

*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 “CERTAIN FEDERAL INCOME TAX CONSIDERATIONS,” interest on the Series A 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. HOWEVER, INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. 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 “CERTAIN FEDERAL INCOME TAX CONSIDERATIONS” herein for a more complete discussion, and EXHIBIT E – “FORM OF BOND COUNSEL OPINION FOR THE BONDS.”*

**\$4,810,000**

**COMMONWEALTH OF KENTUCKY**

**State Property and Buildings Commission**

**\$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A**

**\$1,080,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B**

**Dated:** Date of delivery

**Due:** May 1, as shown on the inside cover

The Agency Fund Revenue Refunding Bonds, Project No. 103 Series A (the “Series A Bonds”) and the Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B (the “Taxable Series B Bonds” and together with the Series A Bonds, the “Bonds”) will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will bear interest payable on each May 1 and November 1, commencing on May 1, 2013. Principal of, redemption 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, in the principal amounts, bear interest at the rates per annum and have the prices or yields as shown on the inside cover.

The Bonds are not subject to optional redemption prior to maturity.

The Bonds are being issued by the State Property and Buildings Commission (the “Commission”), an independent agency of the Commonwealth of Kentucky (the “Commonwealth”), at the request of the Finance and Administration Cabinet of the Commonwealth (the “Cabinet”) pursuant to a Bond Resolution adopted October 12, 2012 to (i) refund all of the Commission’s outstanding Agency Fund Revenue Bonds, Project No. 75, and a portion of its Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A, and (ii) pay the 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 BIENNIAL RENEWABLE LEASE AGREEMENT WITH THE STATE AGENCY (DEFINED HEREIN), THE RENT FROM WHICH IS SUBJECT TO AGENCY FUND APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM. See “SECURITY FOR THE BONDS” herein.

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approving legal opinion of Peck, Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Frost Brown Todd, LLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about December 4, 2012, in New York, New York, through the facilities of DTC, against payment therefor.

**MORGAN STANLEY**

**\$4,810,000**  
**COMMONWEALTH OF KENTUCKY**  
**State Property and Buildings Commission**

**\$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A**

<b><u>Maturity</u></b> <b><u>(May 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Price/or</u></b> <b><u>Yield</u></b>	<b><u>CUSIP</u></b> *
2013	\$375,000	2.000%	0.480%	49151FBF6
2014	380,000	2.000	0.680	49151FBG4
2015	390,000	2.000	0.900	49151FBH2
2016	400,000	3.000	1.090	49151FBJ8
2017	410,000	3.000	1.270	49151FBK5
2018	420,000	4.000	1.410	49151FBL3
2019	435,000	4.000	1.640	49151FBM1
2020	450,000	4.000	1.900	49151FBN9
2021	470,000	4.000	2.140	49151FBP4

**\$1,080,000, 2.375% Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B,**  
**issued as term bonds maturing May 1, 2019, price 100%, CUSIP 49151FBQ2**

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

MEMBERS

STEVEN L. BESHEAR  
Governor  
(Chairman of the Commission)

JERRY ABRAMSON  
Lieutenant Governor

JACK CONWAY  
Attorney General

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

LARRY M. HAYES  
Secretary  
Cabinet for Economic Development

MARY E. LASSITER  
State Budget Director

EDGAR C. ROSS  
State Controller

F. THOMAS HOWARD  
Executive Director  
Office of Financial Management  
(Secretary to the Commission)

## REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offer to sell the 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 Underwriter. 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 Underwriter. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor the sale of any Bonds shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. The Official Statement is submitted in connection with the issuance of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement - The Underwriter has 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 Underwriter does 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 \$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A (the "Series A Bonds") and its \$1,080,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, the "Bonds").

**Authority** The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS") and a Bond Resolution (the "Resolution") adopted by the Commission on October 12, 2012 authorizing the issuance of the Bonds pursuant to the Financing/Lease Agreement dated as of June 1, 2000, as amended by a First Supplemental Lease Agreement dated as of January 1, 2002 (collectively, the "Lease") between the Commission, as lessor, the State Agency (defined herein), as lessee, the Kentucky Asset/Liability Commission ("ALCo") and the Finance and Administration Cabinet of the Commonwealth (the "Cabinet"). The interests of ALCo in the Lease have terminated.

**Use of Proceeds** The Bonds are being issued to provide funds with which to (i) refund all of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 75, and a portion of its Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A, and (ii) pay the costs of issuing the Bonds.

**Security** The Bonds and the interest thereon are payable solely from the Revenues to be derived from the rental payments of the State Agency to the Commission under the Lease. See "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 BIENNIAL RENEWABLE LEASE AGREEMENT WITH THE STATE AGENCY, THE RENT FROM WHICH IS SUBJECT TO AGENCY FUND APPROPRIATION BY THE GENERAL ASSEMBLY OF THE COMMONWEALTH ON A BIENNIAL BASIS. THE BONDHOLDERS HAVE NO SECURITY INTEREST IN ANY PROPERTIES CONSTITUTING THE PROJECT OR ANY AMOUNTS DERIVED THEREFROM.

<b>Features of Bonds</b>	The Bonds are being offered in the authorized denominations of \$5,000 or any integral multiple thereof, at the interest rates and prices or yields set forth on the inside cover hereof. The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest due on the Bonds will be made directly to DTC. The Bonds will bear interest payable on each May 1 and November 1, commencing on May 1, 2013. Principal of 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 "Trustee").
<b>Redemption</b>	<p>The Bonds are not subject to optional redemption prior to maturity.</p> <p>The Taxable Series B Bonds are subject to mandatory sinking fund redemption, as set forth herein. See "THE BONDS - Redemption Provisions – Mandatory Sinking Fund Redemption of Taxable Series B Bonds".</p>
<b>Delivery of Bonds</b>	It is expected that delivery of the Bonds will be made on or about December 4, 2012, in New York, New York, against payment therefor.
<b>Tax Status</b>	<p>Subject to compliance by the Commission, the Cabinet and others with certain covenants, in the opinion of Peck, Shaffer &amp; Williams LLP, Bond Counsel, under present law, interest on the Series A Bonds (including original issue discount treated as interest) is (i) 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. INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.</p> <p>It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Series A Bonds and the Taxable Series B 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 "CERTAIN FEDERAL INCOME TAX CONSIDERATIONS" herein and "EXHIBIT E – 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.</p>
<b>Continuing Disclosure</b>	The Bonds are subject to Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended (the "Rule"). In general, the Rule prohibits an underwriter from purchasing or selling municipal securities in an initial offering unless it has determined that the issuer of such securities has committed to provide annually, certain information, including audited financial information, and notice of various events described in the Rule, if material. In order to enable the purchaser to comply with the provisions of the Rule, the Commission will enter into a Continuing Disclosure Agreement (the



"Disclosure Agreement") with the Trustee. See "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 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, Telephone: (502) 564-2924; or, during the initial offering period, by contacting the Underwriter, Morgan Stanley & Co. LLC, 1585 Broadway, 11<sup>th</sup> Floor, New York, New York 10038, (212) 761-4000. This Official Statement will be posted with the Electronic Municipal Market Access ("EMMA") system.

