

In the opinion of Bond Counsel for the Bonds, based upon an analysis of laws, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants made by the Commission, and subject to the conditions and limitations set forth herein under the caption "TAX TREATMENT," interest on the Bonds is excludible from gross income for Federal income tax purposes and is not a specific item of tax preference for purposes of the Federal individual or corporate alternative minimum taxes. Interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions. See "TAX TREATMENT" herein for a more complete discussion, and EXHIBIT F - "FORM OF BOND COUNSEL OPINION FOR THE BONDS."

\$60,135,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 116

Dated: Date of Delivery

Due: As shown on the inside cover

The Revenue Bonds, Project No. 116 (the "Bonds") will be issued only as fully registered bonds, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest due on the Bonds will be made directly to DTC. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2017. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, Louisville, Kentucky, as Trustee and Paying Agent.

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

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

The scheduled payment of principal of and interest on the Bonds maturing on October 1 of the years 2020 through 2036 inclusive (the "Insured Bonds"), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP.



The Bonds are being issued by the State Property and Buildings Commission (the "Commission"), an independent agency of the Commonwealth of Kentucky (the "Commonwealth"), at the request of the Kentucky Community and Technical College System (the "State Agency") pursuant to a Bond Resolution adopted on January 9, 2017 (the "Resolution"), to (i) pay the costs of the Project (as defined herein) and (ii) pay costs of issuing the Bonds.

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

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

The Bonds are offered when, as and if issued and accepted by the Underwriters, subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Stites & Harbison, PLLC, Louisville, Kentucky. It is expected that delivery of the Bonds will be made on or about April 12, 2017, in New York, New York, through the facilities of DTC, against payment therefor.

Citigroup
Morgan Stanley

Raymond James

J.J.B. Hilliard, W.L. Lyons, LLC

PNC Capital Markets LLC

First Kentucky Securities Corp.

FTN Financial Capital Markets

Ross Sinclair and Associates

\$60,135,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 116

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP No.**</u>
2017	\$2,145,000	2.000%	100.546	0.830%	49151F UA6
2018	2,125,000	3.000	102.613	1.200	49151F UB4
2019	2,190,000	3.000	103.598	1.510	49151F UC2
2020+	2,255,000	3.000	104.775	1.580	49151F UD0
2021+	2,325,000	3.000	105.086	1.810	49151F UE8
2022+	2,395,000	3.000	104.944	2.040	49151F UF5
2023+	2,465,000	3.000	104.307	2.280	49151F UG3
2024+	2,545,000	3.000	103.317	2.510	49151F UH1
2025+	500,000	3.000	102.409	2.680	49151F UJ7
2025+	2,140,000	5.000	117.473	2.680	49151F UK4
2026+	275,000	3.500	105.445	2.840	49151F UL2
2026+	2,495,000	5.000	117.823	2.840	49151F UM0
2027+	400,000	3.500	104.738	2.970	49151F UN8
2027+	2,505,000	5.000	118.150	2.970	49151F UP3
2028+	3,055,000	5.000	117.167	3.070*	49151F UQ1
2029+	3,210,000	5.000	115.905	3.200*	49151F UR9
2030+	3,375,000	5.000	115.231	3.270*	49151F US7
2031+	3,520,000	3.500	98.990	3.590	49151F UT5
2032+	3,675,000	5.000	113.805	3.420*	49151F UU2
2033+	3,860,000	5.000	113.146	3.490*	49151F UV0
2034+	4,035,000	3.750	98.861	3.840	49151F UW8
2035+	4,215,000	5.000	112.120	3.600*	49151F UX6
2036+	4,430,000	5.000	111.750	3.640*	49151F UY4

+ Scheduled payment of principal of and interest on the Bonds when due is insured by a municipal bond insurance policy issued by Assured Guaranty Municipal Corp.

* Priced to October 1, 2027 optional redemption date

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

MEMBERS

MATTHEW G. BEVIN
Governor
(Chairman of the Commission)

JENEAN M. HAMPTON
Lieutenant Governor

ANDREW G. BESHEAR
Attorney General

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

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

JOHN E. CHILTON
State Budget Director

EDGAR C. ROSS
State Controller

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

REGARDING USE OF THIS OFFICIAL STATEMENT

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

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

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

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

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and in "EXHIBIT H - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

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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 \$60,135,000 Agency Fund Revenue Bonds, Project No.116 (the “Bonds”).

Authority The Bonds are being issued pursuant to the provisions of the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes and a Bond Resolution adopted by the Commission on January 9, 2017 (the “Resolution”), (i) authorizing the issuance of the Bonds and (ii) approving the First Supplemental Lease dated as of April 1, 2017 (the “First Supplemental Lease”), by and between the Commission and the Kentucky Community and Technical College System (the “State Agency”), which supplements the Lease Agreement dated as of May 1, 2016, (which together with the First Supplemental Lease, is hereinafter referred to as the “Lease”), by and between the Commission and the State Agency.

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

The Project The 2014 Regular Session of the General Assembly delivered House Bill 235 (the “Budget Act”), which authorized the issuance of Agency Fund supported Commission bonds in an amount of up to \$145.5 million in relation to the Kentucky Community and Technical College System BuildSmart Initiative (the “BuildSmart Initiative” or the “Initiative”). The State Agency determined via resolution dated December 5, 2014 to enter into a Financing Agreement, which provided means to issue the Budget Act authorization in multiple issues. The State Agency initially planned to issue the Agency Fund supported bonds in approximately three bond issues via the Commission over a 12 to 18 month period. The offering hereby represents the second tranche, the first tranche having resulted in the issuance of the Commission’s \$44,555,000 Agency Fund Revenue Bonds, Project No. 114 on June 16, 2016. The final tranche may be issued in the next 12 months. See “THE PROJECT” herein and “EXHIBIT C - THE PROJECT” for a more complete description of the BuildSmart Initiative.

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

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

Bond Insurance

The scheduled payment of principal of and interest on the Bonds maturing on October 1 of the years 2020 through 2036 inclusive (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by ASSURED GUARANTY MUNICIPAL CORP. See “BOND INSURANCE” and “EXHIBIT H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

Features of Bonds

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

The Bonds will bear interest payable on each April 1 and October 1, commencing on October 1, 2017. Principal of, premium, if any, and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Trustee and Paying Agent (the “Trustee”).

The Bonds maturing on and after October 1, 2028, are subject to redemption at the option of the Commission on or after October 1, 2027, in whole or in part at any time, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date fixed for redemption. See “THE BONDS - Redemption Provisions.”

It is expected that delivery of the Bonds will be made on or about April 12, 2017, in New York, New York, through the facilities of DTC, against payment therefor.

Tax Status

Subject to compliance by the Commission, the State Agency and others with certain covenants, in the opinion of Dinsmore & Shohl LLP, Bond Counsel, under present law, interest on the Bonds (including original issue discount treated as interest) is excluded from gross income of the owners thereof for federal income tax purposes, and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, except that such interest must be included in the “adjusted current earnings” of certain corporations for purposes of calculating alternative minimum taxable income.

It is also the opinion of Bond Counsel, under the laws of the Commonwealth of Kentucky, as presently enacted and construed, that interest on the Bonds is exempt from Kentucky income tax and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof. See “TAX TREATMENT” herein and “EXHIBIT F - FORM OF BOND COUNSEL OPINION FOR THE BONDS” for a more complete description of the opinions of Bond Counsel and additional federal tax law consequences.

Continuing Disclosure

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

General

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

Information

Information regarding the Bonds is available by contacting the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924; or, during the initial offering period, by contacting the representative of the Underwriters, Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York 10013, (212) 723-7093. This Official Statement will be posted with the Electronic Municipal Market Access (“EMMA”) system.

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OFFICIAL STATEMENT

Relating to

\$60,135,000

COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 116

INTRODUCTION

This Official Statement, including the cover page and the exhibits attached hereto, provides information in connection with the issuance and sale by the State Property and Buildings Commission (the “Commission”), an independent agency of the Commonwealth of Kentucky (the “Commonwealth”), of its \$60,135,000 Agency Fund Revenue Bonds, Project No. 116 (the “Bonds”), issued at the request of the Kentucky Community and Technical College System (“KCTCS” or the “State Agency”), to provide funds with which to (i) pay the costs of the Project (as defined herein) and (ii) pay costs of issuing the Bonds.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth, including particularly Chapters 56 and 58 of the Kentucky Revised Statutes (“KRS”). The Commission adopted a Bond Resolution (the “Resolution”) on January 9, 2017, authorizing the issuance of the Bonds and approving the First Supplemental Lease dated as of April 1, 2017 (the “First Supplemental Lease”) hereinafter described.

The State Agency, as lessee, has entered into the Lease Agreement dated as of May 1, 2016, with the Commission, which has been supplemented by the First Supplemental Lease (collectively, the “Lease”). Payments made pursuant to the Lease will provide the Commission with amounts to pay, when due, the principal of, premium, if any, and interest on the Bonds, as well as parity bonds that have heretofore and may hereafter be issued. The term of the Lease ends October 1, 2036. The Lease requires the State Agency, to seek legislative appropriations to the State Agency to make rental payments to the Commission in accordance with the Lease.

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

The scheduled payment of principal of and interest on the Bonds maturing on October 1 of the years 2020 through 2036 inclusive (the “Insured Bonds”), when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Assured Guaranty Municipal Corp. (“AGM”). See “BOND INSURANCE” and “EXHIBIT H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

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

THE BONDS

General

The Bonds are issuable only as fully registered Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof and will be dated the date of their delivery. The Bonds will bear interest payable on each April 1 and October 1, commencing October 1, 2017, at the interest rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360 day year of twelve 30-day months. The fifteenth day of the calendar month prior to each date established for the payment of the principal, interest or premium, if any, on the Bonds, whether by maturity, acceleration or redemption, is the record date established for the Bonds. U.S. Bank National Association, Louisville, Kentucky, is the trustee for the Bonds (the “Trustee”).

Redemption

Optional Redemption. The Bonds maturing on or after October 1, 2028 are subject to optional redemption at par on October 1, 2027, and on any Business Day thereafter, in whole or in part, and if in part in such order of maturity as may be determined by the Commission (less than all of a single maturity to be selected by lot in such manner as the Trustee may determine), at a redemption price equal to the principal amount thereof, plus accrued interest thereon, without premium.

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

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

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

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

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

Book-Entry-Only System

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

SECURITY FOR THE BONDS

General

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

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

Budgetary Process in the Commonwealth

The General Assembly is required by the Kentucky Constitution to adopt measures providing for the state’s revenues and appropriations for each fiscal year, which for the Commonwealth begins on July 1 and ends on June 30 of the following year (“Fiscal Year”). The Governor is required by law to submit a biennial State Budget (the “State Budget”) to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor’s signature for appropriations commencing for a two-year period beginning the following July 1.

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

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

Pledge of General Receipts

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

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

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

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

provided, however, that General Receipts may

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

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

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

House Bill 235 of the 2014 Regular Session of the Kentucky General Assembly (the "Budget Act") authorized the State Agency to establish a mandatory student fee (the "Special Fee") in an amount of not more than eight dollars (\$8.00) per credit hour to be applied directly to the payment of debt service on the bonds to be issued from time to time to finance BuildSmart Initiative projects. The State Agency's Board of Regents, via the Mandatory Student Fee Resolution dated December 5, 2014, authorized the assessment and collection of such a Special Fee of four dollars (\$4.00) per credit hour for Fiscal Year 2015, and in the amount of eight dollars (\$8.00) per credit hour for each fiscal year thereafter, until such time as all bonds to be paid by the Special Fee have been retired. All revenue from the Special Fee shall be restricted to pay debt service on bonds or notes issued for the benefit of the State Agency in accordance with the Budget Act.

The following table summarizes the total amount of Special Fees collected by the State Agency, for the periods indicated below:

Special Fee Collections

<u>Period</u>	<u>Amount</u>
July 1, 2014 through June 30, 2015	\$ 5,525,007.98
July 1, 2015 through June 30, 2016	10,378,227.04
July 1, 2016 through December 31, 2016	<u>8,510,018.19</u>
TOTAL	\$24,413,253.21

The State Agency used \$2,441,511.63 of the amount collected to pay the debt service payment due October 1, 2016 on the \$44,555,000 State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 114 (the "Project No. 114 Bonds"). Accordingly, the current balance of restricted Student Fee collections is \$21,971,741.58.

State Intercept

Rent and any other payments for principal, interest and redemption premium, if any, on the Bonds (the "Lessee Debt Service Charges") shall be required to be deposited with the Trustee on the earlier of (i) the date that is ten days prior to the first days of April and October of each year during the term of the Lease, and the applicable payment date (such as a redemption date) for any other Lessee Debt Service Charges, as the case may be, and (ii) the last day of any Fiscal Year that the remaining unpaid rent or other Lessee Debt Service Charges for that Fiscal Year would exceed Appropriated Funds (as hereinafter defined) yet to be disbursed to the State Agency for that Fiscal Year. On the date required for the payment of rent or the date any other Lessee Debt Service Charges are required to be deposited with the Trustee in a Bonds Debt Service Payment Account (the "Payment Account"), if sufficient funds are not deposited to the Payment Account to meet the payment of rent or other Lessee Debt Service Charges next due, the Trustee shall immediately notify the State Agency, the Commission and the Secretary of the Finance and Administration Cabinet of the Commonwealth (the "Cabinet") in writing of such event and failure to make a timely payment. Under KRS Section 164A.608, the Secretary of the Cabinet is required, within five days of the default, to apply to such payment any funds that have been appropriated to the State Agency that have not been

disbursed (“Appropriated Funds”). The State Agency shall provide the Trustee and the Commission a current schedule of payment dates and amounts for Appropriated Funds (the “Schedule”) (i) no later than the first day of September of each Fiscal Year; (ii) within ten days of its receipt thereof, any amendments to the Schedule; and (iii) at such other times as may be required for the Trustee and the Commission to determine compliance with the deposit requirements to the Payment Account under the Lease.

General Covenants of Lease

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

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

Additional Bonds

No additional Obligations secured by a pledge of General Receipts on a parity with the Lease shall be issued by the State Agency unless at the time of the authentication of those Obligations no event of default exists under the Lease with respect to any covenants or obligations of the State Agency contained in the Lease or in any outstanding Obligations, and the authentication and delivery of those Obligations will not result in any such event of default. The Lease does not prohibit the State Agency from (i) issuing other indebtedness secured by and payable from the General Receipts, provided that such other indebtedness constitutes subordinated indebtedness, and (ii) issuing other indebtedness payable from, but not secured by, the General Receipts. The Budget Act authorized the issuance of Agency Fund supported Commission bonds in an amount of up to \$145.5 million in relation to the State Agency’s BuildSmart Initiative. See “THE PROJECT” herein. The Project No. 114 Bonds were, and the Bonds are, being issued under this authorization, leaving \$30.25 million of bonds authorized by the Budget Act to be issued. The remaining authorization may be issued in the next 12 months.

Bond Insurance

The scheduled payment of principal of and interest on the Insured Bonds, when due, will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by AGM. See “BOND INSURANCE” and “EXHIBIT H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds maturing on October 1 of the years 2020 through 2036, inclusive (the “Insured Bonds”). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as EXHIBIT H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On July 27, 2016, S&P issued a credit rating report in which it affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 8, 2016, Moody’s published a credit opinion affirming its existing insurance financial strength rating of “A2” (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody’s may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Capitalization of AGM. At December 31, 2016, AGM’s policyholders’ surplus and contingency reserve were approximately \$3,557 million and its net unearned premium reserve was approximately \$1,328 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM’s wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM’s indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference. Portions of the following document filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of

Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

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

PLAN OF FINANCE

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

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

SOURCES AND USES OF FUNDS FOR THE BONDS

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

	<u>Totals</u>
SOURCES OF FUNDS:	
Par Amount	\$60,135,000.00
Net Original Issuance Premium	<u>5,513,878.50</u>
TOTAL SOURCES	<u>\$65,648,878.50</u>
 USES OF FUNDS:	
Deposit to the Construction Fund	\$65,000,000.00
Costs of Issuance ⁺	<u>648,878.50</u>
TOTAL USES	<u>\$65,648,878.50</u>

⁺ Includes Underwriters’ discount, bond insurance premium, legal fees, rating agency fees, printing, and miscellaneous costs.

THE PROJECT

The Kentucky Community and Technical College System BuildSmart Initiative (the “BuildSmart Initiative” or the “Initiative”) is the common and collective name for a long range series of capital construction

projects, which were authorized via enactment of the Budget Act. The Budget Act approved the issuance of Agency Fund supported Commission bonds and/or Kentucky Asset and Liability Commission notes, in an amount of up to \$145.5 million, for the purpose of financing sixteen discrete projects at the State Agency's various campuses around the Commonwealth. The total scope of the Initiative is \$194 million, with 75 percent being Agency Fund supported bonds (\$145.5 million) and the remaining 25 percent (\$48.5 million) to be matched from private and other State Agency funds. See "SECURITY FOR THE BONDS – Additional Bonds" herein. The Project consists of the various public projects funded by the Bonds identified in EXHIBIT C (the "Project").

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

THE STATE PROPERTY AND BUILDINGS COMMISSION

General

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

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

Future Financings of the Commonwealth

The 2010 Extraordinary (Special) Session of the General Assembly delivered House Bill 1 (Executive Branch Budget other than Transportation Cabinet) and House Bill 3 (Kentucky Transportation Cabinet Budget) to the Governor on May 29, 2010, establishing an Executive Branch Budget for the biennium ending June 30, 2012. The Governor took final action on the bills on June 4, 2010. Together, the bills authorized bond financing for projects totaling \$1,980.2 million to support various capital initiatives of the Commonwealth. Of the total authorization, \$507.4 million is General Fund supported, \$515.3 million is Agency Fund supported, \$522.5 million is supported by Road Fund appropriations and \$435 million is Federal Highway Trust Fund supported through Grant Anticipation Revenue Vehicle Bonds designated for the US-68/KY-80 Lake Barkley and Kentucky Lake Bridges Project and the Louisville-Southern Indiana Ohio River Bridges Project. A portion of the General Fund, Agency Fund, Road Fund and Federal Highway Trust Fund authorizations have been permanently financed.

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

The 2014 Regular Session of the General Assembly delivered House Bill 235 (Executive Branch Budget other than Transportation Cabinet) to the Governor on March 31, 2014 and House Bill 236 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2014, establishing an Executive Branch Budget for the biennium ending June 30, 2016. The Governor took final action on House Bill 235 on April 11, 2014 and took final action on House Bill 236 on April 25, 2014. Together, the bills authorize bond financing for projects totaling a net amount of \$1,364.05 million to support various capital initiatives of the Commonwealth due to \$105 million in previously authorized debt that was de-authorized in House Bill 235. Of the total authorization, \$742.77 million is General Fund supported, \$721.28 million is supported by Agency Fund appropriations, and \$5.0 million is Road Fund supported. A portion of the General Fund and Agency Fund, and all of the Road Fund authorizations listed above have been permanently financed. The Bonds offered hereby represent \$65 million of the remaining Agency Fund authorization to be used for the BuildSmart Initiative. See “THE PROJECT” herein and “Exhibit C – THE PROJECT” for a more complete description of the BuildSmart Initiative.

