECTION 1.2. Annual Financial Information and Issuer Annual Financial Data. (a) The State Agency shall provide, or shall cause to be provided, Annual Financial Information with respect to each fiscal year of the State Agency, commencing with the fiscal year ending June 30, 2016, by no later than 270 days after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements no later than 15 business days after the final publication date of such Audited Financial Statements, to the MSRB.

(b) The State Agency shall provide, or shall cause to be provided, in a timely manner, but in any event on a date not in excess of 10 business days after the occurrence of such failure, notice of any failure of the State Agency to provide the Annual Financial Information by the date specified in subsection (a) above to the MSRB.

(c) The Issuer shall provide, or shall cause to be provided, Issuer Annual Financial Data with respect to each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2016, by no later than 270 days after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements no later than 15 business days after the final publication date of such Audited Financial Statements, to the MSRB.

(d) The Issuer shall provide, or shall cause to be provided, in a timely manner, but in any event on a date not in excess of 10 business days after the occurrence of such failure, notice of any failure of the Issuer to provide the Issuer Annual Financial Data by the date specified in subsection (c) above to the MSRB.

SECTION 1.3. Audited Financial Statements. (a) If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the State Agency shall provide Audited Financial Statements, when and if available, to the MSRB.

(b) If not provided as part of Issuer Annual Financial Data by the date required by Section 1.2(c) hereof, the Issuer shall provide Issuer Annual Financial Data, when and if available, to the MSRB.

SECTION 1.4. Notices of Material Events. If a Material Event occurs, the State Agency shall provide, or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the Material Event, a Material Event Notice to the MSRB.

SECTION 1.5. Additional Disclosure Obligations. the State Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the State Agency, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the State Agency under such laws.

ARTICLE II

OPERATING RULES

SECTION 2.1. References to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if (a) the State Agency provides Annual Financial Information or (b) the Issuer provides Issuer Annual Financial Data by specific reference to documents previously either (i) provided to the MSRB or (ii) filed with the SEC. If such a document is the Official Statement, it also must be available from the MSRB.

SECTION 2.2. Submission of Information. Annual Financial Information and Issuer Annual Financial Data, as applicable, may be provided in one document or multiple documents, and at one time or in part from time to time.

SECTION 2.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Bonds.

SECTION 2.4. Manner of Transmission of Information and Notices. (a) Information required to be provided to the MSRB shall be transmitted to the MSRB, in an electronic format as prescribed by the MSRB, and accompanied by identifying information as prescribed by the MSRB. A description of such format and information as presently prescribed by the MSRB is included in Attachment A hereto.

(b) Except as required by subsection (a) above or unless otherwise required by law, the State Agency shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the State Agency's information and notices, subject to technical and economic feasibility in the State Agency's sole determination.

SECTION 2.5. Fiscal Year. (a) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The current fiscal year of the State Agency is July 1 - June 30, and the State Agency shall promptly notify in writing the MSRB of each change in the fiscal year of the State Agency.

(b) Issuer Annual Financial Data shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The current fiscal year of the Issuer is July 1 - June 30, and the Issuer shall promptly notify in writing the MSRB of each change in the fiscal year of the Issuer.

SECTION 2.6. Dissemination Agent. The State Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with our without appointing a Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Agency pursuant to the terms of this Agreement.

ARTICLE III

TERMINATION, AMENDMENT AND ENFORCEMENT

SECTION 3.1. Termination. (a) Each of the State Agency's and the Issuer's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Section 10.03 of the Resolution, prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the State Agency (i) delivers to the Trustee and the MSRB an opinion of Stites & Harbison, PLLC or nationally recognized bond counsel or other counsel expert in federal securities laws selected by the State Agency, addressed to the State Agency, the Issuer and the Trustee, to the effect that those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion.

SECTION 3.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the Holders of the Bonds, (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied; (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the State Agency or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State Agency shall have delivered to the Trustee an opinion of Stites & Harbison, PLLC or nationally recognized bond counsel or other counsel expert in federal securities laws selected by the State Agency, addressed to the State Agency, the Issuer and the Trustee, to the same effect as set forth in clause (2) above and, (4) either (i) the State Agency shall have delivered to the Trustee an opinion of Dinsmore & Shohl LLP or other nationally recognized bond counsel or counsel expert in federal securities laws selected by the State Agency, addressed to the Issuer, the State Agency and the Trustee, to the effect that the amendment does not materially impair the interests of the beneficial owners of the Bonds, or (ii) the Holders of 100 percent of the principal amount of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of Holders of Bonds pursuant to Section 10.02 of the Resolution as in effect on the date of this Agreement, and (5) the State Agency shall have delivered copies of such opinion and amendment to the MSRB. The Trustee shall not be required to sign any amendment to this Agreement which adversely affects its rights or duties hereunder.

(b) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information or the Issuer Annual Financial Data, as applicable, for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the Holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement.

(b) Except as provided in this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligations of the State Agency and the Issuer (as limited by the terms of this Agreement) to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Holder of Outstanding Bonds, or by the Trustee on behalf of the Holders of Outstanding Bonds, or (ii), in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Bonds, provided, however, that the Trustee shall not be required to take any enforcement action under this subsection (b) except at the written direction of the Holders of not less than twenty-five percent in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity reasonably satisfactory to it. The Holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the State Agency's and/or the Issuer's obligations, as applicable, under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Holders of Bonds for purposes of this subsection (b) unless and until the respective Holder exercises any rights pursuant to this subsection (b).