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**OFFICIAL STATEMENT**  
**Relating to**  
**\$4,810,000**  
**COMMONWEALTH OF KENTUCKY**  
**State Property and Buildings Commission**

**\$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A**  
**\$1,080,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B**

**INTRODUCTION**

This Official Statement, including the cover page, inside 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 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A (the "Series A Bonds") and the Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B (the "Taxable Series B Bonds" and together with the Series A Bonds, the "Bonds"), issued at the request of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") to provide funds with which to (i) refund all of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 75, and a portion of its Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A, and (ii) pay the costs of issuing the Bonds, all as more fully described herein under the caption "PLAN OF FINANCE."

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes ("KRS"). The Commission has adopted a Bond Resolution (the "Resolution") on October 12, 2012, authorizing the issuance of the Bonds.

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission pursuant to a Financing/Lease Agreement dated as of June 1, 2000, as amended by a First Supplemental Lease Agreement dated as of January 1, 2002 (collectively, the "Lease") between the Commission, the Kentucky Asset/Liability Commission ("ALCo"), the Cabinet and Eastern Kentucky University (the "State Agency"). The interests of ALCo in the Lease have terminated. The Kentucky General Assembly has approved budgets for the State Agency having amounts projected to be sufficient to pay required Rent (hereinafter defined) under the Lease. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2014.

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

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

THE GENERAL ASSEMBLY OF THE COMMONWEALTH IS UNDER NO OBLIGATION TO MAKE APPROPRIATIONS FOR RENTAL PAYMENTS TO THE CABINET OR THE STATE AGENCY NOR IS THE STATE AGENCY UNDER ANY OBLIGATION TO RENEW THE LEASE. THE BONDS ARE PAYABLE SOLELY FROM AMOUNTS DEPOSITED IN CERTAIN FUNDS AND ACCOUNTS CREATED BY THE RESOLUTION AND FROM A PLEDGE OF RENTAL PAYMENTS UNDER THE LEASE AND ARE NOT SECURED BY ANY LIEN ON, OR INTEREST IN, THE PROPERTIES CONSTITUTING PROJECT NO. 103 OR ANY AMOUNTS DERIVED THEREFROM.

Brief descriptions of the Commonwealth, the Commission, the State Agency, the Resolution, the Bonds, the Lease, the Project, and the Cabinet are included in this Official Statement. Capitalized terms not otherwise defined herein have the meanings assigned to them in the Resolution. All summaries of documents and agreements in this Official Statement are qualified in their entirety by reference to such documents and agreements, copies of which are available at the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924. This Official Statement will be posted with the Electronic Municipal Market Access ("EMMA") System.

## THE BONDS

### General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issuable in the denominations of \$5,000 or integral multiples thereof, will be dated the date of their delivery, and will bear interest payable on each May 1 and November 1, commencing May 1, 2013, at the interest rates set forth on the inside cover page of this Official Statement. Interest will be calculated on the basis of a 360 day year of twelve 30-day months. U.S. Bank National Association, Louisville, Kentucky is the trustee for the Bonds (the "Trustee").

### Book-Entry-Only System

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

### Redemption Provisions

*No Optional Redemption.* The Bonds are not subject to optional redemption prior to maturity.

*Mandatory Sinking Fund Redemption of Taxable Series B Bonds.* The Taxable Series B Bonds are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount thereof being redeemed, plus interest accrued to the date fixed for redemption, on May 1 of the years and in the principal amounts, as follows:

<u>Year</u>	<u>Principal Amount</u>
2013	\$5,000
2014	10,000
2015	215,000
2016	225,000
2017	100,000
2018	420,000
2019	105,000

*Notice of Redemption.* At least thirty (30) days but not more than sixty (60) days before the date fixed for redemption of any Bonds, the Trustee shall cause a notice of redemption to be mailed, by regular United States first class mail, postage prepaid, to all owners of Bonds to be redeemed in whole or in part at their registered addresses. Failure to mail any notice or any defect therein in respect of any Bond shall not affect the validity of the redemption

of any other Bond. Such redemption notice shall set forth the details with respect to the redemption. Any owner owning at least \$1,000,000 in aggregate principal amount of the Bonds may request that a second copy of the notice of redemption be sent to a second address provided to the Trustee in writing. The notice of redemption shall set forth the complete title of the Bonds, the CUSIP numbers, the date of the issue, the serial numbers, the interest rate, the maturity date, the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed, and the place or places of redemption, including the name, address and phone number of a contact person. The notice of redemption shall also state that on the date fixed for redemption the redemption price will become due and payable upon each Bond or portion thereof so called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date.

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

### **SECURITY FOR THE BONDS**

The Commission has pledged to the payment of its obligations under the Resolution payments to be received by the Commission pursuant to the Lease. The Kentucky General Assembly has approved a budget for the State Agency having amounts projected to be sufficient to pay required Rent under the Lease. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2014. The Lease will be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term.

Under the provisions of the Constitution of the Commonwealth, the State Agency is prohibited from entering into financing obligations extending beyond the biennial budget period. The proposed budget for the State Agency is submitted to the General Assembly of the Commonwealth every two years and is subject to the discretion and approval at each successive regular or extraordinary session of the General Assembly of the Commonwealth. There can be no assurance (i) that the State Agency will include Rent payments in future budgets submitted to the General Assembly, (ii) that the General Assembly will approve appropriations in amounts sufficient to enable the State Agency to make Rent payments or (iii) that the Governor, in the performance of his or her obligation to balance the Commonwealth's annual budget, will not reduce or eliminate such appropriations.

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

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

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

### **PLAN OF FINANCE**

The proceeds of the Bonds will be used by the Commission and the Cabinet to (i) refund all of the Commission's outstanding Agency Fund Revenue Bonds, Project No. 75, and refund a portion of the Commission's outstanding Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A (the "Prior Bonds"), and (ii) pay the costs of issuing the Bonds. See "EXHIBIT C – SUMMARY OF THE REFUNDED BONDS" for additional information.