The 2016 Regular Session of the General Assembly delivered House Bill 303 (Executive Branch Budget other than the Transportation Cabinet) and House Bill 304 (Kentucky Transportation Cabinet Budget) to the Governor on April 15, 2016, establishing an Executive Branch Budget for the biennium ending June 30, 2018. The Governor took final action on House Bill 303 and House Bill 304 on April 27, 2016. Together, the bills authorize bond financing for projects totaling a net amount of \$1,251.24 million to support various capital initiatives of the Commonwealth with \$9.0 million of previously authorized debt de-authorized in House Bill 303. Of the total authorization, \$582.99 million is General Fund supported and \$677.25 million is supported by Agency Fund appropriations. No additional Road Fund supported authorizations were appropriated. A portion of the General Fund and Agency Fund authorizations listed have been permanently financed.

The balance of prior bond authorizations of the General Assembly dating from 2006 through 2016 totals \$1,842.43 million. Of these prior authorizations, \$905.93 million is General Fund supported, \$784.50 million is Agency Fund supported, \$92.50 million is supported by Road Fund appropriations and \$59.50 million is Federal Highway Trust Fund supported.

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

State Property and Buildings Commission
Summary of Authorized but Unissued Debt by Fund Type
as of March 1, 2017

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Highway Trust Fund (millions)	TOTAL (millions)
2010 and prior	\$ 34.44	\$ 17.50	\$80.00	\$59.50	\$191.44
2012	9.33		12.50		21.83
2014	405.25	161.34			566.59
2016	456.91	605.66			1,062.57
TOTAL	\$905.93	\$784.50	\$92.50	\$59.50	\$1,842.43

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

THE STATE AGENCY

Kentucky Community and Technical College System is the newest postsecondary education institution in the Commonwealth. KCTCS was created by The Kentucky Postsecondary Education Improvement Act of 1997

(House Bill 1). It is comprised of 16 colleges with more than 70 campuses located throughout the Commonwealth. KCTCS colleges are strategically located to provide accessible education and workforce training that is relevant and responsive to the needs of Kentucky's students, business and industry leaders, and the communities they serve.

See additional information regarding KCTCS in EXHIBIT A and the audited financial statements of KCTCS for the Fiscal Years ended June 30, 2015 and June 30, 2016 in EXHIBIT B.

THE COMMONWEALTH

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

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

As indicated in the *Commonwealth of Kentucky Quarterly Economic & Revenue Report Second Quarter Fiscal Year 2017*, Kentucky remains well-positioned in relation to the nation's economy with overall economic growth projected to continue through the rest of Fiscal Year 2017 in terms of personal income and employment growth. The General Fund has entered its twelfth consecutive quarter of positive growth, with receipts rising 3.3 percent over the second quarter of the previous Fiscal Year, although the interim unofficial forecast calls for a slowing of General Fund growth to a rate of 1.5 percent in the second half of Fiscal Year 2017. Second quarter gains were primarily driven by corporation income, individual income, limited liability entity, property and lottery receipts. Individual income and sales taxes continue to support growth, together comprising seventy percent of the General Fund revenues, although collections for these taxes lost momentum at the end of the second quarter. Collections at the newly forecasted levels would produce a current year revenue shortfall of \$29.5 million below the official General Fund forecast of \$10,616.4 million.

Kentucky's economy has been marked by above average personal income growth for the past eight consecutive quarters, gaining a net 6.7 percent over that time frame. Year-over-year growth in the second quarter of Fiscal Year 2017 was 5.7 percent and while year-over-year growth has slowed significantly, the rate of growth has not fallen below the normal range. Similar to the first quarter of Fiscal Year 2017, all five contributing components to personal income grew in the second quarter, which was also true for national personal income. Growth in Kentucky personal income is expected to accelerate to 4.2 percent for the remainder of Fiscal Year 2017 with wage and salary income up 5.1 percent over the same time horizon. Wage and salary growth is a key economic driver for both withholding collections in the individual income tax, as well as the sales tax.

The outlook for Kentucky non-farm employment is expected to rise 0.8 percent for the remainder of Fiscal Year 2017, followed by slightly higher growth in the first quarter of Fiscal Year 2018. All three quarters of the outlook project relatively weak growth when compared to recovery periods following recessions, although it is not uncommon for employment to contract for a few quarters after the official recession has ended. The service-providing sector is projected to expand 1.3 percent in the second half of Fiscal Year 2017, with the government and goods-producing sectors projected to change 0.4 percent or less.

As reported in the previous quarter's *Commonwealth of Kentucky Quarterly Economic & Revenue Report*, of particular interest to the Kentucky economy was robust increase in US light vehicle sales over the last six years. After reaching a low in 2009 during the recession, the market for new cars and trucks reached record highs in 2015. For calendar year 2016, sales have continued to remain strong, although there is concern that the light vehicle market may reach a plateau.

Financial Information Regarding the Commonwealth

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

The Commonwealth annually publishes *The Kentucky Comprehensive Annual Financial Report* (the “CAFR”) with respect to the Fiscal Year of the Commonwealth most recently ended. The CAFR includes certain financial statements of the Commonwealth, as well as general financial information pertaining to the Accounting System and Budgetary Controls, Debt Administration, Cash Management, Risk Management, General Fund Budgetary Basis and Governmental Funds GAAP Basis. In addition, the Notes to Financial Statements as set forth in the CAFR contain information regarding the basis of preparation of the Commonwealth’s financial statements, Funds and Pension Plans. The “Statistical Section” of the CAFR includes information on Commonwealth revenue sources, Commonwealth expenditures by function, taxes and tax sources, taxable property, assessed and estimated values, property tax, levies and collections, demographic statistics (population, per capita income and unemployment rate), construction and bank deposits, sources of personal income and largest Commonwealth manufacturers.

Certain Financial Information Incorporated by Reference

The CAFR for the Fiscal Year ended June 30, 2016 is incorporated herein by reference. The Commonwealth has filed the CAFR for the Fiscal Year ended June 30, 2016 with the following Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”):

- Municipal Securities Rulemaking Board
- Electronic Municipal Market Access System (“EMMA”)

Internet: <http://emma.msrb.org>

A copy of the CAFR for the Fiscal Year ended June 30, 2016 may be obtained from EMMA or from the Office of Financial Management, 702 Capital Avenue, Suite 76, Frankfort, Kentucky 40601, (502) 564-2924. Additionally, the CAFR for the Fiscal Year ended June 30, 2016 and certain other fiscal years may be found on the Internet:

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

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

Fiscal Year 2014

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

The largest portion of the Commonwealth’s net position, \$21.3 billion, is net investment in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore these assets are not available for future spending.

The second largest portion of the Commonwealth’s net position, totaling \$1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth’s discretion. However, the unrestricted balance is \$(12.4) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net position when the obligation is incurred. Accordingly, the

Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net position.

The Commonwealth received program revenues of \$13.1 billion and general revenues (including transfers) of \$12 billion for total revenues of \$25.1 billion during Fiscal Year 2014. Expenses for the Commonwealth during Fiscal Year 2014 were \$25.6 billion, which resulted in a total decrease of the Commonwealth's net position in the amount of \$442.6 million, net of contributions, transfers and special items.

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$774.4 million or 7.0 percent. Approximately 49.7 percent of the governmental activities' total revenue came from taxes, while 41.2 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2014 the Commonwealth's governmental funds reported combined ending fund balances of \$2.2 billion, a net decrease of \$42.1 million in comparison with the prior year. \$74 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The \$2.1 billion is restricted for certain purposes and is not available to fund current operations. The \$61.9 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

The General Fund balance at June 30, 2014 was \$(130.8) million. The balance reported reflects a decrease of \$333 million from the previously reported amount, which represents a decrease of 164.6 percent. The major factor for the decrease in fund balance is an increase in expenditures of \$458.5 million or 5.2 percent.

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$6.5 million represents the nonspendable amount. The unrestricted had a negative balance of \$137.3, therefore is not available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced an increase in intergovernmental revenues of \$1.9 billion. Expenditures decreased across a majority of all functions, except for Health and Family Services (CHFS) which experienced an increase in expenditures of \$2 billion (a 28.4 percent increase in expenditures for total federal expenditures).

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

Fiscal Year 2015

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

The largest portion of the Commonwealth's net position, \$21.6 billion, is net investment in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore these assets are not available for future spending.

The second largest portion of the Commonwealth's net position, totaling \$1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(36.818) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net position when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net position.

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

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$(5.1) million or 1.0 percent. Approximately 48.8 percent of the governmental activities' total revenue came from taxes, while 49.3 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

At June 30, 2014 the Commonwealth's governmental funds reported combined ending fund balances of \$2.0 billion, a net decrease of \$184.1 million in comparison with the prior year. \$99.3 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. The \$1.7 billion is restricted for certain purposes and is not available to fund current operations. \$214 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

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

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$6.2 million represents the nonspendable amount. The unrestricted had a balance of \$98.1 million, therefore is available for spending at the government's discretion or upon legislative approval.

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund, which experienced an increase in intergovernmental revenues of \$1.3 billion. Expenditures decreased across a majority of all functions, except for the Cabinet for Health and Family Services (CHFS) which experienced an increase in expenditures of \$1.2 billion (a 13.6 percent increase in expenditures for total federal expenditures).

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

Fiscal Year 2016

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

The largest portion of the Commonwealth's net position, \$22.2 billion, is net investment in capital assets (e.g. land, infrastructures, buildings and improvements, and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore these assets are not available for future spending.

The second largest portion of the Commonwealth's net position, totaling \$1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position. The unrestricted net position, if it has a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is \$(38) billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net position when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities) on the statement of net position.

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

The change in net position resulted in a decrease from the previous year. The decrease in net position of governmental activities was \$(922.2) million or 6.52 percent. Approximately 47.5 percent of the governmental activities' total revenue came from taxes, while 44.2 percent resulted from grants and contributions (including federal aid). Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

As of the close of Fiscal Year 2016, the Commonwealth's governmental funds reported combined ending fund balances of \$2.3 billion, a net decrease of \$301.6 million in comparison with the prior year. \$96.9 million is nonspendable and is comprised of inventories, notes receivables, cash with fiscal agents, and restricted cash that must remain intact. \$1.8 billion is restricted for certain purposes and is not available to fund current operations. \$402.6 million is considered unrestricted (committed, assigned, or unassigned). When the unrestricted balance is positive it is available for spending either at the government's discretion or upon legislative approval.

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

The General Fund balance is segregated into nonspendable and spendable amounts with the spendable amounts further segregated as restricted, committed, assigned, and unassigned. Inventory of \$5.5 million represents the nonspendable amount. The unrestricted had a balance of \$349.6 million, therefore is available for spending at the government's discretion or upon legislative approval.

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

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

Fiscal Year 2017 (Unaudited)

As reported by the Office of the State Budget Director on March 10, 2017, the February 2017 General Fund receipts increased by 5.9 percent compared to the same month of the previous Fiscal Year. Total revenues for the month were \$709.0 million, compared to \$669.6 million during February 2016, an increase of \$39.4 million. The General Fund has grown 2.8 percent for the first eight months of the Fiscal Year. Based on February's results, General Fund revenues need growth of 2.4 percent over the remaining four months of the Fiscal Year to meet the current official estimate of \$10,616.4 million. Compared to last year, Road Fund receipts decreased 0.3 percent in February to \$120.2 million. Fiscal year-to-date Road Fund collections have increased 1.6 percent compared to the first eight months of the previous Fiscal Year. The official Road Fund estimate calls for revenues to decline 1.7 percent for the Fiscal Year. Based on collections through the first eight months of the Fiscal Year, Road Fund receipts can decline 8.1 percent for the remainder of Fiscal Year 2017 to meet the estimate of \$1,456.9 million.

Consensus Forecasting Group; Official Revenue Forecasts

The Consensus Forecasting Group ("CFG"), in conjunction with the Office of the State Budget Director ("OSBD"), is statutorily charged with the responsibility of developing budget planning reports, preliminary revenue estimates, and official revenue estimates for each branch of government and the General and Road funds, pursuant to KRS 48.120 and KRS 48.115. The CFG receives support from the Governor's Office for Economic Analysis, an organizational unit of the OSBD, and is staffed by the Legislative Research Commission ("LRC"). Members of the CFG are jointly selected by the State Budget Director and the LRC.

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

The Office of the State Budget director makes available on its website the CFG official enacted and revised revenue estimates for the General and Road Funds.

The official revenue estimates, as adopted by the CFG, legislatively enacted by the General Assembly, revised by the CFG and compared to actual General and Road Fund totals for Fiscal Years 2013 through 2018 are represented below:

<u>General Fund</u>				
<u>Fiscal Year</u>	<u>Adopted</u>	<u>Enacted</u>	<u>Revised</u>	<u>Actual</u>
2013	\$ 9,220,600,000	\$ 9,307,839,200	N/A	\$ 9,348,400,000
2014	9,548,400,000	9,523,900,000	\$ 9,578,900,000	9,462,000,000
2015	9,794,300,000	9,973,800,000	N/A	9,966,600,000
2016	10,046,600,000	10,067,200,000	10,289,900,000	10,338,900,000
2017	10,617,200,000	10,616,375,000	N/A	N/A
2018	10,875,500,000	10,874,400,000	N/A	N/A

<u>Road Fund</u>				
Fiscal Year	<u>Adopted</u>	<u>Enacted</u>	<u>Revised</u>	<u>Actual</u>
2013	\$ 1,498,900,000	\$ 1,539,269,400	\$ 1,499,600,000	\$ 1,491,600,000
2014	1,568,000,000	1,569,156,100	1,582,600,000	1,560,400,000
2015	1,546,700,000	1,584,870,600	N/A	1,526,700,000
2016	1,558,400,000	1,559,396,800	1,445,900,000	1,482,500,000
2017	1,456,900,000	1,456,900,000	N/A	N/A
2018	1,478,200,000	1,478,200,000	N/A	N/A

The CFG official revenue estimate as legislatively enacted for the Phase 1 Tobacco Master Settlement Agreement payments is \$88.1 million in Fiscal Year 2016 and \$87.0 million in Fiscal Year 2017.

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

Investment Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission ("SIC"), comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and two gubernatorial appointees from the Kentucky Banker's Association and Bluegrass Community Bankers Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management. OFM engaged PFM Asset Management LLC ("PFM") to conduct an evaluation of existing statutes and regulations, general investment functions, and portfolio performance benchmarks reporting and suggested best practices. PFM has made its recommendations to OFM and the SIC, and most recommendations have been implemented. The Kentucky State Investment Commission Investment Program Review dated March 22, 2012 prepared by PFM may be found on the Internet at:

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

On February 28, 2017, the Commonwealth's operating portfolio was approximately \$4.101 billion in cash and securities. The composition of investments was as follows: U.S. Treasury securities (35%); securities issued by agencies and instrumentalities of the United States Government (5%); mortgage-backed securities and collateralized mortgage obligations (10%); repurchase agreements collateralized by the aforementioned (10%); corporate securities (8%); and municipal and asset-backed securities, including money market securities (32%). The portfolio had a current yield of 1.04% and an effective duration of 0.84years.

The Commonwealth's investments are currently categorized into three investment pools; the Short Term, Limited Term, and the Intermediate Term Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short Term Pool consists primarily of the General Fund and related accounts. The Limited Term Pool is a money market like pool which focuses on principal protection for certain agency funds. The Intermediate Term Pool represents a combination of Agency Fund investments, state held component unit funds, fiduciary funds held for the benefit of others, and also bond proceeds for capital construction projects, held until spent for their intended purpose. Bond proceeds were previously invested separately until July 2010 when they were added into the Intermediate Term Pool to provide additional economies of scale. The Bridges Pool, which closed December 31, 2016, consisted of bond proceeds for the now completed Louisville-Southern Indiana Ohio River Bridges capital construction project.

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

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

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

State Retirement Systems

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

Pension Plans. Eligible state employees participate in one of two multi-employer defined benefit plans, the Kentucky Retirement Systems and TRS. The Kentucky Retirement Systems is comprised of five retirement plans, KERS Non-Hazardous, KERS Hazardous, County Employees Retirement System (“CERS”) Non-Hazardous, CERS Hazardous, and the State Police Retirement System (“SPRS”). Each retirement plan is state supported, except for the CERS plans, which have been excluded from the Kentucky Retirement Systems information provided herein. The Kentucky Retirement Systems and TRS (collectively, the “Pension Plans”) provide both pension and Other Post Employment Benefits (“OPEB”) to state employees and teachers based upon their years of service and retirement dates. Most retirement benefits are subject to a statutory inviolable contract under which the benefits shall not, with limited exceptions, be reduced or impaired by alteration, amendment or repeal. KERS eligible employees hired January 1, 2014 and after are no longer party to the inviolable contract and the General Assembly can amend, suspend or reduce benefits with future legislation. The Pension Plans are component units of the Commonwealth for financial reporting purposes and are included in *The 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 2016* Note 8 beginning on page 92. Additional information regarding the Kentucky Retirement Systems and TRS can be found on their respective web sites at <https://kyret.ky.gov> and <https://trs.ky.gov>, including their respective Comprehensive Annual Financial Reports (collectively, the “CAFRs”) and the accompanying actuarial studies, described under *Other Post Employment Benefits*. Only information contained on the Internet web page identified above is incorporated herein and no additional information that may be reached from such page by linking to any other page should be considered to be incorporated herein.

Pension Funding. Based upon the assumptions employed in the Pension Plans’ June 30, 2016 actuarial valuation reports used in preparing the associated Pension Plans’ 2016 CAFRs, the Kentucky Retirement Systems had a state supported pension Unfunded Actuarial Accrued Liability (the “UAAL”) of \$12,030 million. TRS, assuming a 7.5 percent investment return, had a UAAL of \$14,531 million. Under the GASB 67 Accounting Method and assuming a 4.2 percent blended investment rate of return, the pension UAAL would be \$30,924 million

or 35.22 percent. The state supported portion of the Pension Plans for Fiscal Year ended June 30, 2016 had funding percentages of 19.46 percent for the Kentucky Retirement Systems and 54.63 percent for TRS. These funding percentages compared to 22.56 percent and 55.28 percent respectively for the Fiscal Year ended June 30, 2015. The funding ratios have declined due to a variety of factors including, changes to the discount rate, lower than projected investment returns and other variances from actuarial assumptions. The Kentucky Retirement Systems' state supported Actuarially Determined Employer Contribution ("ADEC") for Fiscal Year ended June 30, 2016 pension benefits was \$562.1 million; \$562.7 million was contributed. The TRS state supported ADEC for Fiscal Year ended June 30, 2016 was \$999.3 million; \$565.5 million was contributed.