(c) Any failure by the State Agency or the Issuer to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth of Kentucky (the "Commonwealth"), and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the Commonwealth.

ARTICLE IV

DEFINITIONS

SECTION 4.1. Definitions. The following terms used in this Agreement shall have the following respective meanings:

"Annual Financial Information" means the financial information or operating data with respect to the State Agency, for each fiscal year of the State Agency, as set forth in <u>Attachment B</u>.

"Audited Financial Statements" means the annual financial statements (i), if any, of the Issuer and (ii) the State Agency, audited by the applicable auditor as shall then be required or permitted by state law. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the Issuer or the State Agency, as applicable, may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to the MSRB, and shall include a reference to the specific federal or state law or regulation describing such accounting basis.

"Dissemination Agent" means any entity designated by the State Agency to act as the Dissemination Agent hereunder.

"GAAP" means generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board.

"*Issuer Annual Financial Data*" means the financial statements as set forth in the documents entitled Comprehensive Annual Financial Report and Supplementary Information to the Comprehensive Annual Financial Report (or successor reports).

"Material Event" means any of the following events with respect to the Bonds, whether relating to the Issuer, the State Agency or otherwise:

(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 securities, or other material events affecting the tax-exempt status of the securities;

(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 an official statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Holders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986) and tender offers;

(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.

"*Material Event Notice*" means written or electronic notice of a Material Event.

"*MSRB*" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended. The MSRB as of the date of this Agreement is the sole nationally recognized municipal securities information repository.

"*Official Statement*" means the "final official statement", as defined in paragraph (f)(3) of the Rule, relating to the Bonds.

"*Rule*" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CRF Part 240, § 240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof.

"*SEC*" means the United States Securities and Exchange Commission.

"*Unaudited Financial Statements*" means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE V

MISCELLANEOUS

SECTION 5.1. Duties, Immunities and Liabilities of Trustee. Article IX of the Resolution is hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Resolution.

SECTION 5.2. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

By: ____

Title: _____________________________________

KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION

By: ____

Title: _____________________________________

Acknowledged by:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: ____

Title: _____________________________________

ATTACHMENT A

MSRB PROCEDURES FOR SUBMISSION OF CONTINUING DISCLOSURE DOCUMENTS AND RELATED INFORMATION

Securities and Exchange Commission Release No. 34-59061 (the "Release") approves an MSRB rule change establishing a continuing disclosure service of the MSRB's Electronic Municipal Market Access system ("EMMA"). The rule change establishes, as a component of EMMA, the continuing disclosure service for the receipt of, and for making available to the public, continuing disclosure documents and related information to be submitted by issuers, obligated persons and their agents pursuant to continuing disclosure undertakings entered into consistent with Rule 15c2-12 ("Rule 15c2-12") under the Securities Exchange Act of 1934. The following discussion summarizes procedures for filing continuing disclosure documents and related information with the MSRB as described in the Release.

All continuing disclosure documents and related information are to be submitted to the MSRB, free of charge, through an Internet-based electronic submitter interface or electronic computer-to-computer data connection, at the election of the submitter. The submitter is to provide, at the time of submission, information necessary to accurately identify: (i) the category of information being provided; (ii) the period covered by any annual financial information, financial statements or other financial information or operating data; (iii) the issues or specific securities to which such document is related or otherwise material (including CUSIP number, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate); (iv) the name of any obligated person other than the issuer; (v) the name and date of the document; and (vi) contact information for the submitter.

Submissions to the MSRB are to be made as portable document format (PDF) files configured to permit documents to be saved, viewed, printed and retransmitted by electronic means. If the submitted file is a reproduction of the original document, the submitted file must maintain the graphical and textual integrity of the original document. In addition, such PDF files must be word-searchable (that is, allowing the user to search for specific terms used within the document through a search or find function), provided that diagrams, images and other non-textual elements will not be required to be word-searchable.

All submissions to the MSRB's continuing disclosure service are to be made through password protected accounts on EMMA by (i) issuers, which may submit any documents with respect to their municipal securities; (ii) obligated persons, which may submit any documents with respect to any municipal securities for which they are obligated; and (iii) agents, designated by issuers and obligated persons to submit documents and information on their behalf. Such designated agents are required to register to obtain password-protected accounts on EMMA in order to make submissions on behalf of the designating issuers or obligating persons. Any party identified in a continuing disclosure undertaking as a dissemination agent or other party responsible for disseminating continuing disclosure documents on behalf of an issuer or obligated person will be permitted to act as a designated agent for such issuer or obligated person, without a designation being made by the issuer or obligated person as described above, if such party certifies through the EMMA on-line account management utility that it is authorized to disseminate continuing disclosure documents on behalf of the issuer or obligated person under the continuing disclosure undertaking. The issuer or obligated person, through the EMMA on-line account management utility, is able to revoke the authority of such party to act as a designated agent.

The MSRB's Internet-based electronic submitter interface (EMMA Dataport) is at www.emma.msrb.org.

ATTACHMENT B

ANNUAL FINANCIAL INFORMATION OR OPERATING DATA OF STATE AGENCY

1. Updates to the information under the following subsections contained in Exhibit A to the Official Statement of the Issuer dated May 24, 2016:

   a. Enrollment
   b. State Appropriations
   c. Student Registration Fees

2. Annual Audited Financial Statements of the State Agency.

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