The proceeds of the Bonds required to refund the Prior Bonds will be deposited in a separate and distinct escrow fund (the "Escrow Fund") to be held by U.S. Bank National Association, Louisville, Kentucky, as Escrow Agent (the "Escrow Agent") under an Escrow Agreement (the "Escrow Agreement") dated as of December 1, 2012, by and between the Commission and the Escrow Agent. The Escrow Agent is required in the Escrow Agreement to apply a portion of the money on deposit in the escrow fund established under the Escrow Agreement to the purchase of certain direct obligations of the United States of America (the "United States Treasury Obligations"), which will earn interest at such rates and mature on such dates so as to provide sufficient funds, together with any cash held invested in the escrow fund, to pay the principal of and interest on the Prior Bonds as same become due and to redeem the remaining outstanding Prior Bonds on May 1, 2013. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. Upon the making of the foregoing deposit with the Escrow Agent, the Prior Bonds will no longer be deemed to be outstanding for the purposes of the resolution under which the Prior Bonds were issued.

### **SOURCES AND USES OF FUNDS FOR THE BONDS**

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

**SOURCES OF FUNDS:**

Par Amount of Series A Bonds	\$3,730,000.00
Par Amount of Taxable Series B Bonds	1,080,000.00
Net Original Issue Premium/Discount (Series A Bonds)	<u>325,923.00</u>
<b>TOTAL SOURCES</b>	<b>\$5,135,923.00</b>

**USES OF FUNDS:**

Escrow Fund Deposits	\$5,081,820.45
Costs of Issuance*	<u>54,102.55</u>
<b>TOTAL USES</b>	<b>\$5,135,923.00</b>

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\* Includes underwriter's discount and fees of the trustee and counsel and other costs of issuance.

### **THE PROJECT**

The State Agency will continue to lease all of the facilities, renovations and improvements originally financed with the proceeds of the Prior Bonds from the Commission under the Lease (collectively, the "Project"). The Project involved the construction of the Eastern Kentucky University - Law Enforcement Training Complex. The original authorized budget amount for this project was \$20,000,000 and involved the construction of a basic training complex for the Department of Criminal Justice Training on the campus of Eastern Kentucky University. The construction of the facility has been completed and contains all of the classrooms, support and supply activities for the basic training and housing for both basic and in-service students. The Commission owns the project and leases it to Eastern Kentucky University under a Lease.

### **THE STATE PROPERTY AND BUILDINGS COMMISSION**

**General**

The Commission is composed of the Governor (who is the Chairman of the Commission), the Lieutenant Governor, the Attorney General, the Secretary of the Finance and Administration Cabinet (who is the Executive Director of the Commission), the Secretary of the Cabinet for Economic Development, the State Budget Director and the State Controller. The Office of Financial Management ("OFM") in the Finance and Administration Cabinet serves as staff to the Commission, and the Executive Director of the OFM serves as Secretary to the Commission. The Commission is an independent agency of the Commonwealth, created by KRS 56.450, with power, subject to approval by and in cooperation with the Cabinet, to finance the acquisition of real estate and the construction and equipping of building projects and other public projects for any agency of the Commonwealth.

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

On December 4, 2012, the Commission will deliver its Agency Fund Revenue Refunding Bonds, Project No. 102 in the amount of \$5,070,000 (the "Project No. 102 Bonds") and its Agency Fund Revenue Refunding Bonds, Project No. 104 in the amount of \$31,860,000 (the "Project No. 104 Bonds"). Upon the issuance of the Bonds, the Project No. 102 Bonds and the Project No. 104 Bonds, the Commission will have a total of \$4,025,145,000 in aggregate principal amount of bonds outstanding, excluding the Prior Bonds, of which \$90,430,000 is Agency Restricted Fund supported.

### **Future Financings of the Commonwealth**

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

The 2010 Regular Session of the General Assembly authorized House Bill 531 which amended certain sections of KRS 56.860 and authorized ALCo to issue up to \$875 million of Funding Notes for the purpose of financing or refinancing obligations owed under KRS 161.550 or 161.553 to the Teachers' Retirement System of the State of Kentucky (see "State Retirement Systems" herein). The 2012 Regular Session authorized additional Funding Notes in the amount of \$152.4 million.

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

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

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

## **THE FINANCE AND ADMINISTRATION CABINET**

### **General**

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

### **Department of Facilities and Support Services**

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

### **Department of Revenue**

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

### **Commonwealth Office of Technology**

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

### **Office of the Controller**

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

## **THE STATE AGENCY**

### **General Information on the State Agency**

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



and Sciences, College of Business and Technology, College of Education, College of Health Sciences, College of Justice and Safety, and Office of Graduate Studies.

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

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

Eastern Kentucky University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools.

### **Financial Information Regarding the State Agency**

Certain financial information with respect to the State Agency is presented in *The Kentucky Comprehensive Annual Financial Report* (the "CAFR") and the related *Supplementary Information to The Kentucky Comprehensive Annual Financial Report* (the "Supplementary Information"), published annually by the Commonwealth. Copies of the CAFR and the Supplementary Information for Fiscal Year 2011 have been filed and may be obtained EMMA or from the Office of Financial Management. Additionally, the CAFR and the Supplementary Information for Fiscal Year 2011 may be found on the Internet. The CAFR and the Supplementary Information for Fiscal Year 2011 have been incorporated herein by reference. See "THE COMMONWEALTH - Certain Financial Information Incorporated by Reference; Availability from NRS MIR and the Commonwealth" for information on how to obtain copies of the CAFR and the Supplementary Information for Fiscal Year 2011 from EMMA or the Office of Financial Management or through the Internet.

The CAFR for Fiscal Year 2011 contains the following information with respect to Non-Major Component Units, including the Eastern Kentucky University: (i) Statement of Net Assets, page 190 and (ii) Statement of Activities, page 192. Copies of the foregoing pages from the CAFR for Fiscal Year 2011 are set forth in EXHIBIT A to this Official Statement. Information with respect to the outstanding revenue obligations of the Eastern Kentucky University is set forth in the Supplementary Information for Fiscal Year 2011, in a table identified as "Table II - Debt of the State and Its Agencies," at pages 396 and 397 thereof.