The Commonwealth's enacted budget for Fiscal Years 2017 and 2018 provided funding for payment of the full ADEC of the Kentucky Retirement Systems as well as an additional \$185.767 million above the ADEC over the biennium. Similarly, the TRS was appropriated a budgeted estimate of 94 percent of the ADEC over the biennium. In addition to increased pension appropriations, the Kentucky Permanent Pension Fund was established in House Bill 238 (2016 Regular Session), the proceeds of which shall only be used for contributions to the Commonwealth's pension funds. The appropriated deposits to this fund include a \$125 million transfer from surplus monies in the Public Employees Health Insurance Trust Fund and 50 percent of any General Fund surplus in Fiscal Year 2017. Any Fiscal Year 2018 General Fund surplus is appropriated at a rate of 25 percent to the TRS unfunded liability and 25 percent to the KERS Non-Hazardous liability. The August 1, 2016 Financial Outlook Report presented by the State Budget Director showed a \$26,354,485 appropriation to the Kentucky Permanent Pension Fund as a result of the House Bill 303 (2016 Regular Session) General Fund Surplus Expenditure Plan.

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

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

The Pension Plans commissioned actuarial studies, which provided results for consideration, under certain actuarial funding methods and sets of assumptions. A five-year experience study was completed for the period ending June 30, 2013 for the Kentucky Retirement Systems, which was dated April of 2014. TRS' last five-year experience study was for the period ending June 30, 2010 and was presented to the TRS board in September 2011. In addition to the experience studies, annual actuarial reports are performed on both retirement systems. Pursuant to their respective actuarial studies, the OPEB UAAL as of June 30, 2016 was estimated at \$1,702.5 million for the Kentucky Retirement Systems and \$2,844.8 million for TRS. These estimates represent the present value of the amount of healthcare benefits under the respective Health Plans, payable over future periods and allocated by the actuarial cost method, as of June 30, 2016. The actuarial estimates for the Kentucky Retirement Systems' OPEB liabilities decreased from the \$1,729.1 million reported in the Kentucky Retirement Systems' 2015 CAFR. The actuarial estimates for TRS decreased from the \$2,889.4 million reported in their 2015 CAFR.

The Kentucky Retirement Systems' state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2016 was \$139.6 million; \$162.8 million was contributed. The TRS state supported OPEB Annual Required Contribution for Fiscal Year ended June 30, 2016 was \$99.0 million; \$223.0 million was contributed. The state supported portion of the OPEB for Fiscal Year ended June 30, 2016 had funding percentages of 44.9 percent for the Kentucky Retirement Systems and 23.9 percent for TRS.

Recent Changes to State Retirement Systems. The Cabinet, through a competitive process, selected a team led by PFM Group Consulting LLC to develop a range of analyses that illustrate the current and projected financial condition of the retirement systems, and draw on best practices nationally to provide options and recommendations for improvement and reform. The first report, which focused on transparency and governance for each of the Commonwealth's three major systems (Kentucky Retirement Systems, TRS and CERS), was dated December 30, 2016 and may be viewed at www.osbd.ky.gov. Additional reports expected in calendar year 2017 will address investment performance, structural governance, administrative structure and efficiency, actuarial and funding approaches, plan design, and other aspects of each of the three retirement systems. These reports will provide information to the Kentucky Legislature and the Executive Branch for consideration in further legislative changes to the pension systems. The Governor, in the February 8, 2017 State of the Commonwealth Address, stated that he anticipates calling a 2017 Special Session of the General Assembly to take up pension funding and tax reform.

In December 2016 the Kentucky Retirement Systems and TRS publicly presented the annual actuarial valuation reports of the systems as prepared by Cavanaugh Macdonald as of June 30, 2016. The assumed investment rate of return for KERS non-hazardous and SPRS was 6.75 percent based on the annual valuation conducted as of June 30, 2016. The TRS, CERS and KERS Hazardous plans continue to use a 7.5 percent discount rate. There was a reduction in the assumed rate of return from 7.75 percent to 7.5 percent for the valuation as of June 30, 2015. The Kentucky Retirement Systems board has publicly stated that it continues to evaluate the assumed investment rate of return for KERS Non-Hazardous and SPRS, but has not provided specific guidance for future recommended actions to the Kentucky General Assembly. The 6.75 percent rate was adopted in determining the ADEC for Fiscal Year 2017 and 2018 budgetary formulas in House Bill 303 (2016 Regular Session). Since KRS 61.565(3)(c) provides in effect that the Kentucky Retirement Systems board has no authority to amend recommended contribution rates as of July 1 of an odd numbered year, the authority to adjust the current biennial contribution rate would require legislative action.

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

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

Litigation Potentially Impacting KERS. Since 2012, TRS, Kentucky Retirement Systems and hundreds of other shareholders of Lyondell Chemical have been parties in litigation that arose out of the Lyondell Chemical bankruptcy. The litigation arose from allegations that a former Lyondell Chemical principal had engaged in fraudulent conveyance that inflated the value of all shareholder stock. Creditors of Lyondell are seeking to force former Lyondell shareholders (including TRS and Kentucky Retirement Systems) to disgorge those amounts received as shareholders in connection with Lyondell's leveraged buyout. On July 27, 2016 this litigation was remanded to the Bankruptcy Court for further proceedings by the United States District Court, Southern District of New York.

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

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

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

In June 2014, KERS appealed the Bankruptcy Court's ruling. As a result of the issues pending on appeal, KERS did not file a proof of claim. On October 6, 2014, Seven Counties filed a formal reorganization plan with the Bankruptcy Court. On October 10, 2014, KERS filed a direct appeal of the May 30, 2014 ruling with the United States Sixth Circuit Court of Appeals. On December 30, 2014, the Sixth Circuit determined that a direct appeal was not warranted and remanded the matter to the U.S. District Court for the Western District of Kentucky (the "District Court") for consideration. On January 6, 2015, the Bankruptcy Court confirmed Seven Counties' plan of reorganization (the "Confirmation Order"). On January 19, 2015, KERS appealed the Confirmation Order. At a hearing on January 20, 2015, the Bankruptcy Court denied a motion by KERS seeking a stay of the Confirmation Order, which would have delayed implementation of the reorganization plan pending the determination of the issues on appeal. After the Bankruptcy Court denial of the stay, KERS filed an emergency motion for a stay with the District Court, which the District Court denied on February 4, 2015. On May 12, 2015, KERS filed a motion with the District Court to certify a question to the Kentucky Supreme Court in connection with whether the relationship between KERS and Seven Counties (i) constituted a "contract" subject to rejection in bankruptcy by Seven Counties or (ii) was a statutory obligation of Seven Counties not constituting a contract. On March 31, 2016 the United States District Court issued a Memorandum of Opinion and Order that (i) denied KERS' motion to certify a question of law to the Kentucky Supreme Court, (ii) reversed the Bankruptcy Court's determination regarding classifying KERS as a multi-employer plan and determined KERS was a multiple employer plan, (iii) affirmed the Bankruptcy Court's decision in all other aspects; and (iv) denied Seven Counties cross-appeal.

On April 21, 2016 the Kentucky Retirement Systems Board voted to appeal the decision to the United States Court of Appeals for the Sixth Circuit. On April 29, 2016, the Kentucky Retirement System filed a Notice of Appeal. In July 2016, KERS filed a Motion to Supplement the Record with the District Court. On October 18, 2016, Seven Counties filed a response to this motion indicating it had no objection. The Sixth Circuit Court of Appeals granted the Motion to Supplement the Record, and set a briefing schedule. KERS filed its brief with the Sixth Circuit Court of Appeals on January 3, 2017. Seven Counties had 30 days to respond. On January 18, 2017 KERS filed a Motion to Certify a Question of State Law to the Supreme Court of Kentucky. On the same date the briefing schedule for this case was held in abeyance pending the resolution of the Motion to Certify a Question of Law. Seven Counties filed a Response to this Motion and KERS filed a Reply to the Response. On February 28,

2017, the Sixth Circuit Court of Appeals issued an Order referring this Motion to the merits panel for decision. A new briefing schedule was also issued for completing the briefing regarding the merits of the case. Seven Counties now has until May 9, 2017 to file its Appellee Brief.

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

In June 2014, the City of Fort Wright, a participating employer in CERS, filed a lawsuit against the Kentucky Retirement Systems’ Board of Trustees alleging that the Board invested CERS funds in investments that were prohibited by statute and common law. In addition, the City alleged that the Board of Trustees paid substantial asset management fees, which the suit alleges were improper. Although the exact nature and source of the relief sought is unclear, it appears that the City is seeking a declaration of rights, an injunction barring the placement of CERS assets in certain types of investments, an accounting of CERS assets, restitution of management fees to CERS, and attorney fees. Kentucky Retirement Systems filed a motion to dismiss this action based on a number of legal issues, including the argument that the action was barred by the doctrine of sovereign immunity. Franklin Circuit Court denied the motion to dismiss. An interlocutory appeal of the sovereign immunity issue was filed at the Kentucky Court of Appeals. On September 23, 2016, the Court of Appeals upheld the Franklin Circuit Court’s ruling that sovereign immunity did not prohibit this action from proceeding. A motion for discretionary review of this decision was filed with the Kentucky Supreme Court on October 21, 2016. The Kentucky Supreme Court declined to grant discretionary review in a February 9, 2017 order. The case will now proceed at the Franklin Circuit Court to address the merits of the claims made.

In what is essentially a companion case to the City of Fort Wright matter outlined above, Damian Stanton filed a Complaint on September 4, 2015, alleging that he is a member of CERS and that the Board invested CERS funds in investments that were prohibited by both statutory and the common law, as well as alleging that substantial management fees were paid as a result of the investments. This case contains essentially the same allegations as in the City of Fort Wright case. As in the City of Fort Wright litigation, the exact nature and source of the relief sought is unclear; however, it appears that Mr. Stanton is seeking a declaration of rights, an injunction barring the placement of CERS assets in certain types of investments, an accounting of CERS assets, restitution of management fees to CERS, and attorney fees. This case was held in abeyance pending the outcome of the Kentucky Retirement Systems’ motion for discretionary review in the Fort Wright matter. It will now proceed at the Franklin Circuit Court.

Beginning in April 2016, the Governor issued a series of three Executive Orders removing Thomas K. Elliott as a member of the Board of Trustees of the Kentucky Retirement Systems and appointing a replacement. In June 2016, the Governor issued an Executive Order that abolished and recreated the Kentucky Retirement Systems’ Board and changed the nature and form of the board in several ways including the addition of four positions for individuals with investment experience. In June 2016, Thomas K. Elliott and others, including the intervening plaintiff Kentucky Attorney General, sought injunctive relief in the Franklin Circuit Court blocking the Executive Orders. In an Opinion and Order on August 22, 2016, the Franklin Circuit Court enjoined the enforcement of those provisions of the Executive Order removing Mr. Elliott from office, and denied the request to block the re-organization of the Board of Trustees pending a final decision on the merits of the case. On September 8, 2016, the Franklin Circuit Court modified the August 22, 2016 temporary injunction, permitting the removal and replacement of Mr. Elliott as a voting member but allowing Mr. Elliott to continue as a non-voting member of the Kentucky Retirement Systems’ Board and the Investment Committee. In all other respects, the August 22, 2016 temporary injunction remains in effect. Oral arguments were held on November 17, 2016. The Court has taken this matter under submission for a final decision on the merits of the case.

On November 17, 2016, Western Kentucky University (“WKU”) filed a motion in Franklin Circuit Court seeking a judgement against the Kentucky Retirement Systems after the Kentucky Retirement Systems asserted WKU should continue to make retirement contributions for employees who were purportedly fired as WKU

employees and then rehired as contract laborers. An Agreed Order was issued in this case extending the Kentucky Retirement Systems' deadline for filing an answer to March 3, 2017. On March 3, 2017 Kentucky Retirement Systems filed a Motion to dismiss this action based on WKU's failure to name necessary parties. This matter will be briefed and then considered by the Franklin Circuit Court.

On November 29, 2016, a number of current and retired teachers from and in the public schools of the Commonwealth initiated an action in Franklin, Kentucky Circuit Court, individually and as representatives of the class of all similarly situated teachers covered by TRS. To date, the Court has not certified the plaintiffs to act as representatives of a class. The action against the Governor, the President of the Kentucky Senate, and the Speaker of the Kentucky House of Representatives seeks declaratory relief requiring the defendants as representatives of the Executive and Legislative branches of the Commonwealth to cure the financial deficiency of TRS for the benefit of the plaintiffs, among other related relief. On January 3, 2017, the defendants filed a Notice of Removal with the United States District Court for the Eastern District of Kentucky for the removal of this case from the Franklin, Kentucky Circuit Court to the United States District Court for the Eastern District of Kentucky due to claims asserted by the plaintiffs arising under the Constitution, laws, or treaties of the United States.

SUMMARIES OF THE PRINCIPAL DOCUMENTS

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

The Resolution

Funds and Accounts. The following Funds and Accounts have been established under the Resolution. Deposits of the proceeds of the Bonds and Revenues will be made as described below.

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

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

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

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

3. Construction Fund. The Resolution creates a Construction Fund (the "Construction Fund"), to be held by the Treasurer of the Commonwealth. Until disbursed as authorized by the Resolution, the Construction Fund constitutes a trust fund for the benefit of the Holders. The Construction Fund will be used for the purposes of

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

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

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

Events of Default. The Resolution defines “Events of Default” as follows:

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

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

The Resolution provides that upon the happening and continuance of any event of default thereunder, the Trustee may proceed, and upon the written request of the Holders of not less than 25 percent in aggregate principal amount of Bonds then Outstanding must proceed, to protect and enforce its rights and the rights of the Holders under the pertinent Kentucky’s Revised Statutes and under the Resolution forthwith by such suits, actions, or by special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, whether for the specific performance of any covenant or agreement contained in the Resolution or in aid of the execution of

any power granted therein or in the Kentucky Revised Statutes or for the enforcement of any legal or equitable rights or remedies as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights or to perform any of its duties under the Resolution.

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

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

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

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

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

principal of, premium, if any, or interest on any Bond, or a reduction in the amount of principal or premium, if any, or the rate of interest thereon without the written consent of the Holder thereof, or which would reduce the percentage of Holders of Bonds whose approval is required by the Resolution for adoption of any supplemental resolution as described above.

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

Change, Substitution or Other Modification of Project. Anything in the Resolution or the Lease notwithstanding, the State Agency may, in its sole discretion, change, substitute or otherwise modify components of the Project, so long as all Bond proceeds are applied to facilities, payments or undertakings which are included in and subject to rental payments under the Lease such that rental payments thereunder will be sufficient to pay principal of, premium, if any, and interest on the Bonds; provided that any such change, substitution or modification shall not cause the Commission to be in violation of certain covenants of the Resolution.

The Trustee. The Resolution sets forth the terms and provisions regarding the responsibilities, compensation and removal of the Trustee. The Trustee is entitled to reasonable compensation from Revenues and to the extent the Commission fails to make such payment, the Trustee may make such payment from funds in its possession (other than the Rebate Fund) and shall be entitled to a preference therefor over any Outstanding Bonds. The Trustee may be removed at any time at the written request of the Commission or a majority of the Holders under the Resolution.

Discharge of the Resolution. If the Commission pays or causes to be paid, or there is otherwise paid, to the Holders of the Bonds the total principal and interest due or to become due thereon, including premium, if applicable, at the times and in the manner stipulated therein and in the Resolution then the pledge of Revenues under the Resolution, and all covenants, agreements and other obligations of the Commission to the Holders of the Bonds shall cease, terminate and become void and shall be discharged and satisfied.

Whenever there shall be held by the Trustee in the Bond Fund or an escrow fund established for such purpose, either (a) moneys in an amount which shall be sufficient, or (b) Defeasance Obligations (as defined below) the principal of, premium, if any, and interest on which when due (without consideration of reinvestment income) will provide moneys which, together with other moneys, if any, then on deposit in the Bond Fund or such escrow fund, shall be sufficient, as set forth in a verification report from a firm of independent certified public accountants, to pay when due the principal of, interest and redemption premium, if applicable, on the Bonds or any part thereof to and including the date upon which the Bonds or any of them will be redeemed or will mature, as the case may be, then and in any of said events all such Bonds shall be deemed to have been paid within the meaning and with the effect expressed in the defeasance provisions of the Resolution, and the Trustee will and is irrevocably instructed by the Resolution to give notice thereof to the Holders of the Bonds.

As used herein, "Defeasance Obligations" means:

(a) non-callable direct obligations of the United States of America, non-callable and, non-prepayable direct federal agency obligations the timely payment of principal of and interest on which is fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including "CATS," "TIGRS" and "TRS" unless the Commission obtains a confirmation that the Bonds defeased thereby shall be rated in the highest rating category by S&P (as hereinafter defined) and Moody's (as hereinafter defined) with respect thereto) and the interest components of

REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

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

(c) certificates rated "AAA" by S&P at the time of purchase, "Aaa" by Moody's at the time of purchase and "AAA" by Fitch (as hereinafter defined) at the time of purchase (if rated by Fitch), evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (b), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian; and

(d) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) timely payment of which is fully secured by a fund consisting only of cash or obligations of the character described in clause (a), (b) or (c) which fund may be applied only to the payment when due of such bonds or other obligations and (iii) rated "AAA" by S&P at the time of purchase, "Aaa" by Moody's at the time of purchase and "AAA" by Fitch at the time of purchase (if rated by Fitch).

The Lease

The Commission and the State Agency have entered into the Lease, whereby the State Agency has and will continue to lease the Project from the Commission and will pay rentals to the Commission which will provide funds sufficient to pay the amounts due on the Bonds and the Project No. 114 Bonds.

The Lease has a term ending October 1, 2036.

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

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

Events of default under the Lease include a default in the due and punctual payment of any rent or a default in the performance of any covenants therein not remedied within 30 days (or in the process of being remedied).

If an event of default occurs under the Lease, the Commission, in addition to all other remedies given to the Commission at law or in equity, may by written notice to the State Agency terminate the Lease or, without terminating the Lease, take possession (actually or constructively) of the Project. In such event, the Commission may sublet the Project or any portion thereof to any party, and in the event of a reletting may apply the rent therefrom first to the payment of the Commission's expenses incurred by reason of the State Agency's default, and the expense of reletting, including but not limited to any repairs, renovation or alteration of the Project, and then to the payment of rent and all other sums due from the State Agency under the Lease; provided, that prior to any such subletting or reletting, the Commission shall deliver to the Trustee an opinion of nationally recognized bond counsel that the subletting or reletting will not cause the interest on the Bonds to be includable in gross income of the owners thereof for federal income tax purposes.

The Insurance Agreement

The Commission and AGM have entered into an Insurance Agreement dated as of April 1, 2017 (the "Insurance Agreement"), which has been acknowledged by the Trustee and the State Agency, that modifies certain provisions of the Resolution and may affect the State Agency's obligations under the Lease.

Rights of AGM. Under the Insurance Agreement, AGM is deemed to be the sole holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Bonds are entitled to take under the Resolution pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee.

AGM as Third Party Beneficiary. Under the Insurance Agreement, AGM is a third party beneficiary to the Resolution and the Lease.