The Annual Report of Eastern Kentucky University for the Year ended June 30, 2012, containing additional detailed financial information on the State Agency, are incorporated herein by reference, and may be found on the Internet at:

<http://financialaffairs.eku.edu/annual-financial-reports>

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. Copies of the Annual Report of Eastern Kentucky University for the Year ended June 30, 2011 and for certain other fiscal years may be obtained from the Office of Financial Management.

### **Agency Fund Appropriations**

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

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

The Kentucky General Assembly has approved an individual budget for the State Agency having amounts projected to be sufficient to enable the State Agency to pay required Rents under its Lease through June 30, 2014. The required Rent payments are, in the aggregate, sufficient to meet principal and interest requirements on the Bonds through June 30, 2014.

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

## **THE COMMONWEALTH**

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

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

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

Like most states, Kentucky non-farm employment was particularly hard hit by the 2007 recession. After peaking almost simultaneously with the start of the recession, the trough occurred in the third quarter of Fiscal Year 2010, nine quarters later. The weakness in employment has been stubborn across nearly every sector of Kentucky employment, with mining being the primary exception.

The good news is that now, four years after the onset of the recession, Kentucky's economy has exceeded those previous high in terms of personal income and wages and salaries. Kentucky personal income and wages and salaries are 7% and 6% higher than their pre-recession peaks. Annual growth rates over the past eight quarters have averaged 3.8% for personal income and 3.7% for wages and salaries. Looking forward, that slow and steady growth is expected to continue. The current forecast calls for 3.5% and 3.3% growth in those two categories.

### **Financial Information Regarding the Commonwealth**

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

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* with respect to the Fiscal Year of the Commonwealth most recently ended. The CAFR includes certain financial statements of the Commonwealth as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis

and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in the CAFR contain information regarding the basis of preparation of the Commonwealth's financial statements, Funds and Pension Plans. The "Statistical Section" of the CAFR includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers. Recent data indicates that Kentucky may rebound more quickly than other states if the resurgence of the domestic auto industry can be sustained, if Kentucky's expanded role in auto parts manufacturing remains, and if Kentucky's relative insulation from the catastrophic losses of household wealth brought about by the national housing bubble continues.

### **Certain Financial Information Incorporated by Reference; Availability from NRMSIR and the Commonwealth**

The CAFR for Fiscal Year 2011 and the related Supplementary Information for Fiscal Year 2011 are incorporated herein by reference. The Commonwealth has filed the CAFR and the Supplementary Information for Fiscal Year 2011 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 Fiscal Year 2011 and the Supplementary Information for Fiscal Year 2011 may be obtained from EMMA or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, the CAFR for Fiscal Year 2011 and the Supplementary Information for 2011 and for certain other fiscal years may be found on the Internet at:

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

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

The Commission will enter into a Continuing Disclosure Agreement (as hereinafter defined) in order to enable the purchaser of the Bonds to comply with the provisions of Rule 15c2-12. See "CONTINUING DISCLOSURE AGREEMENT" herein. In addition, ongoing financial disclosure regarding the Commonwealth will be available through the filing by the Commonwealth of two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports) with EMMA as required under Rule 15c2-12.

### **Budgetary Process in the Commonwealth**

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

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

## Fiscal Year 2010

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

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

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

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

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

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

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

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

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

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

## Fiscal Year 2011

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

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

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

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

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

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

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

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

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

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

### **Fiscal Year 2012 (Unaudited)**

The official revenue estimate for Fiscal Year 2012 was revised by the Consensus Forecast Group ("CFG") in December 2011, as \$9,007.7 million. The revised official estimate projected a 2.8 percent increase in General Fund receipts for Fiscal Year 2012 when compared to Fiscal Year 2011 actual receipts. The estimate excluded Phase I Tobacco MSA payments. Actual MSA collections were \$101.8 million in Fiscal Year 2012.

Fiscal Year 2012 General Fund actual revenues totaled \$9,091.0 million, an increase of 3.8 percent over Fiscal Year 2011. Fiscal Year 2012 General Fund revenues were \$83.3 million, or 0.9 percent more than the revised revenue estimate. Revenue collections showed positive growth in each of the four quarters of the fiscal year. Strong June receipts of 9.6 percent growth offset declines in April and May to close the final quarter of the fiscal year with a 2.3 percent increase. Growth rates for the four quarters were 4.9 percent, 1.4 percent, 7.2 percent and 2.3 percent.

During Fiscal Year 2012, sales and use tax revenues rose 5.4 percent, or \$156.0 million, from the previous fiscal year as consumer spending continued to improve from recessionary lows. Individual income tax receipts increased \$94.3 million, or 2.8 percent, from last fiscal year as strong withholding receipts offset reductions in fiduciary and declaration collections as well as net payments and refunds with returns. Corporation income tax receipts for Fiscal Year 2012 rose \$73.6 million, or 24.5 percent, from Fiscal Year 2011. Property taxes for Fiscal Year 2012 increased 2.9 percent, or \$14.8 million, from Fiscal Year 2011. Cigarette tax receipts decreased \$7.4 million, or 2.8 percent, in Fiscal Year 2012 from the previous fiscal year due to reduced sales and the transition by some smokers to roll-your-own cigarettes. Coal severance tax receipts increased 0.8 percent in Fiscal Year 2012 with total Fiscal Year 2012 collections of \$298.3 million. The Kentucky Lottery Corporation dividend payment for Fiscal Year 2012 rose 5.1 percent, or \$10.3 million, from the previous fiscal year to total \$210.8 million for Fiscal Year 2012.

### **Fiscal Year 2013 (Unaudited)**

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

Fiscal Year 2013 General Fund actual revenues total \$2.927 million through October 2012. The enacted official revenue estimate for Fiscal Year 2013 calls for revenue to increase 2.4 percent compared to Fiscal Year 2012 actual receipts. Based on October's results, General Fund revenues need to grow 2.4 percent for the remainder of the fiscal year to meet the enacted official estimate.