Amendments and Waivers under the Resolution. The Insurance Agreement provides that any amendment, supplement, modification or waiver of the Resolution that requires the consent of the holders of the Insured Bonds or adversely affects the rights and interests of AGM is subject to the prior written consent of AGM.

Subrogation. Under the Insurance Agreement, to the extent AGM makes any payment of principal or interest on the Insured Bonds, AGM is subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy.

Covenants under the Insurance Agreement. The Commission covenants and agrees as follows:

1. Acceleration. The maturity of the Insured Bonds may not be accelerated without the prior written consent of AGM and in the event the maturity of the Insured Bonds is accelerated, AGM may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of payment (to the extent unpaid by the Commission). Upon payment of such accelerated principal and interest accrued to the acceleration date as described in this paragraph, AGM's obligations under the Policy with respect to Insured Bonds will be fully discharged.
2. Grace Period. No grace period for a covenant default under the Resolution may exceed thirty (30) days or be extended for more than sixty (60) days, without the prior written consent of AGM.

RATINGS

Moody's has given the Insured Bonds the rating of "A2" and S&P has given the Insured Bonds the rating of "AA" with the understanding that upon delivery of the Insured Bonds, a policy insuring the scheduled payment when due of the principal of and interest on the Insured Bonds will be issued by AGM.

Moody's and Fitch Ratings ("Fitch") have assigned the ratings of Aa3 and A+, respectively, to the Bonds that are not Insured Bonds, which ratings are also underlying ratings for the Insured Bonds. The ratings of each

rating agency only reflect the views of such rating agency. An explanation of the significance of the rating given by Moody's may be obtained from Moody's Investors Service, Inc. at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, (212) 553-0300; an explanation of the ratings given by Fitch may be obtained from Fitch Ratings at One State Street Plaza, New York, New York 10004, (212) 908-0500; and 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. A rating is not a recommendation to buy, sell or hold the Bonds and there is no assurance that ratings will continue for any given period of time or that ratings will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Dinsmore & Shohl LLP, Covington, Kentucky, Bond Counsel, who has been retained by, and acts as Bond Counsel to, the Commission. The form of the approving legal opinion of Bond Counsel is attached hereto as EXHIBIT F. Certain legal matters will be passed upon for the Commission by its counsel. Certain legal matters will be passed upon for the Underwriters by Stites & Harbison, PLLC, Louisville, Kentucky.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Commission taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security provided for the payment of the Bonds or due existence or powers of the Commission.

TAX TREATMENT

General

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

A copy of the form of opinion of Bond Counsel for the Bonds is set forth in EXHIBIT F.

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

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

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

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

Tax Treatment of Original Issue Discount

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

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

Tax Treatment of Original Issue Premium

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

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

UNDERWRITING

Citigroup Global Markets Inc., as representative of the Underwriters, has agreed to purchase the Bonds for a purchase price of \$65,395,784.39 (which is equal to the principal amount of such Bonds plus a net original issue premium of \$5,513,878.50 and less underwriting discount of \$253,094.11). The Underwriters intend to make an initial public offering of all of the Bonds at not in excess of the public offering price or prices set forth on the inside cover page hereof. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price or prices stated on the inside cover page hereof.

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

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for their selling efforts with respect to the Bonds.

CONTINUING DISCLOSURE

The State Agency and the Commission will comply with the requirements of the Securities and Exchange Commission regarding secondary market disclosure as set forth in Rule 15c2-12 (the “Rule”), as amended, under the Securities Exchange Act of 1934. Specifically, the State Agency will enter into a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), a form of which is attached as EXHIBIT G, in which it will covenant to provide notice in a timely manner, not later than ten business days after the event, to the Municipal Securities Rulemaking Board (the “MSRB”), and the appropriate state information depository, if any, of any of the types of events with respect to the Bonds set forth in the form attached hereto. Effective on July 1, 2009, the MSRB became the sole nationally recognized municipal securities information repository (“NRMSIR”) and the State Agency’s filings with the MSRB will be in accordance with the MSRB’s Electronic Municipal Market Access (EMMA) system, as applicable to the Continuing Disclosure Agreement. The State Agency will be providing ongoing market disclosure as required by Rule 15c2-12 pursuant to agreements entered into in connection with other outstanding securities.

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

(1) With respect to each of (a) the \$6,050,000 City of Versailles TI/KCTCS Public Properties, Inc. First Mortgage Revenue Refunding Bonds, Series 2006 (KCTCS Project) issued on June 29, 2006 (the “Series 2006A Bonds”) and (b) the \$1,970,000 City of Versailles TI-KCTCS Public Properties Corporation First Mortgage Revenue Bonds, Series 2006B (KCTCS Project) issued on October 31, 2006, (the “Series 2006B Bonds”, which

together with the Series 2006A Bonds, collectively, the “Series 2006 Bonds”), the State Agency failed to timely post its annual audited financial statements for each of the fiscal years ending June 30, 2011 through 2015 with EMMA. The State Agency posted such annual audited financial statements with EMMA on April 22, 2016 with respect to the Series 2006 Bonds. The State Agency also posted on April 29, 2016 with EMMA, a Notice of Failure to File Annual Financial Information in connection with such delayed filing of the annual audited financial statements for the Series 2006 Bonds.

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

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

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

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

In addition, the Commission will post on an annual basis with EMMA (as required under Rule 15c2-12 and in accordance with the Continuing Disclosure Agreement) not later than 270 days following the end of the fiscal year, commencing with the fiscal year ending June 30, 2017, two documents entitled *The Kentucky Comprehensive Annual Financial Report* and *Supplementary Information to the Kentucky Comprehensive Annual Financial Report* (or successor reports).

EXHIBIT A
INFORMATION PERTAINING TO
THE STATE AGENCY

GENERAL

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

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

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

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

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

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

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

GOVERNING BOARD

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

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

Marcia L. Roth, Chair	Montre’ale L. Jones
Gail R. Henson, Ph.D., Vice Chair	Mary Bosley-Kinney
Tammy C. Thompson, Secretary	Barry K. Martin
Ellen R. Braden	Porter G. Peeples, Sr.
Robert G. Cooper	James Lee Stevens
Lisa V. Desmarais	Donald R. Tarter
Angela Fultz, Ph.D.	Mark A. Wells

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KCTCS Colleges



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

FISCAL YEAR 2015-16 BUDGET

The 2015-16 Fiscal Year unrestricted fund budget for KCTCS is \$554,528,700, a decrease of \$42,434,300 compared to Fiscal Year 2014-15. The budget decrease is primarily the net result of increased usage of non-recurring revenues for planned, one-time expenditures and the projected increase in government grants and contracts.

OPERATIONS

Summary of Revenues, Expenses and Changes in Net Assets

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

	Year Ended June 30		
	(Dollars in Thousands)		
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Operating Revenue	\$188,065	\$197,571	\$201,422
Operating Expenses	628,675	638,090	600,756
Operating loss	(440,610)	(440,519)	(399,334)
Non-operating revenue, including state appropriations	421,477	424,622	390,699
Other revenues	5,875	1,623	8,450
Change in accounting policy		17,636	
Change in accounting principle (GASB 68)		(378,217)	
Increase (decrease) in net assets	(13,258)	(374,855)	(185)

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Enrollment

The following table indicates the fall semester head count and full-time equivalent enrollment at KCTCS for each of the academic years beginning August 2006 and ending July 2007 through the academic year beginning August 2016 and ending July 2017. The full-time equivalent (“FTE”) enrollment total is calculated by adding the Full-Time Headcount for the academic year to one-third of the total Part-Time Headcount for the academic year. The following equation reflects this calculation: $FTE = (\text{Full-Time Headcount}) + (1/3 \text{ Part-Time Headcount})$.

<u>Academic Year</u>	<u>Full-Time</u>	<u>Part-Time</u>	<u>Total Head Count</u>	<u>Full-Time Equivalent</u>
2006-07	32,860	53,615	86,475	50,732
2007-08	33,386	59,442	92,828	53,200
2008-09	34,897	55,045	89,942	53,245
2009-10	41,390	58,958	100,348	61,043
2010-11	44,712	61,952	106,664	65,363
2011-12	42,517	65,785	108,302	64,445
2012-13	38,771	58,143	96,914	58,152
2013-14	37,503	54,862	92,365	55,790
2014-15	35,508	51,519	87,027	52,681
2015-16	31,932	48,143	80,075	47,980
2016-17	30,986	48,582	79,568	44,809

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State Appropriations

The General Assembly of the Commonwealth, based on an initial request from the Governor, approves a biennial budget which includes appropriations for all the Commonwealth's public universities. The following are the state appropriations for KCTCS for the past ten-year period from 2006-2016:

<u>Fiscal Year</u>	<u>Appropriation</u>
2006-07	215,320,500
2007-08	221,843,800
2008-09	214,931,200
2009-10	200,554,700
2010-11	199,156,700
2011-12	200,744,200
2012-13	191,455,700
2013-14	191,455,700
2014-15	190,162,300
2015-16	190,162,300*

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

On March 31, 2016, the Governor issued an Executive Order reducing the remainder of Fiscal Year 2016 public postsecondary education institutions' appropriations by 4.5 percent. For KCTCS, the amount of the reduction was \$8,557,300. The Kentucky State Attorney General initiated a lawsuit on April 11, 2016, which questioned the Governor's authority to impose the budget reduction. On April 19, 2016, the Governor issued an executive order revising the March 31, 2016 reduction downward to 2.0 percent of fourth quarter General Fund allotments of the Fiscal Year 2016 appropriations to public postsecondary education institutions. The Franklin County Circuit Court overturned the Governor's action, which the Kentucky Supreme Court subsequently upheld. On October 18, 2016, the Governor issued an executive order returning the 2.0 percent of fourth quarter General Fund allotments from Fiscal Year 2016 as a restricted fund deposit.

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

*Represents the reduced Fiscal Year 2016 General Fund appropriation of \$186,359,100 and \$3,803,200 deposited into restricted fund accounts as a result of the above described litigation.

Pension System Obligations

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

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

Fiscal Year	TRS Payment	KERS Payment	Total
2011-12	\$6,579,570	\$5,183,463	\$11,763,033
2012-13	6,706,781	7,001,184	13,707,965
2013-14	6,832,170	8,638,825	15,470,995
2014-15	6,668,442	11,721,713	18,390,155
2015-16	6,382,556	10,543,612	16,926,168

Summary of Income from Student Registration Fees

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

<u>Fiscal Year</u>	<u>Fees Collected</u>
2003-04	\$ 99,269,000
2004-05	133,680,000
2005-06	137,695,000
2006-07	151,741,000
2007-08	168,470,000
2008-09	183,479,000
2009-10	223,576,000
2010-11	245,761,000
2011-12	242,969,000
2012-13	238,705,000
2013-14	237,230,000
2014-15	234,716,000
2015-16	228,008,000

Private Donations

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

<u>Fiscal Year</u>	<u>Number of Donors Participating</u>	<u>Total Voluntary Support</u>
2011-12	1,023	\$ 6,888,558
2012-13	981	3,490,860
2013-14	849	3,086,596
2014-15	1,320	8,501,316
2015-16	1,399	8,390,990

Student Registration Fees

The KCTCS Board, with the approval of the Kentucky Council on Postsecondary Education, has established a schedule of Student Registration Fees to be imposed, charged and collected from all students attending KCTCS. The schedules of fees, effective for the periods beginning July 1, 2014, July 1, 2015, and July 1, 2016 are as follows:

	<u>Schedule of Fees Fiscal Year 2014-2015</u>	<u>Schedule of Fees Fiscal Year 2015-2016</u>	<u>Schedule of Fees Fiscal Year 2016-2017</u>
<u>Registration Fee Per Semester Full Time</u>			
In-State Tuition Per Credit Hour	\$147	\$147	\$156
Out-of-State Students:			
On-Line Courses Per Credit Hour	\$147	\$147	\$156
With Reciprocity Per Credit Hour	\$147	\$147	\$156
From Contiguous Counties Per Credit Hour*	\$294	\$294	\$312
All Other Out-of-State Students Per Credit Hour	\$515	\$515	\$546
Mandatory Student Fee Per Credit Hour** (all students)	\$4	\$4	\$8

*Contiguous counties are those which border Kentucky.

**KCTCS Mandatory Student Fee is a general receipt of KCTCS, which use has been restricted by Resolution of the KCTCS Board for the purpose of repaying the obligations associated with the BuildSmart Project.

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Comparative Report of Student Financial Aid

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

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16
<u>Scholarships & Grants</u>			
<u>Federal Grants:</u>			
Pell	\$ 48,725,476	\$ 71,235,343	\$ 37,966,585
Supplemental Educational Opportunity	2,597,563	1,833,387	4,255,918
College Work Study	<u>2,653,457</u>	<u>2,524,140</u>	<u>2,624,364</u>
Subtotal Federal Grants	\$ 53,976,496	\$ 75,592,870	\$ 44,846,867
<u>Institutional Scholarships and Awards</u>	\$ 17,415,690	\$ 18,191,943	\$ 20,603,279
<u>Aid from Outside Agencies:</u>			
State Grants	\$ 25,782,562	\$ 18,808,680	\$ 29,316,713
<u>Loans:</u>			
Federal Direct Student Loans	\$196,232,040	\$147,691,015	\$119,886,447
 TOTAL STUDENT FINANCIAL AID	 <u>\$293,406,788</u>	 <u>\$260,284,508</u>	 <u>\$214,653,306</u>

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ESTIMATED LONG-TERM LEASE REQUIREMENTS AS OF MARCH 6, 2017

The following table sets forth the KCTCS debt as of the fiscal year ended June 30, 2016, which consists of 139 capital leases totaling \$80.6 million. Among the capital leases for which lease requirements are set forth in the table below are (a) the \$44,555,000 State Property and Buildings Commission Agency Fund Revenue Bonds, Project No. 114 issued on June 16, 2016, (b) the \$6,050,000 City of Versailles TI/KCTCS Public Properties, Inc. First Mortgage Revenue Refunding Bonds, Series 2006 (KCTCS Project) issued on June 29, 2006 and (c) the \$1,970,000 City of Versailles TI-KCTCS Public Properties Corporation First Mortgage Revenue Bonds, Series 2006B (KCTCS Project) issued on October 31, 2006.

Lease Requirements ⁽¹⁾

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,115,526	\$ 2,493,181	\$ 7,608,707
2018	5,468,304	2,739,362	8,207,666
2019	4,915,292	2,405,882	7,321,174
2020	4,033,400	2,248,915	6,282,315
2021	4,134,342	2,126,336	6,260,678
2022	5,334,008	1,931,743	7,265,751
2023	4,153,491	1,870,397	6,023,888
2024	3,984,465	1,756,026	5,740,491
2025	3,322,802	1,607,539	4,930,341
2026	3,880,116	1,488,384	5,368,499
2027	3,965,537	1,281,696	5,247,232
2028	4,043,658	1,214,574	5,258,232
2029	4,261,608	1,063,000	5,324,607
2030	4,408,405	917,353	5,325,757
2031	3,395,003	784,463	4,179,465
2032	2,978,934	657,092	3,636,026
2033	3,103,934	533,875	3,637,809
2034	3,248,934	390,500	3,639,434
2035	3,398,934	239,750	3,638,684
2036	<u>3,481,691</u>	<u>81,250</u>	<u>3,562,941</u>
Total	\$80,628,383	\$27,831,315	\$108,459,698

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

EXHIBIT B

**2015-2016 ANNUAL FINANCIAL REPORT OF
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM**

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Crowe Horwath®

**KENTUCKY COMMUNITY AND
TECHNICAL COLLEGE SYSTEM**

2015-2016 ANNUAL FINANCIAL REPORT
(A Component Unit of the Commonwealth of Kentucky)

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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INDEPENDENT AUDITOR'S REPORT

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

Secretary of Finance and
Administration Cabinet of the
Commonwealth of Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Community and Technical College System (the System), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of June 30, 2016, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The basic financial statements of the System as of June 30, 2015, were audited by other auditors whose report dated September 30, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 47 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lexington, Kentucky
October 3, 2016

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

Management's Discussion and Analysis of the Kentucky Community and Technical College System (KCTCS) financial statements provides an overview of the financial position and activities of KCTCS for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and is unaudited and should be read in conjunction with the financial statements and the related notes which follow this section. The financial statements and related notes and this discussion and analysis are the responsibility of management.

Financial Highlights

- KCTCS' financial position remained solid at June 30, 2016, with assets and deferred outflows of \$1.034 billion and liabilities and deferred inflows of \$565.7 million. Net position, which represents KCTCS' residual interest in assets and deferred outflows after liabilities and deferred inflows are deducted, was \$467.8 million or 45.3 percent of total assets and deferred outflows. Net position at June 30, 2015 was \$468.0 million or 49.4 percent of total assets and deferred outflows.
- Total assets and deferred outflows increased \$87.1 million or 9.2 percent. The increase is primarily due to the receipt of state bond proceeds of \$50.5 million for BuildSmart projects. Total liabilities and deferred inflows increased by \$87.3 million or 18.2 percent. The increase is primarily due to the state bond lease of \$50.5 million for BuildSmart projects.
- Total net position decreased \$0.2 million due to the increase in pension expense.
- Operating revenues were \$201.4 million and operating expenses were \$600.7 million, resulting in a loss from operations of \$399.3 million. When nonoperating revenues of \$390.7 million (including \$186.4 million in state appropriations) and other revenues of \$8.4 million are added, this resulted in a decrease of \$0.2 million in net position for the fiscal year ended 2016.

Using the Financial Statements

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

Reporting Entity

The Kentucky Community and Technical College System is a component unit of the Commonwealth of Kentucky (Commonwealth). KCTCS was created in May 1997 by The Higher Education Improvement Act (House Bill 1) of the Kentucky General Assembly. Since its creation, KCTCS has become the largest provider of postsecondary education and workforce training in the Commonwealth.

KCTCS provides both credit and non-credit education and training primarily to Kentucky residents. In fact, for most Kentuckians higher education begins with KCTCS at one of its 16 colleges or online through its Kentucky Virtual Campus. Offering approximately 10,300 on-line course sections annually, KCTCS is the largest provider of internet-based courses in the state. KCTCS provides high-quality, relevant educational programs and responsive business and industry training throughout the Commonwealth. Since its inception, KCTCS has provided the lowest tuition in the Commonwealth through a single, straightforward tuition and charge structure. KCTCS is committed to providing the best value in higher education in Kentucky.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2016 and 2015

KCTCS offers a variety of certificates, diplomas, and associate degree programs as well as customized training programs for business and industry. Through the Kentucky Fire Commission and the Kentucky Board of Emergency Medical Services, KCTCS provides fire and rescue training, certifications for first responders and emergency medical technicians, and licenses paramedics and ambulance services throughout the state. All KCTCS colleges have Southern Association of Colleges and Schools (SACS) accreditation as consolidated comprehensive community and technical colleges.

KCTCS has over 70 locations strategically positioned throughout the regions of the Commonwealth - from Maysville to Somerset and from Ashland to Paducah – KCTCS is accessible and convenient to all Kentuckians. KCTCS' colleges offer over 700 programs and five types of credentials: certificates, diplomas and associate degrees in Arts, Science and Fine Arts. The single most popular area of study is the baccalaureate transfer program, which allows a student to earn an associate degree through KCTCS and transfer those credits to any Kentucky university.

KCTCS also provides educational enrichment opportunities through community development classes related to personal improvement, cultural activities and fine arts. These classes are tailored to meet local needs and provide opportunities for Kentuckians to connect, learn and grow in their communities.

While continuing to emphasize its historical mission to provide general education, KCTCS is increasing its focus on occupational and technical education and workforce training. KCTCS is Kentucky's primary provider of workforce training, delivering programs and services that address the full spectrum of needs faced by business and industry, as well as, programs for individuals who want to upgrade their skills. KCTCS colleges deliver high-quality, cost-effective customized training and assessment services to support business and industry so they can remain globally competitive and contribute to the economic viability of the Commonwealth. In FY16, KCTCS colleges provided workforce training for 5,500 companies throughout the Commonwealth for 41,500 individuals.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

Statements of Net Position

The Statements of Net Position present the financial condition of KCTCS at the end of the fiscal year and include all assets, deferred outflows, liabilities and deferred inflows. Net position, the difference between total assets and deferred outflows and total liabilities and deferred inflows, is an important indicator of the current financial condition. Assets and liabilities are generally reported at cost. The major exception is investments which are reported at fair value. A summary of the assets and deferred outflows, liabilities and deferred inflows and net position of KCTCS at June 30, 2016, 2015 and 2014, is as follows:

Condensed Statements of Net Position (amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflows			
Current assets	\$ 177,027	\$ 190,219	\$ 240,059
Noncurrent assets	816,313	737,791	691,159
Deferred outflows	<u>40,170</u>	<u>18,390</u>	<u>-</u>
Total assets and deferred outflows	<u>1,033,510</u>	<u>946,400</u>	<u>931,218</u>
Liabilities and Deferred Inflows			
Current liabilities	41,228	40,741	55,270
Noncurrent liabilities	492,578	420,020	33,140
Deferred inflows	<u>31,936</u>	<u>17,686</u>	<u>-</u>
Total liabilities and deferred inflows	<u>565,742</u>	<u>478,447</u>	<u>88,410</u>
Net Position			
Net investment in capital	599,368	577,295	584,655
Restricted	104,281	107,610	93,808
Unrestricted	<u>(235,881)</u>	<u>(216,952)</u>	<u>164,345</u>
Total net position	<u>\$ 467,768</u>	<u>\$ 467,953</u>	<u>\$ 842,808</u>

Assets and Deferred Outflows: As of June 30, 2016, total assets and deferred outflows amounted to \$1.034 billion. Of this amount, investment in capital assets (net of depreciation) of \$629.5 million, or 60.9 percent of total assets and deferred outflows, represented the largest asset class. Cash and cash equivalents amounted to \$264.8 million or 25.6 percent of total assets and deferred outflows, and endowments amounted to \$49.8 million or 4.8 percent of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$87.1 million, primarily due to receipt of \$50.5 million in state bond proceeds for BuildSmart projects.

Liabilities and Deferred Inflows: As of June 30, 2016, total liabilities and deferred inflows amounted to \$565.7 million. Net pension liability amounted to \$406.0 million or 71.8 percent of total liabilities and deferred inflows. Capital leases and other long-term obligations amounted to \$81.5 million, or 14.4 percent of total liabilities and deferred inflows. This increase is primarily due to the state bond lease of \$50.5 million for BuildSmart projects.

Net Position: As of June 30, 2016, total net position amounted to \$467.8 million. Net position is reported on the Statements of Net Position in three categories: net investment in capital, \$599.4 million (128.1 percent); restricted \$104.3 million (22.3 percent); and unrestricted, \$(235.9) million (-50.4 percent).

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

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

Total net position decreased by \$0.2 million during the year ended June 30, 2016. This decrease was primarily due to an increase in the pension liability.

2015 Versus 2014

- As of June 30, 2015, total assets and deferred outflows amounted to \$946.4 million. Of this amount, capital assets were \$604.6 million (63.9 percent) of total assets and deferred outflows, representing the largest asset class. Cash and cash equivalents amounted to \$216.9 million (22.9 percent), and endowments amounted to \$51.4 million (5.4 percent) of total assets and deferred outflows. During the year, total assets and deferred outflows increased by \$15.2 million, primarily due to deferred outflows.
- As of June 30, 2015, total liabilities and deferred inflows amounted to \$478.4 million. Net pension liability amounted to \$384.0 million (80.3 percent) of total liabilities and deferred inflows. Capital leases and other long-term obligations amounted to \$28.1 million (5.9 percent) of total liabilities and deferred inflows. The increase of \$390.0 million was primarily due to the recording of the pension liability.
- Total net position of \$467.9 million is recorded in three categories: net investment in capital, \$577.3 million (123.4 percent); restricted \$107.6 million (23.0 percent); and unrestricted \$(217.0) million (-46.4 percent). Total net position decreased \$374.9 million, primarily due to the recording of the pension liability.

Statements of Revenues, Expenses and Changes in Net Position

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

Financial activities are reported as either operating or nonoperating. State appropriations, certain grants, gifts, investment and endowment income are required to be classified as nonoperating revenues because these funds are non-exchange revenues provided to KCTCS without direct commensurate value (goods and services) for those revenues. Accordingly, KCTCS reports an operating loss for the year prior to the addition of nonoperating revenues. The utilization of long-lived capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Tuition is reduced by scholarships. Institutional aid and grants-in-aid funded by federal and state grants are reported net of scholarship allowances. A summary of the Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2016, 2015, and 2014 is presented on the following page.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Student tuition and fees, net	\$ 93,607	\$ 104,978	\$ 83,684
Grants and contracts	93,880	86,562	92,618
Other operating revenues	13,935	6,031	11,763
Total operating revenues	<u>201,422</u>	<u>197,571</u>	<u>188,065</u>
Operating expenses			
Educational and general, excluding depreciation	569,006	606,103	598,419
Depreciation	31,750	31,987	30,256
Total operating expenses	<u>600,756</u>	<u>638,090</u>	<u>628,675</u>
Operating loss	(399,334)	(440,519)	(440,610)
Nonoperating revenues			
State appropriations	186,359	190,162	191,456
Federal and state grants and contracts	189,613	208,478	217,270
Other nonoperating revenues	14,727	25,982	12,751
Total nonoperating revenues	<u>390,699</u>	<u>424,622</u>	<u>421,477</u>
Loss before other revenues, expenses, gains or losses	(8,635)	(15,897)	(19,133)
Capital construction appropriations	10,579	1,175	(193)
Net realized loss on disposal of capital assets	(257)	(186)	(380)
Additions to (reductions from) endowments	(1,872)	634	6,448
Total other revenues	<u>8,450</u>	<u>1,623</u>	<u>5,875</u>
Decrease in net position before cumulative effect of change	(185)	(14,274)	(13,258)
Cumulative effect of change in accounting principle	-	(378,217)	-
Cumulative effect of change in accounting policy	-	17,636	-
Total decrease in net position	(185)	(374,855)	(13,258)
Net position, beginning of year	<u>467,953</u>	<u>842,808</u>	<u>856,066</u>
Net position, end of year	<u>\$ 467,768</u>	<u>\$ 467,953</u>	<u>\$ 842,808</u>

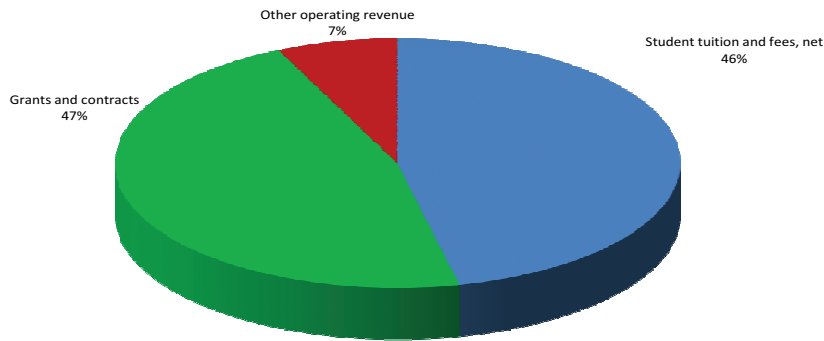
Total operating revenues were \$201.4 million for the year ended June 30, 2016. Included in KCTCS' operating revenues are net student tuition and fees of \$93.6 million or 46.5 percent of total operating revenues, and grants and contracts of \$93.9 million or 46.6 percent of total operating revenues. Tuition and fees are presented net of scholarship allowances, gift scholarships and institutional scholarships. A scholarship allowance is the difference between the stated charges for goods and services provided by KCTCS and the amount that is billed to the students and third parties making payments on behalf of students. Any excess aid disbursed to the student is recognized as a student financial aid expense.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 Management's Discussion and Analysis
 June 30, 2016 and 2015

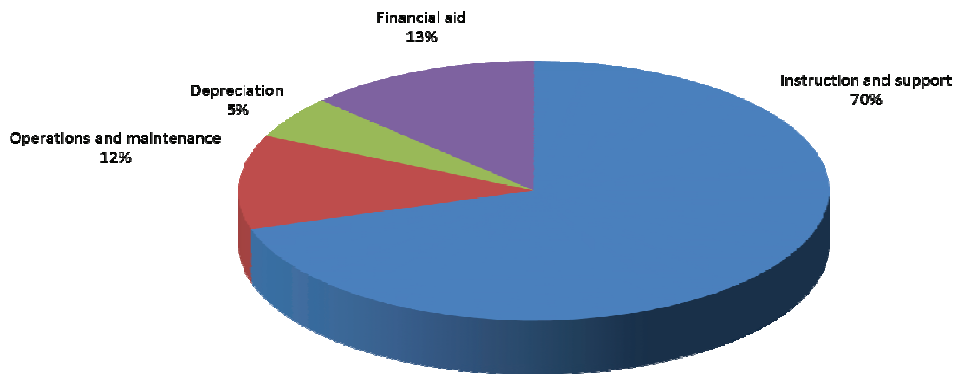
Operating expenses totaled \$600.7 million. Of this amount, \$569.0 million or 94.7 percent of total operating expenses, was expended for educational and general programs, including instruction, academic support, libraries, public service, student services, institutional support, student financial aid and operations and maintenance (excluding depreciation). The loss from operations for the year amounted to \$399.3 million. Nonoperating and other revenues, net of related expenses, amounted to \$399.1 million, resulting in a decrease in net position of \$0.2 million for the year.

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

Operating Revenues



Operating Expenses



KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

2015 Versus 2014

Total operating revenues were \$197.6 million for the year ended June 30, 2015, including net student tuition and fees of \$105.0 million (53.1 percent) and grants and contracts of \$86.6 million (43.8 percent).

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

The loss from operations for the year amounted to \$440.5 million. Nonoperating and other revenues, net of related expenses, amounted to \$426.2 million, resulting in a decrease in net position of \$14.3 million for the year. Nonoperating revenues include state appropriations of \$190.2 million (44.6 percent of total nonoperating and other revenues).

Statements of Cash Flow

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

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

A comparative summary of KCTCS' Statements of Cash Flow for the years ended June 30, 2016, 2015, and 2014 is as follows:

Condensed Statements of Cash Flow (amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash (used in) provided by:			
Operating activities	\$ (354,962)	\$ (402,797)	\$ (401,260)
State appropriation	186,359	190,162	191,456
Other noncapital financing activities	203,566	227,514	227,519
Capital and related financing activities	11,043	(23,924)	(45,991)
Investing activities	<u>1,818</u>	<u>222</u>	<u>919</u>
Net increase (decrease) in cash and cash equivalents	47,824	(8,823)	(27,357)
Cash and cash equivalents, beginning of year	<u>216,944</u>	<u>225,767</u>	<u>253,124</u>
Cash and cash equivalents, end of year	<u><u>\$ 264,768</u></u>	<u><u>\$ 216,944</u></u>	<u><u>\$ 225,767</u></u>

Major sources of cash received from operating activities are student tuition and fees (\$94.3 million) and grants and contracts (\$95.0 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$356.1 million), payments to vendors and contractors (\$126.1 million) and student financial aid (\$76.3 million).

Noncapital financing activities include federal, state and local grants, contracts and appropriations of \$189.6 million.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

2015 Versus 2014

Major sources of cash received from operating activities for the year ended June 30, 2015 are student tuition and fees (\$105.1 million) and grants and contracts (\$86.8 million). Major uses of cash for operating activities are payments to employees for salaries and benefits (\$367.5 million), payments to vendors and contractors (\$137.1 million) and student financial aid (\$96.6 million).

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

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$629.5 million at June 30, 2016, an increase of \$24.9 million. Capital assets as of June 30, 2016, 2015, and 2014, and significant changes in capital assets during those years are shown below:

Capital Assets (amounts in thousands)

	Balance June 30, 2014	Net Additions FY 2015	Balance June 30, 2015	Net Additions FY 2016	Balance June 30, 2016
Land and land improvements	\$ 45,274	\$ 2,619	\$ 47,893	\$ 508	\$ 48,401
Buildings and infrastructures	731,390	19,751	751,141	36,964	788,105
Equipment, vehicles and campus improvements	127,794	(1,187)	126,607	8,309	134,916
Library materials	60,911	(139)	60,772	173	60,945
Construction in progress	50,463	5,553	56,016	(4,424)	51,592
Energy saving assets	13,972	-	13,972	6,790	20,762
Total assets	<u>1,029,804</u>	<u>26,597</u>	<u>1,056,401</u>	<u>48,320</u>	<u>1,104,721</u>
Accumulated depreciation	<u>(424,506)</u>	<u>(27,314)</u>	<u>(451,820)</u>	<u>(23,423)</u>	<u>(475,243)</u>
Capital assets, net	<u><u>\$ 605,298</u></u>	<u><u>\$ (717)</u></u>	<u><u>\$ 604,581</u></u>	<u><u>\$24,897</u></u>	<u><u>\$ 629,478</u></u>

At June 30, 2016, KCTCS had capital construction projects in progress totaling \$51.6 million. These projects are principally financed by appropriations and bond proceeds from the Commonwealth of Kentucky.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

Economic Factors Impacting Future Periods

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

- The KCTCS state appropriation has decreased approximately \$47.1 million since fiscal year 2008 – down from the original (pre-budget cut) \$228.7 million in FY 2008 to \$181.6 million for FY 2017. The fiscal year (FY) 2017 KCTCS state appropriation is scheduled to decrease in FY 2017 by approximately \$8.6 million from the original (pre-budget cut) \$190.2 million of FY 2016 to \$181.6 million for FY 2017. Federal funds are expected to remain stable.
- In accordance with House Bill 303, the Kentucky General Assembly determined the need for development of a funding model that aligns the Commonwealth's investment in postsecondary education with state policy goals and objectives. The funding model calculations will be used to distribute \$9.0 million or 5.0 percent in appropriations transferred from the base budget of KCTCS to a Postsecondary Education Performance Fund on July 1, 2017. These funds must be earned back in FY 2018. The Postsecondary Education Performance Fund Workgroup, comprised of the officials from the executive and legislative branches, presidents of the public postsecondary education institutions and the President of the Kentucky Council on Postsecondary Education, are working on performance metrics with formal recommendations due to the Governor of the Commonwealth of Kentucky in December 2016.
- For FY 2017 the Kentucky Council on Postsecondary Education approved a resident tuition rate range for KCTCS of up to \$156 per credit hour. The KCTCS Board of Regents approved the FY 2017 resident tuition rate of \$156 per student credit hour. This is an increase of \$9 per student credit hour, or 6.1 percent, from \$147 per credit hour to \$156 for resident students. Nonresident students from counties contiguous to Kentucky will pay \$312 per credit hour. Other nonresident students will pay \$546 per credit hour. Students taking online courses will pay \$156 per credit hour.
- The KCTCS Board of Regents approved the FY 2017 operating budget totaling \$839.6 million and a FY 2017 capital budget totaling \$ 111.9 million. The FY 2017 operating budget continues KCTCS' practice of budgeting an unrestricted non-recurring budget reserve, of which \$12.6 million is budgeted for FY 2017. The reserve funds include each college, the Kentucky Fire Commission, the Kentucky Board of Emergency Medical Services and systemwide operations and support programs.
- Official Fall 2015 enrollment was 80,075 students. This was a decline of roughly 8.0 percent from Fall 2014 when enrollment was 87,027. Enrollment for Fall 2016 is expected to increase slightly overall with some colleges increasing, some declining and some remaining flat. Historically, KCTCS' enrollment is counter cyclical to changes in the economy – an improving economy has resulted in lower enrollment, whereas an economy in decline acts as a catalyst for persons to return to college to improve their education and work skills.
- Significant emphasis has been placed on dual credit by the Kentucky Secretary of Education and Workforce Development through the Kentucky Dual Credit Scholarship Program for high school students. The Program was approved by the Kentucky General Assembly, allocating \$15.0 million for the 2016-18 biennia, with \$7.5 million allocated each of the fiscal years 2017 and 2018. KCTCS established an additional \$600,000 scholarship for high school juniors in support of the Kentucky Dual Credit Scholarship.
- In cooperation with the Board of Regents, Dr. Jay Box has established the following goals for FY 2017:
 - Goal I: Institutional Leadership/Management: Engage internal and external constituents so as to further the advancement of the KCTCS vision, mission, and goals.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Management's Discussion and Analysis

June 30, 2016 and 2015

Goal II: Educational Leadership/Internal Relations: Bring "accountability" to the System by establishing clear expectations of college presidents in meeting systemwide initiatives and establish a "moving forward" theme with emphasis on enrollment growth and financial stability.

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

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

Goal V: Special Priorities:

Objective 1: Work with the college presidents, the Kentucky Secretary of Education and Workforce Development, and the local Workforce Innovation Boards (WIBS) to collaborate on career development/job placement centers' services at each college.

Objective 2: Work with Vice-President McCall in implementing the new financial aid central processing center and the new college financial aid procedures.

Objective 3: Work with Vice-President McCall and the college presidents on implementing strategic enrollment management plans at each college that will result in increased enrollment, retention, and completion.

Objective 4: Work with the college presidents on enhancing the image of KCTCS by conducting meetings with state legislators in their local districts.

Objective 5: Work with Chancellor Tracy, the college presidents, the Kentucky Secretary of Education and Workforce Development, and the Kentucky Commissioner of Education on expanding dual credit offerings.