General Fund revenues for October 2012 were \$725.5 million, compared to \$699.8 million during October 2011. During October 2012, sales and use tax receipts fell 2.5 percent when compared to October 2011, despite an uptick in national consumer sentiment, and have decreased 1.4 percent for the fiscal year. Individual income tax collections rose 3.7 percent, bolstered primarily by estimated payments and payments with returns. Total individual income tax receipts are up 2.3 percent for the first four months of Fiscal Year 2013. Corporation income tax receipts increased \$9.0 million for October 2012, due to lower refunds and increased collections on returns, and have grown 32.1 percent compared to Fiscal Year 2012. Property taxes for October 2012 increased 89.4 percent compared to October 2011 and are up 77.9 percent for the year. Large swings in property tax revenues are typical in the fall months as the bulk of receipts in this category are received prior to January. Cigarette tax receipts grew 5.4 percent in October 2012 when compared to October 2011 but have decreased 5.7 percent for the first four months of the fiscal year. Coal severance tax receipts fell 41.1 percent in October 2012 when compared to October 2011 and have declined 24.8 percent for the fiscal year. The Kentucky Lottery Corporation dividend payment for October 2012 was \$17.0 million compared to \$18.0 million for October 2011 but collections are up 2.3 percent for the fiscal year.

## Investment Policy

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

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

At October 31, 2012, the Commonwealth's operating portfolio was approximately \$2.98 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (15%); securities issued by agencies and instrumentalities of the United States Government (41%); mortgage-backed securities and collateralized mortgage obligations (12%); repurchase agreements collateralized by the aforementioned (9%); municipal securities (4%); and corporate and asset-backed securities, including money market securities (19%). The portfolio had a current yield of 0.56% and an effective duration of 1.03 years.

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

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

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

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

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a \$200 million notional amount to a net market value approach, the absolute value of which cannot exceed \$50 million for all counterparties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. The Commonwealth has not had any asset-based interest rate swaps outstanding since June 2006.

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

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

### **Interest Rate Swaps**

From time to time, the Commonwealth of Kentucky utilizes interest rate swaps for the purpose of hedging certain of its current or projected interest-sensitive assets and interest-sensitive liabilities. As of November 1, 2012, the Kentucky Asset/Liability Commission (the "ALCo") had interest rate swap transactions outstanding with a total notional amount outstanding of \$210,665,000. This swap transaction consists of a series of four amortizing "cost of funds" interest rate swaps that totaled \$243.08 million at the time of execution and having maturity dates beginning November 1, 2017 through November 1, 2027. This transaction is integrated as part of the issuance of the ALCo's 2007 \$243.08 million General Fund Floating Rate Project Notes.

### **State Retirement Systems**

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

**Pension Plans.** Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and the Teachers' Retirement System of the State of Kentucky ("KTRS"). The Kentucky Retirement Systems is comprised of four retirement plans, Employees Non-Hazardous and Employees Hazardous, County Employees and State Police. Each retirement plan is state supported, except for the County Employees, which has been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and KTRS (collectively, the "Pension Plans") provide both pension and Other Post Employment Benefits to state employees and teachers based upon their years of service and retirement dates. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The Kentucky Comprehensive Annual Financial Report*. For a brief description of the Pension Plans and of the Pension Plans' assets and liabilities, see *The Kentucky Comprehensive Annual Financial Report for Fiscal Year 2011*, Note 8 beginning on page 84. Additional information regarding the Kentucky Retirement Systems and KTRS can be found in their respective web sites at <http://kyret.ky.gov> and <http://www.ktrs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the "CAFRs") and the accompanying actuarial studies, described under Other Post Employment Benefits ("OPEB"). Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.



**Pension Funding.** Based upon the assumptions employed in the Pension Plans' June 30, 2011 actuarial valuation reports used in preparing the associated Pension Plans' 2011 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the "UAAL") of \$8,014 million, while KTRS had a UAAL of \$11,061 million. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2011 had funding percentages of 36.1 percent for the Kentucky Retirement Systems and 57.4 percent for KTRS. The Kentucky Retirement Systems state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 pension benefits was \$421.0 million; \$225.4 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 was \$678.7 million; \$1,038.5 million was contributed.

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

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

The Pension Plans have commissioned actuarial studies which have provided results for consideration, under certain actuarial funding methods and sets of assumptions. A three year experience study was completed for the period ending June 30, 2008 for the Kentucky Retirement Systems and the next planned experience study period will be a five year experience study for the period ending June 30, 2013. KTRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the KTRS board in September 2011. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2011 has been estimated to not exceed \$4,320 million for the Kentucky Retirement Systems and \$3,128 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, 2011. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased slightly from the \$4,487 million previously reported in the Kentucky Retirement Systems' 2010 CAFR. The actuarial estimates for KTRS showed a slight increase from the \$2,970 million previously reported in their 2010 CAFR due to the changes adopted in House Bill 540 (see "Changes to State Retirement Systems" below).

The Kentucky Retirement Systems' state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 healthcare benefits was \$350.3 million; \$160.5 million was contributed. The KTRS state supported Annual Required Contribution for Fiscal Year ended June 30, 2011 was \$479.4 million; \$190.3 million was contributed. The state supported portion of the Health Plans for Fiscal Year ended June 30, 2011 had funding percentages of 17.3 percent for the Kentucky Retirement Systems and 10.9 percent for KTRS.

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

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

As a result of the passage of House Bill 1, the growth in the Commonwealth's unfunded liability is expected to be slowed. These results are expected to be augmented by proposed changes in the Commonwealth's investment strategies and allocations to bring the retirement systems closer to their peer group performance levels over time.

By using the dual combination of the best practices and findings of the Kentucky Public Pension Working Group established in 2008 and by following the schedule of payments included in House Bill 1, the Commonwealth expects to see reductions in the liability that have accrued over time.

On April 12, 2010, House Bill 146 was signed by the Governor, amending KRS 61.650, KRS 16.642, and KRS 78.790 to establish a five-member investment committee for the Kentucky Retirement System, the State Police Retirement System, and the County Employees Retirement System, comprised of two gubernatorial appointees with investment experience and three trustees appointed by the board chair.

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

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

**Financing and Refinancing of Certain KTRS Obligations.** On April 26, 2010, the Governor signed House Bill 531, which amended certain sections of the Kentucky Revised Statutes by modifying the definition of "funding notes" and authorizing funding notes to be issued by the Kentucky Asset/Liability Commission ("ALCo") for the purpose of financing or refinancing obligations owed under KRS 161.550(2) or 161.553(2) to KTRS (the "Funding Obligation"). This authorization, together with certain authorizations in the Budget Act, permits ALCo to issue funding notes in an amount not to exceed \$875 million to finance obligations owed to KTRS or refinance loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund for stabilization funding in prior Fiscal Years. In August 2010, ALCo issued its \$467.555 million Funding Notes, 2010 General Fund First Series to repay in full all loans previously made from the KTRS Pension Fund to the KTRS Medical Insurance Fund. In February 2011, ALCo issued its \$269.815 million Funding Notes, 2011 General Fund First Series to provide the state-supported portion of healthcare benefit contributions to KTRS for Fiscal Years 2011 and 2012. In addition, \$152.4 million of Funding Notes were authorized for this purpose in the State Budget for Fiscal Years 2013-2014. Under the provisions of House Bill 540, discussed earlier, the elimination of future borrowings is expected once the plan is fully phased in over a period of six years.

**HCR 162.** House Concurrent Resolution (HCR) 162 from the 2012 Regular Session of the General Assembly, which was signed by Governor Beshear on April 23, 2012, established the Kentucky Public Pensions Task Force. The purpose of the task force is to study issues regarding Kentucky's state-administered pension funds and to develop consensus recommendations concerning the benefits, investments, and funding of those funds. The task force is required to submit its findings, recommendations, and any proposed legislation to the Legislative Research Commission by December 7, 2012.

## SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

### **The Resolution**

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

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

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

2. Cost of Issuance Fund. The Resolution creates a Cost of Issuance Fund for the Bonds to be held and maintained by the Trustee. From the proceeds of the Bonds and other available moneys, if any, deposited by the 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 Account will be transferred to 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 Series A Bonds by the Commission shall be excludable from the gross income of the Holders for the purposes of federal income taxation and not permit the Series A Bonds to be or become "arbitrage bonds" as defined in the Code.

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

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

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

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

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

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

Regardless of the happening of an event of default, the Trustee, if requested in writing to take any action under the Resolution or the Bonds by the Holders of not less than 25% of the principal amount of Bonds Outstanding, has no duty to act until it is furnished with indemnification satisfactory to it. The Trustee may institute and maintain such suits and proceedings as it may be advised are necessary or expedient to prevent any impairment of the security under the Resolution or the Bonds and such suits and proceedings as the Trustee may be advised are necessary or expedient to preserve or protect its interest and the interest of the Holders, 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% in aggregate principal amount of Bonds Outstanding have made written request accompanied by indemnity and security satisfactory to the Trustee and have offered it reasonable opportunity either to proceed to exercise the powers granted by the Resolution or to institute such action, suit, or proceeding in its own name, and the Trustee thereafter fails or refuses to exercise the powers granted by the Resolution or to institute such action, suit or proceeding in its, his or their own name or names. It is understood and intended that no one or more Holders of Bonds have any right in any manner whatsoever to affect, disturb or prejudice the security of the Resolution by its, his or their action or to enforce any right thereunder except in the manner therein provided, and that all proceedings at law or in equity will be instituted and maintained in the manner therein provided and for the equal benefit of the Holders of all of such Bonds then Outstanding. Nothing contained in the Resolution or in the Bonds affects or impairs the right of any Holder of any Bond to payment of the principal of or interest on such Bond at and after the maturity thereof or the obligation of the Commission to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders thereof at the time and place, from the source, and in the manner therein provided and in the Bonds expressed.

*Amendments to the Resolution.* If it appears desirable and to the advantage of both the Commission and the Holders of the Bonds, the Commission will adopt resolutions supplemental to the Resolution, altering or amending any of the rights and obligations of the Commission or the Holders of the Bonds, but each such supplemental resolution will not become effective unless and until it has been approved as provided in the Resolution by the Holders of at least 66 2/3% of the principal amount of Bonds Outstanding and unless and until the opinion of counsel required by the Resolution has been delivered. Notwithstanding the foregoing, no such modifications, alterations or amendments will be made which permit an extension of the time of payment at maturity of the principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any,

or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

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

Whenever there shall be held by the Trustee in the Bond Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Fund or such escrow fund, shall be sufficient, as set forth in a verification report of a firm of independent certified 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 mature, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Bond 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, the Cabinet and the State Agency, as lessee, have entered into the Lease whereby the State Agency will lease the Project from the Commission and will pay rentals to the Commission during biennial renewal terms which will provide funds sufficient to pay the debt service due on the Bonds (the "Rent").

The Lease is for a current term ending June 30, 2014. The Commission has granted the State Agency the exclusive option to renew the Lease for successive and ensuing renewal terms of two years commencing July 1 in each even-numbered year. The last renewal term for the lease ends June 30, 2022, the final maturity date for the Bonds being May 1, 2021. Under the provisions of the Constitution of the Commonwealth, the Commission and the State Agency are each prohibited from entering into lease obligations extending beyond their biennial budget period. Notwithstanding the foregoing, the Lease provides that each succeeding renewal term will be deemed to be automatically renewed unless written notice of the election by the State Agency to not so renew is given to the Commission by the last business day of May prior to the beginning of the next succeeding biennial renewal term. Upon the first day of the biennial renewal term, the State Agency is bound for the entire amount of the Rent becoming due during such term payable from, but not limited to, revenues, contributions, gifts, matching funds, devises and bequests from any source, whether federal or state, and whether public or private, so long as the same are not conditioned upon any use of the Project in a manner inconsistent with law.

The 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 budgets proposed for that biennial period for the State Agency, sufficient amounts (over and above all other requirements of the State Agency) to enable the State Agency to pay Rent under the Lease and thereby produce income and revenues to the Commission to permit timely payment of the Bonds and interest thereon as the same become due during such period.

The ability of the State Agency to pay Rent is subject to its appropriations of Rent and approval thereof by the General Assembly. There can be no assurance that such appropriations will be forthcoming at any time after June 30, 2014. The failure of the State Agency or General Assembly to approve and enact such appropriations will have a material adverse effect on the ability of the Commission to pay the Bonds. In addition, there can be no assurance that in the performance of his or her obligations to balance the Commonwealth budget annually, the Governor will not reduce or eliminate any appropriations which are made.

If the Lease is renewed, then on the first day of the biennial renewal term the State Agency is firmly bound for the entire amount of Rent payments coming due during such renewal term.

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

Events of default under the 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 terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the 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 such Lease upon delivery of an opinion of counsel that the subletting or reletting will not cause the interest on the Series A Bonds to be includable in gross income of the Holders of the Bonds for federal income tax purposes. The Bondholders have no security interest in any properties constituting the Project or any amounts derived therefrom.

## **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have given the Bonds the ratings of "A2", "A+" and "A+", respectively.

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

## **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Peck Shaffer & Williams LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT E. Certain legal matters will be passed upon for the Commission by its counsel. Certain legal matters will be passed upon for the Underwriter by Frost Brown Todd LLC, 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.