- Bonds were issued in May 2016 for \$50,579,204, including a premium of \$6,024,204 and bond issuance costs of \$329,204, on behalf of KCTCS through the State Property Building Commission for the "KCTCS BuildSmart Initiative." There will be two additional issues for the KCTCS BuildSmart Initiative which are anticipated to occur in FY 2017 or early FY 2018 which will complete the funding for the Initiative. The Initiative's total scope is \$194.0 million (\$145.5 million in agency bonds supported by a dedicated \$8 per student credit hour fee) with the remaining 25 percent (\$48.5 million) matched from private and other funds raised by KCTCS colleges. "KCTCS BuildSmart Initiative" is a public-private partnership designed to provide an investment in Kentucky's competitive future.
- In December 2012, the KCTCS Board of Regents approved the establishment of a KCTCS Other Post-Employment Benefits Trust. In March 2013, KCTCS funded the Trust to substantially offset the calculated actuarial accrued liability. Reflective of the financial markets, as of July 1, 2016, the Trust's assets (\$171.0 million) did not exceed its liabilities by approximately \$3.5 million or 2.1 percent. As of July 1, 2016, the actuarial accrued liability of KCTCS's other post-employment benefits was \$174.5 million.
- KCTCS continues to maintain its firm commitment to the vision and goals of the Postsecondary Education Improvement Act of 1997 (House Bill 1). During FY 2016, KCTCS updated its strategic plan. In June 2015, the KCTCS Board of Regents approved a proposed vision, along with goals and values for the 2016-22 KCTCS Strategic Plan. The vision, goals, and values were derived from statewide engagement sessions conducted by KCTCS President Box during the spring of 2015. Success measures for each of the proposed goals has been developed based on input and direction from the 16 KCTCS college presidents. All KCTCS colleges and the System Office will finalize local strategic plans in early FY 2017 in alignment with the approved goals and measures. These plans will be developed in parallel with the development of a 2016-18 Business Plan, a two-year implementation roadmap that prioritizes specific strategies in pursuit of established strategic targets.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Management's Discussion and Analysis
June 30, 2016 and 2015

In Spring 2015, President Box began the 2016-22 strategic planning process by collecting input from stakeholders throughout Kentucky via a statewide vision survey and through listening sessions at all 16 KCTCS colleges and the System Office. These activities resulted in over 8,000 comments from over 4,000 community members, students, KCTCS employees, and business leaders to help envision a future state for KCTCS.

Our Mission

In everything we do, our mission is to improve the quality of life and employability of the citizens of the Commonwealth by serving as the primary provider of:

- College and workforce readiness
- Transfer education
- Workforce education and training

Vision

A world-class system of colleges educating Kentucky's globally competitive workforce.

Values

- Flexibility and innovation
- Quality and excellence
- Openness and accountability
- Continuous improvement
- Data and outcomes-driven decision-making
- Inclusion, equity, respect, and global diversity
- Balance, collaboration, and teamwork

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Net Position
June 30, 2016 and 2015
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 150,653	\$ 158,246
Loans, accounts and gifts receivable, net of bad debt	23,386	27,279
Other current assets	2,988	4,694
Total current assets	<u>177,027</u>	<u>190,219</u>
Noncurrent Assets		
Restricted cash and cash equivalents	114,115	58,698
Loans and other receivables	5,662	6,209
Endowment investments	49,780	51,423
Other long-term investments	17,278	16,880
Capital assets, net	629,478	604,581
Total noncurrent assets	<u>816,313</u>	<u>737,791</u>
Deferred Outflows		
Deferred outflows - KERS	20,415	11,722
Deferred outflows - KTRS	19,755	6,668
Total deferred outflows	<u>40,170</u>	<u>18,390</u>
Total assets and deferred outflows	<u>1,033,510</u>	<u>946,400</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	10,665	10,631
Employee withholdings and deposits	15,611	16,231
Compensated absences - current	1,140	1,214
Unearned revenue	8,696	9,631
Leases payable - current	5,116	3,034
Total current liabilities	<u>41,228</u>	<u>40,741</u>
Noncurrent Liabilities		
Leases payable - noncurrent	75,512	24,252
Compensated absences - noncurrent	10,260	10,928
Net pension liability - KERS	186,537	174,855
Net pension liability - KTRS	219,423	209,139
Other long-term obligations	846	846
Total noncurrent liabilities	<u>492,578</u>	<u>420,020</u>
Deferred Inflows		
Deferred inflows - KERS	5,631	2,247
Deferred inflows - KTRS	21,939	15,439
Deferred inflows - Property	4,366	-
Total deferred inflows	<u>31,936</u>	<u>17,686</u>
Total liabilities and deferred inflows	<u>565,742</u>	<u>478,447</u>
NET POSITION		
Net investment in capital	599,368	577,295
Restricted		
Nonexpendable	35,512	36,598
Expendable	68,769	71,012
Unrestricted	<u>(235,881)</u>	<u>(216,952)</u>
Total net position	<u>\$ 467,768</u>	<u>\$ 467,953</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
 Statements of Revenues, Expenses, and Changes in Net Position
 June 30, 2016 and 2015
 (amounts in thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Student tuition and fees	\$ 228,008	\$ 234,716
Less: Scholarship allowances	(134,401)	(129,738)
Net tuition and fees	93,607	104,978
Federal grants and contracts	41,896	45,420
State, local and nongovernmental grants and contracts	51,984	41,142
Indirect cost recoveries	2,879	2,781
Sales and services	5,402	5,976
Other operating revenues	5,654	(2,726)
Total operating revenues	<u>201,422</u>	<u>197,571</u>
OPERATING EXPENSES		
Educational and General:		
Instruction	209,215	213,312
Public service	33,477	34,425
Libraries	7,010	7,448
Academic support	31,386	34,971
Student services	60,519	58,997
Institutional support	79,995	82,859
Operation and maintenance of physical plant	70,685	74,689
Depreciation	31,750	31,987
Student financial aid	76,719	99,402
Total operating expenses	<u>600,756</u>	<u>638,090</u>
Operating loss	<u>(399,334)</u>	<u>(440,519)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	186,359	190,162
Federal and state grants and contracts	189,613	208,478
Gifts	8,274	17,485
Investment income	2,445	1,775
Interest expense - capital leases	(1,466)	(834)
Other nonoperating revenues (expenses)	5,474	7,556
Net nonoperating revenues	<u>390,699</u>	<u>424,622</u>
Loss before other revenues, expenses, gains or losses	(8,635)	(15,897)
Capital construction appropriations	10,579	1,175
Net realized loss on disposal of capital assets	(257)	(186)
Additions to (reductions from) endowments	(1,872)	634
Total other revenues	<u>8,450</u>	<u>1,623</u>
Decrease in net position	(185)	(14,274)
NET POSITION		
Net position - beginning of year	<u>467,953</u>	<u>482,227</u>
Net position - end of period	<u>\$ 467,768</u>	<u>\$ 467,953</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flow
June 30, 2016 and 2015
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Tuition and fees	\$ 94,276	\$ 105,107
Grants and contracts	95,023	86,831
Indirect cost recoveries	2,879	2,781
Sales and services	5,402	5,976
Payments to vendors and contractors	(126,082)	(137,130)
Student financial aid	(76,331)	(96,586)
Salaries, wages and benefits	(356,145)	(367,532)
Other receipts (payments)	6,016	(2,244)
Net cash used in operating activities	<u>(354,962)</u>	<u>(402,797)</u>
Cash flows from noncapital financing activities:		
State appropriations	186,359	190,162
Federal, state and local grants, contracts and appropriations	189,613	208,518
Gifts and pledges received for non-capital purposes	8,479	11,480
Other nonoperating receipts	5,474	7,516
Net cash provided by noncapital financing activities	<u>389,925</u>	<u>417,676</u>
Cash flows from capital and related financing activities:		
Capital appropriations	15,003	(4,378)
Proceeds from disposal of capital assets	10,063	1,776
Purchase of capital assets	(65,899)	(27,131)
Principal paid on leases	(4,715)	(10,420)
Proceeds from leases	58,057	17,063
Interest paid on leases	(1,466)	(834)
Net cash provided by (used in) capital and related financing activities	<u>11,043</u>	<u>(23,924)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	163	287
Interest on investments	2,684	2,212
Purchase of investments	(1,029)	(2,277)
Net cash provided by investing activities	<u>1,818</u>	<u>222</u>
Net change in cash	47,824	(8,823)
Cash - beginning of year	<u>216,944</u>	<u>225,767</u>
Cash - end of year	<u>\$ 264,768</u>	<u>\$ 216,944</u>

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Statements of Cash Flow
June 30, 2016 and 2015
(amounts in thousands)

	<u>2016</u>	<u>2015</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (399,334)	\$ (440,519)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	31,750	31,987
Actuarially calculated pension expense	10,070	4,618
Increase (decrease) in cash due to change in:		
Loans and accounts receivable, net	3,109	1,595
Other assets	1,706	(283)
Accounts payable and accrued liabilities	34	4,395
Employee withholdings and deposits	(620)	(74)
Compensated absences	(742)	(3,801)
Unearned revenue	(935)	(715)
	<u>\$ (354,962)</u>	<u>\$ (402,797)</u>
 Non-cash capital activities:		
Donated capital assets	\$ 1,126	\$ 548

See accompanying notes.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Presentation

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

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

Accrual Basis

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

Cash and Cash Equivalents

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

Cash and cash equivalents consist of deposits in local banks of \$49.9 million, and with the Commonwealth of Kentucky of \$214.9 million. Deposits with local banks and investment in repurchase agreements are covered by federal depository insurance or collateralized by securities held in KCTCS' name by its agents. Deposits with the Commonwealth are covered by federal depository insurance or collateralized by securities held by the Commonwealth in the Commonwealth's name.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

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

Pooled Endowment Funds

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

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

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

At June 30, 2016, net appreciation of \$3.2 million is available to spend, of which \$2.9 million is restricted for specific purposes.

Investments

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

Loans, Accounts and Pledges Receivable

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

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

Loans, Accounts and Pledges Receivable (continued)

Loans receivable consists of loans made by the Fire Commission and bridge loans. The Fire Commission is authorized to make low interest loans for the purchase of major equipment and construction of facilities to properly trained volunteer fire departments that do not have other sources of funds at rates which are favorable given their financial resources. KCTCS currently considers loans receivable and pledges to be fully collectible. Accordingly, no allowance for uncollectibles is recorded at June 30, 2016 and 2015.

Capital Assets

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

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

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

Compensated Absences

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

Unearned Revenue

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

Pensions

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

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

Net Position

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

- **Net investment in capital:** Capital assets, net of accumulated depreciation and unspent principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - **Nonexpendable** - Net assets of \$35.5 million is subject to externally imposed stipulations maintained permanently by KCTCS. Such assets include permanent endowment funds.
 - **Expendable** - Net assets of \$68.8 million whose use by KCTCS is subject to externally imposed stipulations that can be fulfilled by actions of KCTCS pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net assets whose use by KCTCS is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Student Tuition and Fees

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

Scholarship Allowances

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

Federal and State Grants and Contracts

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

Operating Activities

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

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

Income Taxes

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

Restricted Asset Spending Policy

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

Use of Estimates

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

Recent Accounting Pronouncements

As of June 30, 2016, KCTCS retrospectively applied GASB Statement 72, *Fair Value Measurement and Application*. GASB Statement 72 provides guidance for determining fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

In June 2015, the GASB approved Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for periods beginning after June 15, 2015. KCTCS has determined that this Statement is not applicable to its financial statements.

Reclassifications

Certain reclassifications to fiscal 2015 comparative amounts have been made to conform to the 2016 classifications, with no impact on net position or change in net position.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

2. Loans, Accounts and Pledges Receivable

Loans, accounts and pledges receivable (net of allowances) as of June 30, 2016 and 2015, are as follows (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Student (net of allowances of \$3,800 and \$3,888)	\$ 11,216	\$ 10,397
Other receivables	263	997
Reimbursement receivable – grants and contracts	8,823	11,655
Pledges receivable	5,423	6,754
Accrued interest receivable	53	58
Bridge loans	246	300
Loans receivable from fire districts	<u>3,024</u>	<u>3,327</u>
 Total	 29,048	 33,488
 Current portion	 <u>23,386</u>	 <u>27,279</u>
 Non-current portion	 <u>\$ 5,662</u>	 <u>\$ 6,209</u>

Pledges receivable of \$5.4 million are expected to be collected primarily over the next ten years, as follows (amounts in thousands):

2017	\$ 2,330
2018	1,194
2019	1,633
2020	303
2021	39
2022-2026	<u>173</u>
	5,672
Present value discount	<u>249</u>
	<u>\$ 5,423</u>

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

Fire commission receivables of \$3.0 million are expected to be collected primarily over the next ten years as follows (amounts in thousands):

2017	\$ 701
2018	656
2019	528
2020	460
2021	293
2022-2026	<u>386</u>
	<u>\$ 3,024</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

3. Investments

All investments are stated at fair value. Investments acquired by gift are stated at fair value at the date of the gift if a fair value is available, and otherwise at an appraised or nominal value. KCTCS had the following investments as of June 30, 2016 and 2015 (amounts in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2016</u>	<u>2015</u>
Bond funds	\$ 19,403	\$ 21,059
Money market funds	3,577	386
Equity funds	40,638	44,057
Other	3,440	2,801
	<u>\$ 67,058</u>	<u>\$ 68,303</u>

Investment types described as "Other", above, include real estate holdings and limited partnerships. Bond funds, equity funds and other funds are invested in fund of funds and are measured at net asset value.

KCTCS has an investment management agreement with the Commonfund. The Commonfund managed \$67.0 million and \$68.3 million of KCTCS' investments at June 30, 2016 and 2015. The Commonfund was founded in 1969 to serve higher education and not for profit organizations. It currently serves more than 1,350 organizations and has over \$25 billion in assets under management. The Commonfund is unrated.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, KCTCS will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. KCTCS does not have a formal policy for custodial credit risk. As of June 30, 2016 and 2015, all of KCTCS' U.S. Treasuries, U.S. Agencies, and Corporate Notes were held by the investment's counterparty.

Interest Rate Risk

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

4. Fair Value Measurements

KCTCS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

4. Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. KCTCS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Money market accounts, totaling \$3,576,869 and \$385,526 as of June 30, 2016 and 2015, are measured at amortized cost and are not included in the fair value hierarchy.

Investments measured at NAV as of June 30, 2016:

<u>Investment Type</u>	<u>Fair Value Determined Using NAV</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
Fund of funds:			
Public equities	\$ 29,924,840	\$ -	Monthly with 5 days notice.
Public equities - commodities	1,212,801	-	Monthly with 30 days notice.
Public equities - natural resources	698,702	-	Daily.
Hedged equities	7,795,559	-	Quarterly with 65 - 95 days notice in increments of \$100,000 or more.
Diversified equities	1,006,332	-	Quarterly with 95 days notice in increments of \$100,000 or more.
Fixed income equities	1,737,293	-	Weekly with 5 days notice.
Multi-strategy bonds	3,364,142	-	Monthly with 5 days notice.
High quality bonds	10,955,601	-	Weekly and monthly with 5 days notice.
Institutional bonds	559,823	-	Monthly with 5 days notice.
Alternative investments	2,785,890	-	Six months subsequent to subscription date and semi-annually, thereafter, quarter-end redemption with 95 days notice in increments of \$100,000 or more.
Core real estate	1,029,993	-	Quarterly with 120 days notice.
Limited partnerships - natural resources	168,513	160,125	Upon termination of partnership.
Limited partnerships - real estate	916,860	499,782	Upon termination of partnership.
Limited partnerships - other	1,324,317	2,736,200	Upon termination of partnership.
Total fund of funds	<u>\$ 63,480,666</u>	<u>\$ 3,396,107</u>	

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

4. Fair Value Measurements (Continued)

Investments measured at NAV as of June 30, 2015:

<u>Investment Type</u>	<u>Fair Value Determined Using NAV</u>	<u>Unfunded Commitment</u>	<u>Redemption Terms</u>
Fund of funds:			
Public equities	\$ 33,674,582	\$ -	Monthly with 5 days notice. Partial redemptions not permitted if the total investor value would be less than \$1,000,000.
Public equities - real estate	888,254	-	Monthly with 30 days notice. Redemption fee of 3% for shares redeemed prior to one year.
Public equities - commodities	1,334,793	-	Monthly with 30 days notice.
Public equities - natural resources	771,305	-	Daily.
Hedged equities	5,888,237	-	Quarterly with 65 - 95 days notice in increments of \$100,000 or more.
Diversified equities	1,499,852	-	Quarterly with 95 days notice in increments of \$100,000 or more.
Multi-strategy bonds	8,085,917	-	Monthly with 5 days notice. Partial redemptions not permitted if the total investor value would be less than \$1,000,000.
High quality bonds	8,709,991	-	Weekly and monthly with 5 days notice.
Institutional bonds	822,746	-	Monthly with 5 days notice. Partial redemptions not permitted if the total investor value would be less than \$1,000,000.
Inflation protected treasury bonds	178,911	-	Daily.
Alternative investments	3,261,814	-	Six months subsequent to subscription date and semi-annually, thereafter, quarter-end redemption with 95 days notice in increments of \$100,000 or more.
Core real estate	912,205	-	Quarterly with 120 days notice.
Limited partnerships - natural resources	109,201	231,000	Upon termination of partnership.
Limited partnerships - real estate	700,277	715,774	Upon termination of partnership.
Limited partnerships - other	<u>1,079,636</u>	<u>471,825</u>	Upon termination of partnership.
Total fund of funds	<u>\$ 67,917,721</u>	<u>\$ 1,418,599</u>	

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

4. Fair Value Measurements (Continued)

Investment strategies by type are presented, below:

Public equities. To outperform the Morgan Stanley Capital International (MSCI) All Country World Index or the Standard & Poor's 500 over a full market cycle.

Public equities – real estate. To outperform the Dow Jones U.S. Select Real Estate Securities Index over a full market cycle.

Public equities – commodities. To outperform the Bloomberg Commodity Index Total Return.

Public equities – natural resources. To approximate the performance of the Standard & Poor's Global Large Midcap Commodity and Resources Index over the long term.

Hedged equities. To outperform the MSCI World Index (Local) or 3-Month Treasury Bills.

Diversified equities. To provide net returns over a full market cycle that are favorable to capital markets on a risk-adjusted basis.

Fixed income equities. To perform at or better than the Bank of America's Merrill Lynch 1-3 Year U.S. Treasury Index.

Multi-strategy bonds. To outperform the Barclays Capital U.S. Aggregate Bond Index over a full market cycle.

High-quality bonds. To outperform the Barclays Aggregate Bond Index over a full market cycle.

Institutional bonds. To outperform the worldwide bond market.

Inflation protected treasury bonds. To approximate the performance of the Barclays U.S. Treasury Inflation Protected Securities Index over the long term.

Alternative investments. To provide long-term returns that are favorable to those of equity and credit markets on a risk adjusted basis.

Core real estate. To provide returns in excess of the National Council of Real Estate Investment Fiduciaries Fund Index – Open End Diversified Core Equity.

Limited partnerships – natural resources / other. To obtain long-term capital growth.