## **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS**

### **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 Series A Bonds is excludible from gross income for federal income tax purposes and interest on the Series A 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. **HOWEVER, INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.** Bond Counsel for the Bonds is also of the opinion that interest on the (Bonds Series A Bonds and Series B 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 E.

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

Certain requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series A 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 Peck, Shaffer & Williams LLP.

Although Bond Counsel has rendered an opinion that interest on the Series A 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 Series A Bonds may otherwise affect a Bondholder's Federal, state or local tax liabilities. The nature and extent of these other tax consequences may depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. For example, such effects may include, without limitation, increasing the federal tax liability of certain foreign corporations subject to the branch profits tax imposed by Section 884 of the Code, increasing the federal tax liability of certain insurance companies, under Section 832 of the Code, increasing the federal tax liability and affecting the status of certain S Corporations subject to Sections 1362 and 1375 of the Code, increasing the federal tax liability of certain individual recipients of Social Security or the Railroad Retirement benefits under Section 86 of the Code and limiting the amount of the Earned Income Credit under Section 32 of the Code that might otherwise be available. Ownership of any of the Series A 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 Series A Bonds as "qualified tax-exempt obligations" under Section 265 of the Code.

#### **Tax Treatment of Series A Bonds Original Issue Premium**

"Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Series A Bonds that have an interest rate that is greater than the yield, as shown on the inside cover page hereto (the "Premium Series A Bonds"), are being initially offered and sold to the public at an Acquisition Premium. For federal income tax purposes, the amount of Acquisition Premium on each Series A Bond the interest on which is excludible from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the Bondholder's adjusted basis in that Series A 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 Series A Bonds, or on any of the Series A Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original Bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Series A Bonds, including any Premium Series A 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.



## **Backup Withholding**

General information reporting requirements will apply to payments of principal and interest made on the Bonds and the proceeds of the sale of a Bond to non-corporate holders of the Bonds, and "backup withholding" at the applicable rate will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of a Bond that is a U.S. owner can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

## **Nonresident Owners**

Under the Code, interest and OID on any Bond whose beneficial owner is a nonresident alien, foreign corporation or other non-United States person (Nonresident) are generally not subject to United States income tax or withholding tax (including backup withholding) if the Nonresident provides the payor of interest on the Bonds with an appropriate statement as to its status as a Nonresident. This statement can be made on IRS Form W-8BEN or a successor form. If, however, the Nonresident conducts a trade or business in the United States and the interest or OID on the Bonds held by the Nonresident is effectively connected with such trade or business, that interest or OID will be subject to United States income tax but will generally not be subject to United States withholding tax (including backup withholding).

## **Circular 230**

THE FOREGOING DISCUSSION OF TAX MATTERS WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF THE SERIES B BONDS. THE FOREGOING DISCUSSION OF TAX MATTERS WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SERIES B BONDS. EACH PROSPECTIVE OWNER OF THE SERIES B BONDS SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE OWNER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

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

## **UNDERWRITING**

Morgan Stanley & Co. LLC, as Underwriter, has agreed to purchase (i) the Series A Bonds for an aggregate purchase price of \$4,031,309.42 (which is equal to the principal amount of such Series A Bonds plus a net original issue premium of \$325,923.00 and less underwriting discount of \$24,613.58) and (ii) the Taxable Series B Bonds for an aggregate purchase price of \$1,072,160.28 (which is equal to the principal amount of such Taxable Series B Bonds less underwriting discount of \$7,839.72). The Underwriter intends 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 Underwriter 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.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will distribute

municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. LLC and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Bonds.

### **CONTINUING DISCLOSURE AGREEMENT**

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

### **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/ F. Thomas Howard  
Executive Director  
Office of Financial Management  
(Secretary to the Commission)

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## EXHIBIT A

### FINANCIAL INFORMATION ON EASTERN KENTUCKY UNIVERSITY

Presented herein are excerpts from CAFR for Fiscal Year 2011 with respect to Non-Major Component Units, including Eastern Kentucky University: (i) Statement of Net Assets, page 190 and (ii) Statement of Activities, page 192.

The complete CAFR for Fiscal Year 2011 may be obtained from the NRMSIRs or from the Office of Financial Management, 702 Capitol Avenue, Suite 76, Frankfort, Kentucky 40601 (502) 564-2924. Additionally, the CAFR for Fiscal Year 2011, which has been incorporated herein by reference, may be found on the Internet at:

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

The Annual Report of Eastern Kentucky University for the Year ended June 30, 2012, containing detailed financial information on the State Agency may be obtained from the Office of Financial Management. Additionally, the Annual Report of Eastern Kentucky University for the Year ended June 30, 2012, which has been incorporated herein by reference, may be found on the Internet at:

<http://financialaffairs.eku.edu/annual-financial-reports>

Only information contained on the Internet web pages 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.

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF NET ASSETS**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**JUNE 30, 2011**  
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 44,402	\$ 104,091	\$ 27,995
Restricted cash			2,585
Investments, net of amortization	1,835	2,678	
Accounts receivable, net	21,747	8,996	11,490
Interest receivable	369	4,907	8
Inventories	305	2,884	1,550
Prepaid expenses	1,933	2,612	
Other current assets		598	645
<b>Total Current Assets</b>	<b>70,591</b>	<b>126,766</b>	<b>44,273</b>
Noncurrent assets:			
Restricted cash	25,532	12,630	
Long-term investments	66,615	118,434	35,643
Restricted long-term investments			
Long-term receivables, net	5,519	18,729	3,682
Land	8,032	12,548	19,687
Improvements other than buildings	22,495	39,907	
Buildings	270,739	533,696	247,703
Machinery and equipment	31,532	105,533	23,787
Other capital assets	42,074		30,770
Less: Accumulated depreciation and amortization	(192,674)	(238,265)	(134,408)
Construction in progress	126,928	24,986	462
<b>Total Capital Assets</b>	<b>309,126</b>	<b>478,405</b>	<b>188,001</b>
Other assets		4,373	1,910
<b>Total Noncurrent Assets, Net</b>	<b>406,792</b>	<b>632,571</b>	<b>229,236</b>
<b>Total Assets</b>	<b>477,383</b>	<b>759,337</b>	<b>273,509</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accruals	13,667	9,808	4,609
Current portion of long-term debt:			
Notes payable		1,438	
Bonds payable	1,990	7,818	3,605
Capital lease obligations	4,242	33	524
Compensated absences	5,556	2,877	2,637
Claims liability			
Deferred revenues	7,961	9,840	5,043
Payable from restricted assets		518	280
Other current liabilities	433	8,800	1,068
<b>Total Current Liabilities</b>	<b>33,849</b>	<b>41,132</b>	<b>17,766</b>
Noncurrent liabilities:			
Notes payable		11,989	
Bonds payable	30,505	175,399	46,195
Capital lease obligations	37,417	605	2,362
Compensated absences			
Other long-term liabilities	19,785	43,422	4,688
<b>Total Noncurrent Liabilities</b>	<b>87,707</b>	<b>231,415</b>	<b>53,245</b>
<b>Total Liabilities</b>	<b>121,556</b>	<b>272,547</b>	<b>71,011</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	230,949	253,694	134,593
Restricted for:			
Debt service	764	2,257	
Capital projects	24,935	27,550	
Other purposes	52,391	104,569	48,831
Unrestricted	46,788	98,720	19,074
<b>Total Net Assets</b>	<b>\$ 355,827</b>	<b>\$ 486,790</b>	<b>\$ 202,498</b>