Limited partnerships – real estate. To obtain income and capital appreciation.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

5. Capital Assets, Net

Capital assets as of June 30, 2016 and 2015 and the changes therein for the years then ended are summarized as follows (in thousands):

	2016			
	Beginning Balance	Additions	Reductions	
Cost				
Land*	\$ 32,488	\$ 202	\$ 59	\$ 32,631
Land improvements	15,405	365	-	15,770
Infrastructure	47,408	-	-	47,408
Buildings and structures	703,733	45,776	8,812	740,697
Construction in progress*	56,016	2,366	6,790	51,592
Vehicles	10,562	2,351	220	12,693
Equipment, furniture, etc.	107,468	11,229	5,051	113,646
Leasehold improvements	7,379	-	-	7,379
Library materials	60,772	312	139	60,945
Energy saving assets	13,972	6,790	-	20,762
Equine *	10	-	-	10
Computer software	1,188	-	-	1,188
Total	<u>1,056,401</u>	<u>69,391</u>	<u>21,071</u>	<u>1,104,721</u>
Less accumulated depreciation				
Land improvements	6,293	300	-	6,593
Infrastructure	16,944	1,878	-	18,822
Buildings and structures	278,008	16,232	3,179	291,061
Vehicles	8,260	1,021	220	9,061
Equipment, furniture, etc.	70,916	9,378	4,928	75,366
Leasehold improvements	6,581	73	-	6,654
Library materials	57,259	1,124	-	58,383
Energy saving assets	6,503	1,624	-	8,127
Computer software	1,056	120	-	1,176
Total accumulated depreciation	<u>451,820</u>	<u>31,750</u>	<u>8,327</u>	<u>475,243</u>
Capital assets, net	<u>\$ 604,581</u>	<u>\$ 37,641</u>	<u>\$ 12,744</u>	<u>\$ 629,478</u>
	2015			
	Beginning Balance	Additions	Reductions	Ending Balance
Cost				
Land*	\$ 30,647	\$ 1,853	\$ 12	\$ 32,488
Land improvements	14,627	778	-	15,405
Infrastructure	47,408	-	-	47,408
Buildings and structures	683,982	20,010	259	703,733
Construction in progress*	50,463	5,553	-	56,016
Vehicles	9,949	856	243	10,562
Equipment, furniture, etc.	108,357	4,182	5,071	107,468
Leasehold improvements	7,379	-	-	7,379
Library materials	60,911	-	139	60,772
Energy saving assets	13,972	-	-	13,972
Equine*	10	-	-	10
Computer software	2,099	-	911	1,188
Total	<u>1,029,804</u>	<u>33,232</u>	<u>6,635</u>	<u>1,056,401</u>
Less accumulated depreciation				
Land improvements	5,996	297	-	6,293
Infrastructure	15,066	1,878	-	16,944
Buildings and structures	261,913	16,112	17	278,008
Vehicles	7,641	860	241	8,260
Equipment, furniture, etc.	64,800	10,195	4,079	70,916
Leasehold improvements	6,508	73	-	6,581
Library materials	55,978	1,281	-	57,259
Energy saving assets	5,332	1,171	-	6,503
Computer software	1,272	120	336	1,056
Total accumulated depreciation	<u>424,506</u>	<u>31,987</u>	<u>4,673</u>	<u>451,820</u>
Capital assets, net	<u>\$ 605,298</u>	<u>\$ 1,245</u>	<u>\$ 1,962</u>	<u>\$ 604,581</u>

* Non-depreciable

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

6. Unearned Revenue

Unearned revenue as of June 30, 2016 and 2015 is as follows (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Unearned summer tuition revenues	\$ 7,074	\$ 6,320
Grants and contracts	<u>1,622</u>	<u>3,311</u>
	<u>\$ 8,696</u>	<u>\$ 9,631</u>

7. Noncurrent Liabilities

Noncurrent liabilities as of June 30, 2016 and 2015 are summarized as follows (amounts in thousands):

	<u>2016</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Leases payable						
Capital leases payable	\$ 27,286	\$ 58,057	\$ 4,715	\$ 80,628	\$ 5,116	\$ 75,512
Total leases payable	<u>27,286</u>	<u>58,057</u>	<u>4,715</u>	<u>80,628</u>	<u>5,116</u>	<u>75,512</u>
Other liabilities						
Compensated absences	12,142	12,460	13,202	11,400	1,140	10,260
Net pension liability	383,994	21,966	-	405,960	-	405,960
Long-term disability	930	-	-	930	84	846
Total other liabilities	<u>397,066</u>	<u>34,426</u>	<u>13,202</u>	<u>418,290</u>	<u>1,224</u>	<u>417,066</u>
Total noncurrent liabilities	\$ <u>424,352</u>	\$ <u>92,483</u>	\$ <u>17,917</u>	\$ <u>498,918</u>	\$ <u>6,340</u>	\$ <u>492,578</u>
	<u>2015</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non Current Portion</u>
Leases payable						
Capital leases payable	\$ 20,643	\$ 17,063	\$ 10,420	\$ 27,286	\$ 3,034	\$ 24,252
Total leases payable	<u>20,643</u>	<u>17,063</u>	<u>10,420</u>	<u>27,286</u>	<u>3,034</u>	<u>24,252</u>
Other liabilities						
Compensated absences	15,943	9,660	13,461	12,142	1,214	10,928
Net pension liability	-	383,994	-	383,994	-	383,994
Long-term disability	1,462	-	532	930	84	846
Total other liabilities	<u>17,405</u>	<u>393,654</u>	<u>13,993</u>	<u>397,066</u>	<u>1,298</u>	<u>395,768</u>
Total noncurrent liabilities	\$ <u>38,048</u>	\$ <u>410,717</u>	\$ <u>24,413</u>	\$ <u>424,352</u>	\$ <u>4,332</u>	\$ <u>420,020</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

7. Noncurrent Liabilities (Continued)

Capital leases consist of the following at June 30, 2016 and 2015 (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Computer equipment leases with 1 to 2.5 year remaining terms with total annual payments ranging from \$1,070 to \$178,904 and interest rates ranging from 0.3% to 16.50%.	\$ 1,112	\$ 1,077
Three energy savings leases with 8 to 15 year remaining terms with total annual payments ranging from \$495,588 to \$1,035,057 and interest rates ranging from 2.31% to 4.65%.	22,050	16,732
Building leases with 5 to 8 year remaining terms with total annual payments ranging from \$18,600 to \$637,020 and interest rates ranging from 4.0% to 4.04%.	4,225	5,006
Copier leases with 1 to 5 year remaining terms with total annual payments ranging from \$53 to \$368,053 and interest rates ranging from 4.00% to 16.50%.	2,724	4,471
Construction, renovation and design projects with a 20 year term with annual payments beginning at \$1,925,000 and increasing to \$3,250,000 and an interest rate of 3.02%.	<u>50,517</u>	<u>-</u>
	<u><u>\$ 80,628</u></u>	<u><u>\$ 27,286</u></u>

Principal maturities and interest on capital leases payable for the next five years and in subsequent five-year periods as of June 30, 2016 are as follows (amounts in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,116	\$ 2,493	\$ 7,609
2018	5,468	2,739	8,207
2019	4,915	2,406	7,321
2020	4,033	2,249	6,282
2021	4,134	2,126	6,260
2022-2026	20,675	8,654	29,329
2027-2031	20,074	5,261	25,335
2032-2036	<u>16,213</u>	<u>1,903</u>	<u>18,116</u>
	<u><u>\$80,628</u></u>	<u><u>\$ 27,831</u></u>	<u><u>\$108,459</u></u>

On May 1, 2016, KCTCS entered into a lease agreement in the amount of \$50,579,204, including a premium of \$6,024,204 and bond issuance costs of \$329,204, with the Commonwealth of Kentucky. The purpose of the lease is to finance construction, renovation and design projects for campus facilities which were approved under House Bill 235 (2014) and House Bill 303 (2016) of the General Assembly of the Commonwealth of Kentucky. KCTCS has pledged as collateral general receipts, including student registration fees, and its debt service account.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

7. Noncurrent Liabilities (Continued)

Operating Leases

KCTCS is obligated under several operating leases for office equipment, classroom space, and office space with expirations through June 2023. Rent expense was \$2.6 million and \$2.7 million for 2016 and 2015, respectively. Future minimum lease payments as of June 30, 2016 are as follows (amounts in thousands):

2017	\$ 1,436
2018	499
2019	198
2020	117
2021	82
Thereafter	<u>99</u>
	<u>\$ 2,431</u>

Sale-Leaseback

Maysville Community and Technical College (MCTC) sold its Rowan Campus during the fiscal year ended June 30, 2016. MCTC leased the campus back for \$29,666 per month through June 30, 2017 with the option to extend through June 30, 2018 and to renew through such time that MCTC's new facility for the Rowan Campus is complete. KCTCS reported deferred inflows of \$4,366,257 and a gain of \$89,000 related to the sale-leaseback as of and for the fiscal year ending June 30, 2016. Deferred inflows will be recognized in proportion to lease payments until such time that the lease is terminated.

8. Risk Management

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

The Fund covers losses to property from fire, wind, earthquake, flood, and other named perils between \$1,000 and \$1.0 million. Losses in excess of \$1.0 million are insured by commercial carriers under contract with the State Fire and Tornado Insurance Fund up to a maximum of \$1.5 billion per occurrence.

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

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

8. Risk Management (Continued)

Educator's Legal Liability coverage has been secured through commercial insurance to insure KCTCS faculty and staff against claims arising from actions undertaken within the scope of their job responsibilities. This coverage also extends to the KCTCS Board of Regents. The limit is \$2.0 million without a deductible. There have been no significant reductions in insurance coverage from 2015 to 2016. Settlements have not exceeded insurance coverage during the past three years.

Employees hired at the community colleges prior to January 14, 1998 (the date the KCTCS Board of Regents accepted management of the community colleges from the University of Kentucky) that have not opted to the KCTCS personnel system and have the University of Kentucky benefits plan, are covered under a self-insured long-term disability income program. This program is funded through a trust established by the University of Kentucky and now funded by KCTCS for the purpose of paying claims and establishing necessary reserves. KCTCS makes payments to the fund on a pay-as-you-go basis for long-term disability payments made to its employees who have the University of Kentucky benefit plan covered by long-term disability. The estimated liability for long-term disability claims at June 30, 2016 and 2015 totals \$0.9 million of which \$0.8 million is included in "Other long-term obligations" and \$0.1 million is included in "Employee withholdings and deposits".

9. Natural Classification

The operating expenses for KCTCS by natural classification are as follows for the years ended June 30, 2016 and 2015 (amounts in thousands):

	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 258,011	\$ 267,672
Employee benefits	106,842	100,603
Student scholarships and financial aid	76,331	96,586
Depreciation	31,750	31,987
Professional services	20,666	22,139
Utilities	15,411	16,295
Equipment not capitalized	15,322	19,718
Supplies	12,280	14,204
Fire commission incentive	11,664	11,582
Repairs and maintenance	11,220	13,308
Fire commission state aid	5,469	5,758
Communications	4,383	3,522
Travel	3,976	4,604
Fire commission pension	3,638	3,781
Dues & subscriptions	3,222	2,513
Fire commission workers compensation	2,719	2,719
Rental/lease	2,597	2,739
Advertising	2,338	2,491
Grants administrative cost	2,664	2,524
Other, various	10,253	13,345
	<u>\$600,756</u>	<u>\$638,090</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans

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

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

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

American Century Investors, Inc.

Fidelity Investments

Voya Financial

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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

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

Fidelity Institutional Services Company

Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF)

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

KCTCS' contributions and costs for all of its retirement plans for 2016 and 2015 were \$48.3 million and \$50.9 million, respectively; the employees contributed \$16.5 million and \$17.2 million for 2016 and 2015, respectively. KCTCS total payroll costs were \$258.0 million and \$267.7 million for 2016 and 2015, respectively.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

Kentucky Teachers Retirement System (KTRS)

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

Benefits Provided

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

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

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KTRS Board. Depending on the participant's personnel classification, employees were required to contribute 8.185 percent or 12.855 percent for fiscal year June 30, 2016 and 7.68 percent or 12.105 percent for fiscal year June 30, 2015. KCTCS' contribution, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability was 15.865 percent or 16.105 percent for fiscal year June 30, 2016 and 15.360 percent or 15.355 percent for fiscal year June 30, 2015. Contributions to the pension plan from KCTCS were \$6,382,556 and \$6,668,442 for the years ended June 30, 2016 and 2015.

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

At June 30, 2016 and 2015, KCTCS reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to KCTCS. The amount recognized by KCTCS as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with KCTCS are as follows:

	<u>2016</u>	<u>2015</u>
KCTCS' proportionate share of the net pension liability	\$ 219,423,250	\$ 209,139,224
State's proportionate share of the net pension liability associated with KCTCS	<u>33,391,119</u>	<u>36,216,846</u>
Total	<u>\$ 252,814,369</u>	<u>\$ 245,356,070</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

KCTCS' net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. KCTCS' proportion of the net pension liability was based on actual contributions during the measurement period of July 1, 2014 through June 30, 2015. At June 30, 2016 and 2015, KCTCS' proportion was 0.90 percent and 0.97 percent and the Commonwealth's proportion was 0.14 percent and 0.17 percent.

For the years ended June 30, 2016 and 2015, KCTCS' actuarially calculated pension expense related to KTRS participants was \$10,756,371 and \$12,022,864 and KCTCS recognized revenue of \$1,827,400 and \$1,774,690 for support provided by the Commonwealth. KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,366,112
Changes in assumptions	13,372,893	2,092,198
Net difference between projected and actual earnings on pension plan investments	-	5,484,167
Changes in proportion and differences between KCTCS' contributions and proportionate share of contributions	-	11,996,544
KCTCS' contributions subsequent to the measurement date	6,382,556	-
Total	\$ 19,755,449	\$ 21,939,021

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	12,609,060
Changes in proportion and differences between KCTCS' contributions and proportionate share of contributions	-	2,829,940
KCTCS' contributions subsequent to the measurement date	6,668,442	-
Total	\$ 6,668,442	\$ 15,439,000

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

As of June 30, 2016, KCTCS reported \$6,382,556 as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense:

Years ended June 30:	
2017	\$ (2,893,224)
2018	(2,893,224)
2019	(2,893,224)
2020	160,675
2021	(47,131)
	<hr/>
	\$ (8,566,128)

Actuarial Assumptions

The total pension liability (TPL) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2014 rolled forward to June 30, 2015
Inflation	3.5 percent
Salary increases	4.0 – 8.2% percent, average, including inflation
Investment rate of return	7.5 percent, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	3.82 percent
Single Equivalent Interest Rate	4.88 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010 adopted by the Board on December 19, 2011.

The final TPL as of June 30, 2015 reflects the assumed municipal bond index rate decrease from 4.35 percent to 3.82 percent, resulting in a change in the Single Equivalent Interest Rate from 5.23 percent to 4.88 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL at June 30, 2015.

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability was 4.88 percent and 5.23 percent at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82 percent was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

The following table presents the net pension liability of KCTCS as of June 30, 2016, calculated using the discount rate of 4.88 percent, as well as what KCTCS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.88 percent) or 1-percentage-point higher (5.88 percent) than the current rate:

	<u>June 30, 2016</u>		
	<u>1% Decrease (3.88%)</u>	<u>Current Discount Rate (4.88%)</u>	<u>1% Increase (5.88%)</u>
KCTCS' proportionate share of the Collective Net Pension Liability	\$273,096,376	\$219,423,250	\$175,007,885

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

The following table presents the net pension liability of KCTCS as of June 30, 2015, calculated using the discount rate of 5.23 percent, as well as what KCTCS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23 percent) or 1-percentage-point higher (6.23 percent) than the current rate:

	June 30, 2015		
	1%	Current	1%
	Decrease (4.23%)	Discount Rate (5.23%)	Increase (6.23%)
KCTCS' proportionate share of the Collective Net Pension Liability	\$262,703,674	\$209,139,224	\$164,928,874

Pension Plan Fiduciary Net Position

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

Kentucky Employees Retirement System (KERS)

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

Benefits Provided

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

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

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565(3) contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS Board. KERS participants hired with an effective date prior to September 1, 2008 contribute 5 percent of their covered compensation; KCTCS contributes 38.77 percent. KERS participants hired with an effective date on or after September 1, 2008 contribute 6 percent of their covered compensation; KCTCS contributes 38.77 percent. These amounts were actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from KCTCS were \$10,543,612 and \$11,721,713 for the years ended June 30, 2016 and 2015.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

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

At June 30, 2016, KCTCS reported a liability of \$186,536,523 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. KCTCS' proportion of the net pension liability was based on actual contributions made to KERS during the measurement period to determine the proportionate share to each participating employer. At June 30, 2016 and 2015, KCTCS' proportion was 1.86 percent and 1.95 percent.

For the years ended June 30, 2016 and 2015, KCTCS' actuarially calculated pension expense was \$14,805,433 and \$13,214,826. KCTCS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 398,519	\$ -
Changes in assumptions	8,941,489	-
Net difference between projected and actual earnings on pension plan investments	531,293	-
Changes in proportion and differences between KCTCS' contributions and proportionate share of contributions	-	5,630,618
KCTCS' contributions subsequent to the measurement date	10,543,612	-
Total	\$ 20,414,913	\$ 5,630,618

	June 30, 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,247,000
Changes in proportion and differences between KCTCS' contributions and proportionate share of contributions	-	-
KCTCS' contributions subsequent to the measurement date	11,721,713	-
Total	\$ 11,721,713	\$ 2,247,000

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

As of June 30, 2016, KCTCS reported \$10,543,612 as deferred outflows of resources related to pensions resulting from KCTCS' contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ended June 30:	
2017	\$ 1,782,802
2018	1,782,802
2019	445,321
2020	229,758
2021	-
	<hr/>
	<u>\$ 4,240,683</u>

Actuarial Assumptions

The total pension liability (TPL) for KERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015 used the following actuarial methods and assumptions applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28 years
Asset valuation method	5-year smoothed market
Inflation	3.25%
Salary increase	4.0%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

The final TPL as of June 30, 2015 reflects a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth's Comprehensive Annual Financial Report.

The net pension liability as of June 30, 2016 is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five-year period.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Rate of Return</u>
Combined Equity	42%	5.40%
Combined Fixed Income	20%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	3%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash Equivalent	5%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent and 7.75 percent at June 30, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

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

The following presents KCTCS' proportionate share of the net pension liability as of June 30, 2016 calculated using the discount rate of 7.50 percent, as well as what KCTCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	June 30, 2016		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
KCTCS' proportionate share of the Collective Net Pension Liability	\$210,118,000	\$186,537,000	\$166,588,000

The following presents KCTCS' proportionate share of the net pension liability as of June 30, 2015 calculated using the discount rate of 7.75 percent, as well as what KCTCS' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	June 30, 2015		
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
KCTCS' proportionate share of the Collective Net Pension Liability	\$196,703,000	\$174,855,000	\$155,150,000

Pension Plan Fiduciary Net Position

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

The following tables summarize KCTCS' net pension liability, deferred inflows and outflows of resources and actuarially determined pension expense for the fiscal years ending June 30, 2016 and 2015:

	June 30, 2016		
	KERS	KTRS	Total
Net pension liability	\$ 186,536,523	\$ 219,423,250	\$ 405,959,773
Deferred outflows of resources	20,414,913	19,755,449	40,170,362
Deferred inflows of resources	5,630,618	21,939,021	27,569,639
Actuarially determined pension expense	14,805,433	10,756,371	25,561,804

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

10. Pension Plans (Continued)

	June 30, 2015		
	KERS	KTRS	Total
Net pension liability	\$ 174,855,000	\$ 209,139,224	\$ 383,994,224
Deferred outflows of resources	11,721,713	6,668,442	18,390,155
Deferred inflows of resources	2,247,000	15,439,000	17,686,000
Actuarially determined pension expense	13,214,826	12,022,864	25,237,690

11. Postemployment Benefits

As discussed in Note 10, KCTCS offers a defined contribution 403(b) retirement plan (the Plan). The Plan provides postemployment medical benefits to eligible retirees that were hired with an effective date prior to July 1, 2009. Employees hired or rehired with an effective date of July 1, 2009 or after are not eligible for the postemployment health benefit. During the year ended June 30, 2013, KCTCS created an irrevocable IRS Section 115 trust and contributed \$163.7 million to fund the Plan.

KCTCS' annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

The actuarial valuation is completed bi-annually and utilizes beginning of year amounts. The latest valuation was performed using July 1, 2016 amounts. The actuarial accrued liability for benefits for the July 1, 2016 valuation date was \$174.5 million and the actuarial value of assets was \$171.0 million, resulting in an unfunded actuarial accrued liability (AAL) of \$3.5 million.

The following table shows the components of KCTCS' annual OPEB cost for the year, the amount actually contributed to the Plan and the changes in KCTCS' net OPEB (prepaid) obligation for the years ended June 30, 2016 and 2015 (amounts in thousands), as determined based on the July 1, 2016 valuation:

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ (3,441)	\$ 254
Interest	15	(101)
Amortization	(269)	1,780
Annual OPEB cost	(3,695)	1,933
Contributions made	-	-
Decrease/increase in net OPEB obligation	(3,695)	1,933
Net (prepaid) OPEB obligation, beginning of year	254	(1,679)
Net (prepaid) OPEB obligation, end of year	<u>\$ (3,441)</u>	<u>\$ 254</u>

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

11. Postemployment Benefits (Continued)

KCTCS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2016 and 2015 are as follows (amounts in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB (Prepaid)/ Obligation</u>
June 30, 2016	\$ (3,695)	0.0%	\$ (3,441)
June 30, 2015	\$ 1,933	0.0%	\$ 254
June 30, 2014	\$ 8,906	0.0%	\$ (1,679)

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

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

The July 1, 2016 actuarial valuation calculation used the projected unit credit (PUC) and normal cost (NC) methods. The PUC is based on costs attributable to past service and current years' service determined by prorating the present value of benefits over all years of service that benefits are expected to be paid from the plan. The NC is the portion of the present value which is allocated to the valuation year. The actuarial assumptions include a 6.0 percent discount rate as of July 1, 2016. Assumptions also include an annual healthcare cost trend rate of 7.0 percent initially, reduced by decrements to an ultimate rate of 4.0 percent after twenty years.

Funded

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Funded)/ Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>AAL as a Percentage of Covered Payroll</u>
July 1, 2016	\$ 170,969	\$ 174,496	\$ 3,527	98%	\$ 159,190	2.20%
July 1, 2015	\$ 178,552	\$ 168,682	\$ (9,870)	105.90%	\$ 143,621	-6.90%

During the year ended June 30, 2016, the value of plan assets held within the KCTCS Other Postemployment Benefits Trust decreased to \$171.0 million. The actuarial accrued liability for benefits is estimated to be \$174.5 million as of June 30, 2016. The impact of the net decrease in the plan assets over the actuarial accrued liability will be included in the valuation report prepared using a July 1, 2017 valuation date.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Notes to Financial Statements

June 30, 2016 and 2015

12. Commitments and Contingencies

Construction Commitments – The estimated cost to complete construction projects under contract at June 30, 2016 is approximately \$179.4 million. The projects are to be financed principally by proceeds from a state bond lease agreement and appropriations from the Commonwealth of Kentucky.

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

Government Grants - KCTCS receives financial assistance from federal and state agencies in the form of grants and awards. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the applicable fund. KCTCS has had no disallowed claims in the past. In the opinion of management, such potential disallowed claims, if any, would not have a material adverse effect on the overall financial position of KCTCS at June 30, 2016.

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KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2016 and 2015

Schedule of Funding Progress for the Retiree Medical Plan
(amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	(Funded)/ Unfunded AAL	Funded Ratio	Covered Payroll	AAL as a Percentage of Covered Payroll
July 1, 2013	\$ 157,652	\$ 158,357	\$ 705	99.6%	\$ 124,650	0.5%
July 1, 2015	\$ 178,552	\$ 168,682	\$ (9,870)	105.9%	\$ 143,621	-6.90%

See also Note 11 Postemployment Benefits.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2016 and 2015

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

	2016	2015
KCTCS' proportion of the net pension liability	\$ 219,423	\$ 209,139
State's proportionate share of the collective net pension liability	33,391	36,216
	\$ 252,814	\$ 245,355
KCTCS' proportionate share of the net pension liability	0.90%	0.97%
KCTCS' covered-employee payroll	\$ 48,572	\$ 52,326
KCTCS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	451.75%	399.68%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

The final total pension liability for 2016 reflects the assumed municipal bond index rate decrease from 4.35 percent to 3.82 percent, resulting in a change in the Single Equivalent Interest Rate from 5.23 percent to 4.88 percent. The impact of this change in the discount rate is a change in assumption that is added to expected TPL to determine the final TPL for 2016.

Note: This table represents data that is one year in arrears.

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

	2016	2015
Contractually required contribution	\$ 6,383	\$ 6,668
Contributions in relation to the contractually required contribution	\$ 6,383	\$ 6,668
Contribution deficiency (excess)	\$ -	-
KCTCS covered-employee payroll	\$ 44,908	\$ 48,572
Contributions as a percentage of covered- employee payroll	14.21%	13.73%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM
Required Supplementary Information
June 30, 2016 and 2015

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

	2016	2015
KCTCS' proportion of the net pension liability	\$ 186,537	\$ 174,855
KCTCS' proportionate share of the net pension liability	1.86%	1.95%
KCTCS' covered-employee payroll	\$ 33,904	\$ 36,074
KCTCS' proportionate share of the net pension liability as a percentage of its covered-employee payroll	550.19%	484.71%
Plan fiduciary net position as a percentage of the total pension liability	18.83%	22.32%

The final total pension liability for 2016 reflects a decrease in the assumed investment rate of return from 7.75 percent to 7.50 percent; a decrease in the assumed rate of inflation from 3.50 percent to 3.25 percent; a decrease in the assumed rate of wage inflation from 1.00 percent to 0.75 percent and a decrease in the payroll growth assumption from 4.50 percent to 4.00 percent. The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

Note: This table represents data that is one year in arrears.

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

	2016	2015
Contractually required contribution	\$ 10,544	\$ 11,722
Contributions in relation to the contractually required contribution	\$ 10,544	\$ 11,722
Contribution deficiency (excess)	\$ -	\$ -
KCTCS covered-employee payroll	\$ 19,052	\$ 33,904
Contributions as a percentage of covered- employee payroll	55.34%	34.57%

Note: These are 10-year schedules. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10-years of information is available.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Community and Technical College System (the System), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated October 3, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Crowe Horwath LLP

Crowe Horwath LLP

Lexington, Kentucky
October 3, 2016

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

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

Officers of the KCTCS Board of Regents

Marcia L. Roth, Chair
Gail R. Henson, Ph.D., Vice Chair
Carolyn E. "Betsy" Flynn, Secretary

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EXHIBIT C
THE PROJECT

<u>Project</u>	<u>Remaining Authorized Amount</u>
Renovate Main Building – College Drive – Ashland CTC	\$ 3,500,000
Expansion of Pikeville Campus – Big Sandy CTC	1,205,000
Newtown Campus Expansion – Bluegrass CTC	15,000,000
Construct Urban Campus – Gateway CTC	1,750,000
Construct Community Intergenerational Center – Lees–Hazard CTC	1,500,000
Renovate Campus Wide Facilities – Henderson CC	750,000
Construct Agriculture Health and Career Technology Center Phase I – Hopkinsville CC	11,250,000
Construct Carrollton Campus Phase I – Jefferson CTC	6,000,000
Construct Postsecondary Education Center - Madisonville CC	10,000,000
Construct MCTC/MSU Postsecondary Center of Excellence – Phase I – Maysville CTC	18,000,000
Construct Advanced Technology Center Phase II – Owensboro CTC	4,000,000
Construct Arts and Humanities Building — Somerset CC North	1,325,000
Construct Instructional Complex – Southcentral CTC	14,000,000
Construct Educational Alliance Center – Middlesboro Campus – Southeast Kentucky CTC	6,970,000

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EXHIBIT D

DEBT INFORMATION PERTAINING TO THE COMMONWEALTH OF KENTUCKY

COMMONWEALTH DEBT MANAGEMENT

Management

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

Structure

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

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

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

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

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

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

Default Record

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

**TABLE I
ACTIVE DEBT ISSUING ENTITIES**

<u>ENTITY</u>	<u>STATUTORY AUTHORITY/PURPOSE</u>	<u>DEBT LIMITATIONS</u>	<u>RATINGS*</u>
State Property and Buildings Commission (“SPBC”)	KRS 56.450 Provide financing for capital construction projects and financing programs approved by the General Assembly.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Aa3/A/A+
Kentucky Asset/Liability Commission (“ALCo”)	KRS 56.860 Provide financing of capital projects and cash flow borrowings to meet working capital needs of the state.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly, exclusive of cash flow borrowings within a fiscal year.	Varies
Turnpike Authority of Kentucky (“TAK”)	KRS 175.410-175.990 Construct, maintain, repair, and operate Turnpike projects, resource recovery roads and economic development roads.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly	Aa2/AA-/A+
The State Universities (consisting of nine)	KRS 56.495 Construct educational buildings and housing and dining facilities.	Cannot incur debt without prior approval of projects and appropriation of debt service by General Assembly.	Varies
Kentucky Housing Corporation (“KHC”)	KRS 198A Make low interest mortgage loans and construction loans to increase the supply of housing for low to moderate income residents of the State.	Limited to \$5.0 billion of debt outstanding.	Aaa/AAA/NR
Kentucky Infrastructure Authority (“KIA”)	KRS 224A Provide financial assistance to local governments for the construction or refinancing of infrastructure facilities and to provide loans to industries for construction of pollution control facilities.	Revolving Fund programs cannot incur debt without appropriation of debt service by the General Assembly. Without legislative approval, other programs are limited to debt outstanding of \$500 million.	Aa3/A/A+ (Appropriation) Aaa/AAA/AAA (Leverage Loan)
Kentucky Higher Education Student Loan Corporation (“KHESLC”)	KRS 164A Finances, makes and administers loans to fund and refinance costs to attend education institutions as permitted by the state.	Limited to \$5.0 billion of debt outstanding.	Varies
School Facilities Construction Commission (“SFCC”)	KRS 157.611-157.665 Assist local school districts with the financing and construction of school buildings. Finance the construction of vocational education facilities.	Cannot incur debt without appropriation of debt service by General Assembly.	Aa3
Kentucky Economic Development Finance Authority (“KEDFA”)	KRS 154 Issue industrial revenue bonds on behalf of industries, hospitals, and commercial enterprises in the state. Provide low interest loans to developing businesses. Provide financing and tax credits to manufacturing entities expanding or locating facilities in the state.	None.	Varies
Kentucky Public Transportation Infrastructure Authority (“KPTIA”)	KRS 175B.005-175B.115 Facilitate construction, financing, operation, and oversight of significant transportation projects within the Commonwealth by entering into bi-state agreements and by creating bi-state authorities and project authorities.	Cannot incur debt without prior approval of projects by General Assembly.	Baa3/NR/BBB-

* Ratings, where applicable, include Moody’s, Standard & Poor’s, and Fitch. Certain State Property and Buildings Commission Agency and Road Fund Revenue Bonds may have ratings different from those identified above. Certain Turnpike Authority of Kentucky Economic Development Road Revenue Bonds (Revitalization Projects) do not carry ratings from all rating agencies. The State Property and Buildings Commission rating by Standard & Poor’s applies to the outstanding bonds of SPBC. Standard & Poor’s is not providing an underlying rating for the Bonds; however, it does provide a rating of the bond insurer for the Insured Bonds.

Notes

- The Kentucky Infrastructure Authority's Governmental Agencies Program Revenue Bonds are rated "AA+" by Standard & Poor's and are backed by the loans of the borrowers. The Kentucky Infrastructure Authority's Wastewater and Drinking Water Revolving Fund Revenue Bonds are rated "Aaa/AAA/AAA" by Moody's, Standard & Poor's and Fitch, respectively.
- On September 3, 2015, Standard & Poor's downgraded the Commonwealth's issuer credit rating to "A+" from "AA-" and its rating on the Commonwealth's appropriation debt to "A" from "A+". At the same time, Standard & Poor's lowered its rating on debt backed by the Commonwealth state intercept programs for schools and universities to "A" from "A+" and on lease debt issued by various Kentucky county public properties corporations backed by appropriations from Administrative Office of the Courts to "A-" from "A". On January 11, 2017, Standard & Poor's changed the outlook for all from stable to negative.
- On March 4, 2016, Standard & Poor's downgraded the Turnpike Authority of Kentucky's Road Fund appropriation-supported obligations to "AA-" from "AA" and changed the outlook from negative to stable.

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EXHIBIT E

BOOK-ENTRY-ONLY SYSTEM

The Bonds initially will be issued solely in book-entry form to be held in the book-entry-only system maintained by The Depository Trust Company (“DTC”), New York, New York. So long as such book-entry-only system is used, only DTC will receive or have the right to receive physical delivery of Bonds and, except as otherwise provided herein with respect to tenders by Beneficial Owners (as hereinafter defined) of beneficial ownership interests, Beneficial Owners will not be or be considered to be, and will not have any rights as, owners or holders of the Bonds under the Resolution.

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commission as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commission or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee or the Commission, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commission or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commission or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

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

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

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

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

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EXHIBIT F

FORM OF BOND COUNSEL OPINION FOR THE BONDS

April 12, 2017

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

Re: \$60,135,000 Agency Fund Revenue Bonds, Project No. 116

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 \$60,135,000 Agency Fund Revenue Bonds, Project No. 116 (the "Bonds"), dated the date hereof.

The Bonds have been authorized and issued pursuant to the Constitution and laws of the Commonwealth of Kentucky (the "Commonwealth"), including particularly Chapter 56 and Sections 58.010 to 58.140 of the Kentucky Revised Statutes (collectively, the "Act") and in accordance with the bond resolution of the Commission adopted on January 9, 2017 (the "Resolution") for the purpose of (i) paying costs of a project (the "Project") and (ii) paying costs of issuing the Bonds. The Project and projects have been leased to the Kentucky Community and Technical College System (the "State Agency") pursuant to a Lease Agreement dated as of May 1, 2016, as supplemented by the First Supplemental Lease, dated as of April 1, 2017, by and between the Commission, as lessor, and the State Agency, as lessee (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 and the State Agency as to certain factual matters.

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

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

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

EXHIBIT G

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

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\$60,135,000
COMMONWEALTH OF KENTUCKY
State Property and Buildings Commission
Agency Fund Revenue Bonds, Project No. 116

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of April 1, 2017, by the Kentucky Community and Technical College System (the “State Agency”), the Kentucky State Property and Buildings Commission (the “Issuer”) and acknowledged by U.S. Bank National Association, as trustee (the “Trustee”) under a Bond Resolution adopted by the Issuer on January 9, 2017 (the “Resolution”), is executed and delivered in connection with the issuance of the Issuer’s \$60,135,000 principal amount of Agency Fund Revenue Bonds, Project No. 116 (the “Bonds”). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

ARTICLE I

THE UNDERTAKING

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

SECTION 1.2. Annual Financial Information and Issuer Annual Financial Data. (a) The State Agency shall provide, or shall cause to be provided, Annual Financial Information with respect to each fiscal year of the State Agency, commencing with the fiscal year ending June 30, 2017, by no later than 270 days after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements no later than 15 business days after the final publication date of such Audited Financial Statements, to the MSRB.

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

(c) The Issuer shall provide, or shall cause to be provided, Issuer Annual Financial Data with respect to each fiscal year of the Issuer, commencing with the fiscal year ending June 30, 2017, by no later than 270 days after the end of the respective fiscal year, but in any event shall provide Audited Financial Statements no later than 15 business days after the final publication date of such Audited Financial Statements, to the MSRB.

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

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

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

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

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

ARTICLE II

OPERATING RULES

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

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

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

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

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

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

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

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

ARTICLE III

TERMINATION, AMENDMENT AND ENFORCEMENT

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

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

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

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

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

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

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

Section, beneficial owners shall be deemed to be Holders of Bonds for purposes of this subsection (b) unless and until the respective Holder exercises any rights pursuant to this subsection (b).

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

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

ARTICLE IV

DEFINITIONS

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

“*Annual Financial Information*” means the financial information or operating data with respect to the State Agency, for each fiscal year of the State Agency, as set forth in Attachment B.

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

“*Dissemination Agent*” means any entity designated by the State Agency to act as the Dissemination Agent hereunder.

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

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the securities, or other material events affecting the tax-exempt status of the securities;
- (vii) modifications to rights of security Holders, if material;
- (viii) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event if the terms under which the redemption is to occur are set forth in detail in an official statement and the only open issue is which Bonds will be redeemed in the case of a partial redemption, provided notice of the redemption is given to

the Holders and the public; see Exchange Act Release No. 23856, Dec. 3, 1986) and tender offers;

- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the obligated person (Note: For the purposes of this event, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person);
- (xiii) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

“Material Event Notice” means written or electronic notice of a Material Event.

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

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

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

“SEC” means the United States Securities and Exchange Commission.

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

ARTICLE V

MISCELLANEOUS

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

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

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

KENTUCKY COMMUNITY AND TECHNICAL COLLEGE
SYSTEM

By: _____

Title: _____

KENTUCKY STATE PROPERTY AND BUILDINGS
COMMISSION

By: _____

Title: _____

Acknowledged by:

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____

Title: _____

ATTACHMENT A

MSRB PROCEDURES FOR SUBMISSION OF CONTINUING DISCLOSURE DOCUMENTS AND RELATED INFORMATION

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

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

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

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

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

ATTACHMENT B

ANNUAL FINANCIAL INFORMATION OR OPERATING DATA OF STATE AGENCY

1. Updates to the information under the following subsections contained in Exhibit A to the Official Statement of the Issuer dated March 28, 2017:
 - a. Enrollment
 - b. State Appropriations
 - c. Student Registration Fees

2. Annual Audited Financial Statements of the State Agency.

EXHIBIT H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/90)

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