**COMMONWEALTH OF KENTUCKY**  
**COMBINING STATEMENT OF ACTIVITIES**  
**NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
<b>Expenses:</b>			
Operating and other expenses	\$ 267,318	\$ 319,985	\$ 147,795
Total Expenses	<u>267,318</u>	<u>319,985</u>	<u>147,795</u>
<b>Program Revenues:</b>			
Charges for services	102,263	166,724	57,622
Operating grants and contributions	56,157	11,390	25,678
Capital grants and contributions	3,635		
Total Program Revenues	<u>162,055</u>	<u>178,114</u>	<u>83,300</u>
<b>Net Program (Expense) Revenue</b>	<u>(105,263)</u>	<u>(141,871)</u>	<u>(64,495)</u>
<b>General Revenues:</b>			
Unrestricted grants and contributions	110,196	73,149	22,067
Unrestricted investment earnings	8,911	12,027	278
Gain on sale of capital assets			
Miscellaneous general	58,425	94,357	58,597
Total General Revenues	<u>177,532</u>	<u>179,533</u>	<u>80,942</u>
Change in Net Assets	<u>72,269</u>	<u>37,662</u>	<u>16,447</u>
Net Assets at July 1, as Restated	283,558	449,128	186,051
Net Assets at June 30	<u>\$ 355,827</u>	<u>\$ 486,790</u>	<u>\$ 202,498</u>

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## EXHIBIT B

### DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

#### COMMONWEALTH DEBT MANAGEMENT

##### Management

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

##### Structure

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

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

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

Project revenue notes and bonds are issued by various debt issuing authorities of the Commonwealth. The revenues produced by the projects funded by the debt are pledged as security for repayment of the debt. Project 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 by a university, the Secretary of the Finance Cabinet is required to intercept any funds appropriated to the university but not yet disbursed and to remit those funds to the Trustee to remedy the default.

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

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/ PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission	<b>KRS 56.450</b> 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	<b>KRS 56.860</b> 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	<b>KRS 175.410-175.990</b> 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)	<b>KRS 56.495</b> 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	<b>KRS 198A</b> 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	<b>KRS 224A</b> 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	<b>KRS 164A</b> 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	<b>KRS 157.611-157.665</b> 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	<b>KRS 154</b> Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Local Correctional Facilities Construction Authority	<b>KRS 441.605-441.695</b> Provide an alternative method of constructing, improving, repairing and financing local jails.	Limited to the level of debt service supported by court fees pledged as repayment for the bonds.	Baa2/BBB/NR (National Insured)

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

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

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

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

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## EXHIBIT C

### SUMMARY OF THE REFUNDED BONDS

All of the outstanding State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 75, which mature on the dates, in the amounts and bear interest at the rate set forth below, at a call price of 100% on the call date set forth below:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>
5/1/2013	4.600%	\$365,000	1/7/2013
5/1/2014	4.700	380,000	1/7/2013
5/1/2015	4.750	400,000	1/7/2013
5/1/2016	4.850	420,000	1/7/2013
5/1/2017	4.900	440,000	1/7/2013
5/1/2018	4.950	460,000	1/7/2013
5/1/2019	5.000	480,000	1/7/2013
5/1/2020	5.000	505,000	1/7/2013
5/1/2021	5.000	530,000	1/7/2013

The portion of the outstanding State Property and Buildings Commission Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A which mature on the dates, in the amounts and bear interest at the rate set forth below, will be refunded at a call price of 100% on the call date set forth below:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>
5/1/2015	4.000%	\$205,000	5/1/2013
5/1/2016	4.125	215,000	5/1/2013
5/1/2017	4.200	95,000	5/1/2013
5/1/2018	4.250	420,000	5/1/2013
5/1/2019	4.375	110,000	5/1/2013

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## EXHIBIT D

### 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](http://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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's 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.

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 D 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 Underwriter take any responsibility for the accuracy thereof.*

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**EXHIBIT E**

**FORM OF BOND COUNSEL OPINION FOR THE BONDS**

[Date of Delivery]

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

Re: \$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A and \$1,080,000  
Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B

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 \$3,730,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Series A (the "Series A Bonds") and its \$1,080,000 Agency Fund Revenue Refunding Bonds, Project No. 103 Taxable Series B (the "Taxable Series B Bonds" and, together with the Series A Bonds, the "Bonds"), dated the date hereof. The Bonds are being issued on behalf of the Finance and Administration Cabinet of the Commonwealth of Kentucky of the Commonwealth of Kentucky (the "Cabinet"), a state agency of the Commonwealth of Kentucky (the "Commonwealth").

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on October 12, 2012 (the "Resolution") for the purpose of (i) refunding certain outstanding bonds of the Commission (the "Refunded Bonds") and (ii) paying the costs of issuing the Bonds. The project originally financed with the Refunded Bonds (the "Project") has been leased by the Commission to the Cabinet and Eastern Kentucky University (the "State Agency") pursuant to a Financing/Lease Agreement dated as of June 1, 2000, as amended by a First Supplemental Lease Agreement dated as of January 1, 2002 (collectively, 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, the Cabinet and the State Agency as to certain factual matters.

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

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

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

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

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

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

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

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

7. Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest on the Series A 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 Series A 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. **INTEREST ON THE TAXABLE SERIES B BONDS IS NOT EXCLUDIBLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES.** 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 Series A Bonds as "qualified tax-exempt obligations" pursuant to Section 265 of the Code.

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

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

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

Very truly yours,

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